

**Gradus Group Holdings No 1 Limited**

**Directors' report and consolidated  
financial statements**

**Registered number 4312669**

**31 December 2002**



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## Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 2002.

### Principal activities

The Group is principally engaged in the manufacture of stair edgings, floor trims and associated products.

### Results, dividends and business review

The profit after tax for the year amounted to £375,735 (2001: 1 month loss £72,999).

The directors do not recommend the payment of a dividend (2001: £Nil).

### Directors and directors' interests

The directors who held office during the year were as follows:

SA Watt (appointed 21 December 2001)

D Tierney (appointed 21 December 2001)

CW Rice (appointed 21 December 2001)

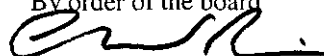
The directors who held office at the end of the financial year had the following interests in the shares of group companies according to the register of directors' interests:

	Company	Class of share	Interest at start and end of year £
SA Watt	Gradus Group Holdings No 1 Ltd	Ordinary	76,000
D Tierney	Gradus Group Holdings No 1 Ltd	Ordinary	57,000
CW Rice	Gradus Group Holdings No 1 Ltd	Ordinary	57,000

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



CW Rice  
Secretary

Chapel Mill  
Park Green  
Macclesfield SK11 7LZ

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



Altius House  
One North Fourth Street  
Milton Keynes  
MK9 1NE  
United Kingdom

## **Independent auditors' report to the members of Gradus Group Holdings No 1 Limited**

We have audited the financial statements on pages 4 to 21.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants  
Registered Auditor

15 October 2003

**Consolidated profit and loss account**  
*For the year ended 31 December 2002*

	<i>Note</i>	12 months ended 31 December 2002 £	1 month ended 31 December 2001 £
<b>Turnover</b>	<i>1</i>	34,522,353	-
Cost of sales		(17,983,932)	-
		<hr/>	<hr/>
<b>Gross profit</b>		16,538,421	-
Distribution costs		(7,206,891)	-
Administration expenses		(5,210,680)	(3,315)
		<hr/>	<hr/>
<b>Operating profit/(loss)</b>	<i>2-4</i>	4,120,850	(3,315)
Interest receivable	<i>5</i>	1,589	3,596
Interest payable and similar charges	<i>6</i>	(3,538,955)	(103,309)
		<hr/>	<hr/>
<b>Profit/(loss) on ordinary activities before taxation</b>		583,484	(103,028)
Tax on profit/(loss) on ordinary activities	<i>7</i>	(207,749)	30,029
		<hr/>	<hr/>
<b>Retained profit/(loss) for the year/period</b>		375,735	(72,999)
Retained (loss) at beginning of the year		(72,999)	-
		<hr/>	<hr/>
<b>Retained profit/(loss) at year end</b>		302,736	(72,999)
		<hr/>	<hr/>

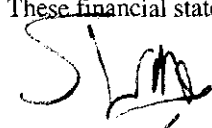
The company had no recognised gains or losses other than the loss for the financial period as set out above.

A statement of movements in reserves is given in note 17.

**Consolidated balance sheet**  
*at 31 December 2002*

	Note	2002		2001	
		£	£	£	£
<b>Fixed assets</b>					
Intangible fixed assets	8		17,454,203		18,281,653
Tangible fixed assets	9		7,588,673		7,813,757
Investments	10		100,000		-
			<u>25,142,876</u>		<u>26,095,410</u>
<b>Current assets</b>					
Stocks	11	2,823,293		3,737,673	
Debtors	12	6,721,982		7,396,331	
Cash at bank and in hand		3,260,242		1,841,952	
		<u>12,805,517</u>		<u>12,975,956</u>	
<b>Creditors: amounts falling due within one year</b>	13	(5,613,442)		(8,532,418)	
<b>Net current assets</b>			<u>7,192,075</u>		<u>4,443,538</u>
<b>Total assets less current liabilities</b>			<u>32,334,951</u>		<u>30,538,948</u>
<b>Creditors: amounts falling due after more than one year</b>	14		(31,007,937)		(29,584,255)
<b>Provisions for liabilities and charges</b>	15		(38,278)		(57,692)
<b>Net assets</b>			<u>1,288,736</u>		<u>897,001</u>
<b>Capital and reserves</b>					
Called up share capital	16		9,860		9,700
Share premium account	17		976,140		960,300
Profit and loss account	17		302,736		(72,999)
			<u>1,288,736</u>		<u>897,001</u>
<b>Shareholders' funds</b>					
Equity			320,636		(71,099)
Non-equity			968,100		968,100
			<u>1,288,736</u>		<u>897,001</u>

These financial statements were approved by the board of directors on 23/03/03 and were signed on its behalf by:

  
Director

**Balance sheet**  
 at 31 December 2002

	<i>Note</i>	<b>2002</b> £	<b>2001</b> £
<b>Fixed assets</b>			
Investments	10	1	1
<b>Current assets</b>			
Debtors	12	970,001	969,999
Cash		15,998	-
<b>Net current assets</b>		<b>985,999</b>	<b>969,999</b>
<b>Total assets less current liabilities</b>		<b>986,000</b>	<b>970,000</b>
<b>Capital and reserves</b>			
Called up share capital	16	9,860	9,700
Share premium account	17	976,140	960,300
		<b>986,000</b>	<b>970,000</b>
<b>Shareholders' funds</b>			
Equity		17,900	1,900
Non-equity		968,100	968,100
		<b>986,000</b>	<b>970,000</b>

These financial statements were approved by the board of directors on 23/03/03 and were signed on its behalf by:



Director



**Consolidated cash flow statement**  
*for the year ended 31 December 2002*

	<i>Note</i>	2002 £	2001 £
<b>Cash flow statement</b>			
Cash flow from operating activities	19	5,163,402	(590,883)
Returns on investments and servicing of finance	20	(1,622,683)	(99,713)
Taxation		(757,785)	25,231
Capital expenditure	20	(428,411)	-
Acquisitions and disposals	20	(89,552)	(30,734,285)
		<hr/>	<hr/>
Cash inflow/(outflow) before management of liquid resources and financing		2,264,971	(31,399,650)
Financing	20	(846,681)	31,399,650
		<hr/>	<hr/>
Increase/(decrease) in cash in the period		1,418,290	-
		<hr/>	<hr/>
<b>Reconciliation of net cash flow to movement in net debt</b>			
	21		
Increase in cash in the year		1,418,290	-
Cash inflow from increase in debt and lease financing		862,681	(30,428,650)
Cash acquired with subsidiary		-	1,841,952
		<hr/>	<hr/>
Change in net debt resulting from cash flows		2,280,971	(28,586,698)
Finance leases acquired with subsidiary		-	(142,991)
		<hr/>	<hr/>
Movement in net debt in the period		2,280,971	(28,729,689)
Net debt at the start of the period		(28,729,689)	-
		<hr/>	<hr/>
Net debt at the end of the period		(26,448,718)	(28,729,689)
		<hr/>	<hr/>

**Reconciliations of movements in shareholders' funds**  
*for the 1 month period ended 31 December 2002*

	Group 2002 £	Group 2001 £	Company 2002 £	Company 2001 £
Profit/(loss) for the financial year	375,735	(72,999)	-	-
Issue of ordinary share capital	160	-	160	-
Increase in share premium	15,840	-	15,840	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase/(reduction) in shareholders funds	391,735	(72,999)	16,000	-
Opening shareholders' funds	897,001	970,000	970,000	970,000
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	1,288,736	897,001	986,000	970,000
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements. The group has followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements and has adopted FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax'. The effect of implementing FRS 18 and FRS 19 has required no prior year adjustment.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2002. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

#### *Goodwill and negative goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life.

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost.

#### *Tangible fixed assets and depreciation*

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	2% per annum
Plant and fixtures and fittings	-	10-50% per annum

No depreciation is provided on freehold land.

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction [or, if hedged forward, at the rate of exchange under the related forward currency contract.] Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### *Leases*

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

### *Post retirement benefits*

Further information on pension costs is provided in note 18.

## Stocks

### Taxation

### Turnover

### Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

**2 Profit/(loss) on ordinary activities before taxation**10

## Notes (continued)

### 3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2002 Number	2001 Number
Office and management	129	-
Production	175	-
	<u>304</u>	<u>-</u>

The aggregate emoluments for the year were:

	2002 £	2001 £
Wages and salaries	7,073,990	-
Social security costs	636,290	-
Other pension costs	493,297	-
	<u>8,203,577</u>	<u>-</u>

### 4 Remuneration of directors

Directors' remuneration was paid in respect of directors of the company as follows:

	2002 £	2001 £
Directors' emoluments excluding pension contributions	947,462	-
	<u>947,462</u>	<u>-</u>
Number of directors to whom pension benefits are accruing	4	-
	<u>4</u>	<u>-</u>

The directors' remuneration shown above (excluding pensions and pension contributions) included:

	2002 £	2001 £
Highest paid director	173,754	-
	<u>173,754</u>	<u>-</u>

The details of directors' interests in share options are given in the directors' report.

## Notes (continued)

### 5 Other interest receivable and similar income - Group

	12 months ended 31 December 2002 £	1 month ended 31 December 2001 £
Bank interest	1,589	3,596

### 6 Interest payable and similar charges - Group

	12 months ended 31 December 2002 £	1 month ended 31 December 2001 £
On bank loans and overdrafts	12,671	1,053
On all other loans	3,526,284	102,256
	<u>3,538,955</u>	<u>103,309</u>

### 7 Taxation

#### Analysis of charge in year

	£	2002 £	2001 £	£
<i>UK corporation tax</i>				
Current tax on income for the year	487,466		(30,029)	
Adjustments in respect of prior years	(260,303)		-	
	<u></u>	<u>227,163</u>	<u>(30,029)</u>	<u></u>
Deferred tax (see note 15)		(19,414)		-
		<u>207,749</u>		<u>(30,029)</u>

#### Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2001: higher) than the standard rate of corporation tax in the UK 30% (2001: 30 %). The differences are explained below.

	2002 £	2001 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	583,484	(103,028)
	<u>175,045</u>	<u>(30,908)</u>
Current tax at 30% (2001 : 30%)		
<i>Effects of:</i>		
Expenses not deductible for tax purposes	380,914	879
Capital allowances in excess of depreciation	(59,375)	-
Adjustments in respect of prior years	(260,303)	-
Change in tax rate	(9,118)	-
	<u>227,163</u>	<u>(30,029)</u>

## Notes (continued)

### 8 Intangible fixed assets

Group	Goodwill £
<i>Cost</i>	
At beginning of year	18,281,653
Additions	89,552
	<hr/>
At end of year	18,371,205
	<hr/>
<i>Accumulated amortisation</i>	
At beginning of year	-
Charge for the year	917,002
	<hr/>
At end of year	917,002
	<hr/>
<i>Net book value</i>	
At 31 December 2002	17,454,203
	<hr/>
At 31 December 2001	18,281,653
	<hr/>

### 9 Tangible fixed assets

Group	Land and buildings £	Plant and machinery £	Fixtures and fittings £	Total £
<i>Cost</i>				
At beginning of year	5,500,000	9,001,127	388,322	14,889,449
Additions	-	443,857	18,055	461,912
Disposals	-	(88,105)	(124,808)	(212,913)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5,500,000	9,356,879	281,569	15,138,448
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	3,315	6,874,037	198,340	7,075,692
Charge for year	110,000	416,328	26,907	553,235
Eliminated on disposals	-	(47,713)	(31,439)	(79,152)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	113,315	7,242,652	193,808	7,549,775
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2002	5,386,685	2,114,227	87,761	7,588,673
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	5,496,685	2,127,090	189,982	7,813,757
	<hr/>	<hr/>	<hr/>	<hr/>

Included in the total net book value of plant and machinery is £303,712 (2001: £332,702) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged on these assets during the period was £75,861 (2001: £Nil).

## Notes (continued)

### 9 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	Group 2002 £	2001 £	Company 2002 £	2001 £
Freehold land and buildings	5,386,685	5,496,685	-	-

### 10 Fixed asset investments

	Shares in group undertakings £
<b>Group</b>	
<i>Cost</i>	
Additions	100,000
<i>Net book value</i>	
At 31 December 2002	100,000
At 31 December 2001	Nil

The above represents the investment in Gradus Fabrics Limited, a company registered in England in which the Group has a 50% holding. The principal activity of the company is the manufacture and distribution of soft furnishings.

	Shares in group undertakings £
<b>Company</b>	
<i>Cost</i>	
At beginning of year	1
<i>Net book value</i>	
At 31 December 2002	1
At 31 December 2001	1

The principal undertakings in which the group's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal Activity	Class and percentage of shares held Company
<i>Subsidiary undertakings</i>			
Gradus Group Holdings No. 2 Limited	England	Holding company	100% ordinary shares
Gradus Limited	England	Manufacturer of stair edgings, floor trims and associated products	100% ordinary shares
Décor fabrication Limited	England	Lighting design and manufacture	100% ordinary shares
Gradus Group Trustee Limited	England	Dormant	100% ordinary shares
Genus Group Limited	England	Dormant	100% ordinary shares
Gradus Carpets Limited	England	Dormant	100% ordinary shares



## Notes (continued)

### 11 Stocks

	Group 2002 £	2001 £	Company 2002 £	2001 £
Raw materials and consumables	1,232,792	1,508,450	-	-
Finished goods and goods for resale	1,590,501	2,229,223	-	-
	<u>2,823,293</u>	<u>3,737,673</u>	<u>-</u>	<u>-</u>

### 12 Debtors

	Group 2002 £	2001 £	Company 2002 £	2001 £
Trade debtors	5,264,943	5,839,473	-	-
Amounts owed by group undertakings	-	-	970,001	969,999
Amounts owed by undertakings in which the company has an interest	911,135	-	-	-
Other debtors	299,710	1,228,722	-	-
Prepayments and accrued income	246,194	328,136	-	-
	<u>6,721,982</u>	<u>7,396,331</u>	<u>970,001</u>	<u>969,999</u>

### 13 Creditors: amounts falling due within one year

	Group 2002 £	2001 £	Company 2002 £	2001 £
Loan repayments	-	912,965	-	-
Obligations under finance leases and hire purchase contracts (see note 14)	77,882	75,421	-	-
Corporation tax	72,423	603,045	-	-
Trade creditors	3,013,967	4,881,476	-	-
Taxation and social security	762,242	676,341	-	-
Other creditors	1,042,011	694,312	-	-
Accruals and deferred income	644,917	688,858	-	-
	<u>5,613,442</u>	<u>8,532,418</u>	<u>-</u>	<u>-</u>

## Notes (continued)

### 14 Creditors: amounts falling due after more than one year

	Group 2002 £	2001 £	Company 2002 £	2001 £
Interest payable	1,375,859	-	-	-
Deferred consideration	1,500,000	1,500,000	-	-
Bank loans	18,600,000	18,600,000	-	-
Obligations under finance leases and hire purchase contracts	28,358	67,570	-	-
Investor loan notes	10,200,000	10,200,000	-	-
Less: Debt issue costs	(696,280)	(783,315)	-	-
	<u>31,007,937</u>	<u>29,584,255</u>	<u>-</u>	<u>-</u>

### Analysis of debt:

	Group 2002 £	2001 £	Company 2002 £	2001 £
Debt can be analysed as falling due:				
In one year or less, or on demand	1,077,882	1,075,421	-	-
Between one and two years	1,528,358	1,567,570	-	-
Between two and five years	7,000,000	7,000,000	-	-
In five years or more	23,175,859	21,800,000	-	-
Debt issue costs	(783,315)	(870,350)	-	-
	<u>31,998,784</u>	<u>30,572,641</u>	<u>-</u>	<u>-</u>

The deferred consideration is due to be paid in full on 15 February 2007 and attracts interest in total aggregation of £500,000 payable in 10 equal instalments.

Bank loans of £19,600,000 include term loans amounting to £15,500,000 and £2,500,000 both of which attract interest at an annual percentage equal to LIBOR and are fully repayable by 31 December 2008 and 30 June 2009 respectively, a £1,600,000 mezzanine loan which attracts interest at an annual percentage equal to LIBOR and is fully repayable by 31 December 2009.

The investor loan notes of £10,200,000 are payable on redemption and attract annual interest of 20%.

## Notes (continued)

### 14 Creditors: amounts falling due after more than one year (continued)

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group 2002 £	2001 £	Company 2002 £	2001 £
Within one year	77,882	75,421	-	-
In the second to fifth years	28,358	67,570	-	-
	<u>106,240</u>	<u>142,991</u>	<u>-</u>	<u>-</u>

### 15 Provisions for liabilities and charges

	Deferred tax £
As at 1 January 2002	57,692
Movement in the year	(19,414)
	<u>38,278</u>
As at 31 December 2002	<u>38,278</u>

Amounts provided and unprovided in respect of deferred taxation are analysed as follows:

	2002 Amount unprovided £	2002 Amount provided £	2001 Amount unprovided £	2001 Amount provided £
Accelerated capital allowances	-	82,639	-	72,094
Short term timing differences	-	(44,361)	-	(14,402)
	<u>-</u>	<u>38,278</u>	<u>-</u>	<u>57,692</u>

## Notes (continued)

### 16 Called up share capital

	2002 £	2001 £
<i>Authorised</i>		
Equity: Ordinary shares of 15 pence each	2,200	2,200
'A' Ordinary shares	7,800	7,800
	<hr/> 10,000 <hr/>	<hr/> 10,000 <hr/>
<i>Allotted, called up and fully paid</i>		
Equity: Ordinary shares of 1 pence each	2,060	1,900
'A' ordinary shares of 1 pence each	7,800	7,800
	<hr/> 9,860 <hr/>	<hr/> 9,700 <hr/>

#### Issue of shares

On 2 August 2002 16,000 1p ordinary shares were issued at £1 each.

#### Dividend rights

The following rights attach to the 'A' ordinary shares.

Any dividend declared by the company shall be paid on the 'A' ordinary shares and ordinary shares pari passu as if they were all shares of the same class.

#### Conversion

The investors shall be entitled to convert the whole of the 'A' ordinary shares into fully paid ordinary shares immediately prior to the company either being sold or floated.

#### Events on a winding up

On a winding up, the holder of the 'A' ordinary shares would receive an amount in respect of each share held equal to the amount paid up thereon (including any premium). Thereafter, subject to the payment of all amounts payable to ordinary shares equal to amounts paid up the surplus will be distributed amongst the holders of ordinary shares and 'A' ordinary shares pari passu.

#### Voting rights

Ordinary shares and 'A' ordinary shares carry equal voting rights.

## Notes (continued)

### 17 Share premium and reserves

	Share premium account £	Group profit and loss account £	Company profit and loss account £
<b>Group</b>			
At beginning of year	960,300	(72,999)	-
Retained profit for the year	-	375,735	-
Premium on share issues	15,840	-	-
	<hr/>	<hr/>	<hr/>
<b>At end of period</b>	<b>976,140</b>	<b>302,736</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>

### 18 Commitments

#### (a) Capital commitments

	2002 £	2001 £
<b>Contracted for but not provided for</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>

#### (b) Pension arrangements

The company operates a defined contribution pension scheme for certain personnel. The benefits payable under this scheme are at all times restricted to those which can be paid from the assets of the scheme. The assets of the scheme are held separately from the company in an independently administered fund.

With effect from 31 January 1999 all assets and liabilities of the plan were transferred to the Trustees of the Headlam Group plc Staff Retirement Benefits Scheme.

In June 2002 all assets and liabilities of all the plans were transferred to the Trustees of the Gradus Group Holdings No. 1 Limited Staff Retirement Benefit Scheme which is independently administered by Standard Life.

Certain employees of the company are members of the group's contributory defined benefit pension scheme. The employer's cost of funding this scheme is computed on a group basis and allocated to subsidiaries in relation to their pensionable payrolls.

A complete valuation of the scheme is undertaken at least every three years by an independent qualified actuary.

Certain other employees of the Company are members of the group's defined contribution scheme, the assets of which are held separately from those of the company in an independently administered fund.

The total pension charge for the period in respect of all schemes was £nil. There were no significant differences between contributions paid and the pension cost charge determined in accordance with the company's accounting policy.

## Notes (continued)

### 18 Commitments

(c) Annual commitments under non-cancellable operating leases are as follows:

	2002		2001	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	-	286,666	-	95,772
In the second to fifth years inclusive	-	208,744	-	260,396
	<hr/>	<hr/>	<hr/>	<hr/>
	-	495,410	-	356,168
	<hr/>	<hr/>	<hr/>	<hr/>

### 19 Reconciliation of operating profit to operating cash flows

	2002 Total £	2001 Total £
Operating profit/(loss)	4,120,850	(3,315)
Depreciation charge	553,235	-
Amortisation of goodwill	917,002	-
Loss on asset disposals	260	-
Decrease in stocks	914,380	149,506
Decrease in debtors	674,349	328,187
Decrease in creditors	(2,016,674)	(1,065,261)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	5,163,402	(590,883)
	<hr/>	<hr/>

## Notes (continued)

### 20 Analysis of cash flows

	2002 £	2001 £
<b>Returns on investment and servicing of finance</b>		
Interest received	1,589	3,596
Interest paid	(1,624,272)	(103,309)
	<u>(1,622,683)</u>	<u>(99,713)</u>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(461,912)	-
Disposal of tangible fixed assets	133,501	-
Purchase of investments	(100,000)	-
	<u>(428,411)</u>	<u>-</u>
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertaking	(89,552)	(28,892,333)
Purchase of interest in joint venture	-	(1,841,952)
	<u>(89,552)</u>	<u>(30,734,285)</u>
<b>Financing</b>		
Issue of ordinary share capital	16,000	970,000
Debt due within one year:		
New secured loan	-	912,965
Debt due after more than one year:		
New secured loan repayable in approximately 10 years	-	29,516,685
Loans repaid	(825,930)	-
Capital element of finance leases	(36,751)	-
	<u>(846,681)</u>	<u>31,399,650</u>

### 21 Analysis of net debt

	At beginning of year £	Cash flow £	Non-cash Charges £	At end of year £
Cash in hand, at bank	1,841,952	1,418,290	-	3,260,242
	<u>1,841,952</u>	<u>1,418,290</u>	<u>-</u>	<u>3,260,242</u>
Debt due after one year	(912,965)	912,965	-	-
Debt due within one year	(29,515,685)	(87,035)	-	(29,602,720)
Finance leases	(142,991)	36,751	-	(106,240)
	<u>(28,729,689)</u>	<u>2,280,971</u>	<u>-</u>	<u>(26,448,718)</u>
<b>Total</b>	<u>(28,729,689)</u>	<u>2,280,971</u>	<u>-</u>	<u>(26,448,718)</u>