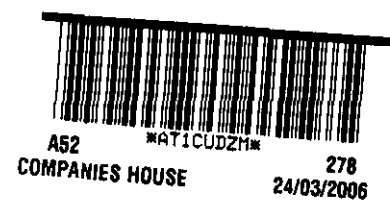


Waxman Ceramics Limited

**Directors' report and financial
statements**

Registered number 2992383

31 May 2005



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 2005.

Principal activity

The company's principal activity is the merchanting of ceramic tiles.

Result and dividend

The deficit for the year amounted to £183,826 (2004: retained profit £16,661).

The directors do not recommend the payment of a dividend.

Business review

The results for the year reflect the difficult trading conditions.

Directors and directors' interests

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

RD Waxman
J Waxman
MJ Pape
DJ Garlick
AD Martindale (resigned 31 January 2005)

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company as recorded in the register of directors' share interests:

	Interest at beginning and end of year
RD Waxman	2,500
J Waxman	-
MJ Pape	-
DJ Garlick	-

Mr RD Waxman is also a director and shareholder of the ultimate holding company, Waxman Group Limited. His interests in the share capital of other group companies are shown in the financial statements of that company.

Donations

During the year the company made charitable donations of £2,339 (2004: £1,026).

By order of the board



M Firth
Secretary

Grove Mills
Elland
West Yorkshire
HX5 9DZ

11 October 2005

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 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 company 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 company and to prevent and detect fraud and other irregularities.



KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Report of the independent auditors to the members of Waxman Ceramics Limited

We have audited the financial statements on pages 4 to 14.

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 company is not disclosed.

Basis of 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 company'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 as at 31 May 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

11 October 2005

Profit and loss account

for the year ended 31 May 2005

	<i>Note</i>	2005 £	2004 £
Turnover	2	9,317,348	8,482,139
Cost of sales		(6,038,059)	(5,261,013)
Gross profit		3,279,289	3,221,126
Distribution costs		(461,601)	(567,699)
Administrative expenses		(2,964,052)	(2,565,558)
Operating (loss)/profit		(146,364)	87,869
Interest receivable	<i>6</i>	5,686	-
Interest payable	<i>7</i>	(112,662)	(53,950)
(Loss)/profit on ordinary activities before taxation	3	(253,340)	33,919
Tax on (loss)/profit on ordinary activities	<i>8</i>	69,514	(17,258)
(Deficit)/retained profit for the financial year	15	(183,826)	16,661

The (loss)/profit on ordinary activities before taxation is the historical cost (loss)/profit.

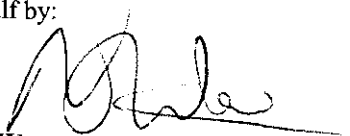
All the (losses)/profits derive from the continuing operations of the company.

There are no recognised gains or losses other than the (loss)/profit for the year stated above.

Balance sheet
at 31 May 2005

	<i>Note</i>	2005		2004	
		£	£	£	£
Fixed assets					
Intangible assets	9		7,485		16,472
Tangible assets	10		323,426		314,094
			<hr/>		<hr/>
Current assets			330,911		330,566
Stocks	11	2,559,263		2,835,867	
Debtors	12	1,536,035		1,514,007	
Cash at bank and in hand		774,224		128,805	
		<hr/>		<hr/>	
		4,869,522		4,478,679	
Creditors: amounts falling due within one year					
	13	(3,848,870)		(3,273,856)	
		<hr/>		<hr/>	
Net current assets			1,020,652		1,204,823
			<hr/>		<hr/>
Net assets			1,351,563		1,535,389
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	14	10,000		10,000	
Profit and loss account	15	1,341,563		1,525,389	
		<hr/>		<hr/>	
Shareholders' funds	15	1,351,563		1,535,389	
		<hr/>		<hr/>	

These financial statements were approved by the board of directors on 11 October 2005 and were signed on its behalf by:


RD Waxman
Director

Cash flow statement

for the year ended 31 May 2005

	<i>Note</i>	2005 £	2004 £
Net cash inflow from operating activities	19	893,259	242,874
Returns on investments and servicing of finance	20	(106,976)	(53,950)
Taxation		(13,801)	(145,486)
Capital expenditure	20	(127,063)	(177,208)
Increase/(decrease) in cash in the year		<u>645,419</u>	<u>(133,770)</u>

Reconciliation of net cash flow to movement in net funds

	<i>Note</i>	2005 £	2004 £
Increase/(decrease) in cash in the year		645,419	(133,770)
Net funds at 1 June 2004	21	<u>128,805</u>	<u>262,575</u>
Net funds at 31 May 2005	21	<u>774,224</u>	<u>128,805</u>

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 company's financial statements.

Basis of preparation

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

Fixed assets and depreciation

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

Leasehold improvements	-	15% - 20% on cost
Motor vehicles	-	25% on cost
Fixtures and fittings	-	15% on cost
Plant and machinery	-	25% on cost
Computer equipment	-	25% on cost
Goodwill	-	20% on cost

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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.

Pensions and other post-retirement benefits

The company contributes to a defined contribution pension scheme operated by Waxman Holdings Limited, and two defined contribution pension schemes operated by a fellow subsidiary undertaking. The assets of the schemes are held separately from those of the company in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of goods purchased for resale, the purchase cost on a first in, first out basis is used.

Leases

Rental charges on operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred, without discounting, because of timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Notes (continued)

1. Accounting policies (continued)

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

2 Analysis of turnover

	2005 £	2004 £
<i>By geographical market</i>		
United Kingdom	9,218,711	8,350,912
Europe	98,637	131,227
	<hr/> 9,317,348	<hr/> 8,482,139
	<hr/> <hr/>	<hr/> <hr/>

3 (Loss)/profit on ordinary activities before taxation

	2005 £	2004 £
<i>(Loss)/profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration	3,700	3,600
Amortisation of intangible fixed assets	8,987	8,989
Depreciation of tangible fixed assets	117,731	107,801
Operating leases – land and buildings	397,221	362,246
Operating leases - other	211,416	171,784
	<hr/> 3,700	<hr/> 3,600
	<hr/> <hr/>	<hr/> <hr/>

4 Remuneration of directors

	2005 £	2004 £
Total remuneration excluding pension contributions	199,644	233,464
Contributions to money purchase pension schemes	3,273	3,454
	<hr/> 199,644	<hr/> 233,464
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of the highest paid director were as follows:

	2005 £	2004 £
Total remuneration excluding pension contributions	57,424	67,365
Contributions to money purchase pension scheme	1,260	1,120
	<hr/> 57,424	<hr/> 67,365
	<hr/> <hr/>	<hr/> <hr/>

Retirements benefits are accruing to 4 (2004: 5) directors under money purchase pension schemes.

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	2005	2004
Management and administration	60	49
Warehouse	37	35
	<hr/>	<hr/>
	97	84
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£	£
Wages and salaries	1,692,930	1,556,269
Social security costs	164,962	155,218
Other pension costs	37,211	28,677
	<hr/>	<hr/>
	1,895,103	1,740,164
	<hr/>	<hr/>

6 Interest receivable

	2005	2004
	£	£
Bank interest	5,681	-
Other interest	5	-
	<hr/>	<hr/>
	5,686	-
	<hr/>	<hr/>

7 Interest payable

	2005	2004
	£	£
On bank loans, overdrafts and other loans wholly repayable within five years:		
Group	107,639	47,732
Bank overdraft	130	6,218
Other interest	4,893	-
	<hr/>	<hr/>
	112,662	53,950
	<hr/>	<hr/>

Notes (continued)

8 Taxation

	2005 £	2004 £
UK corporation tax at 19% (2004: 19%) on the profit for the year on ordinary activities	-	19,000
Group relief receivable at 30%	(60,000)	-
Adjustment relating to an earlier year	(9,514)	(1,742)
	<u>(69,514)</u>	<u>17,258</u>

Reconciliation of current year tax charge

The standard rate of corporation tax for the year is 19% (2004: 19%). The current year tax charge is lower (2004: higher) than 19% (2004: 19%) for the reasons set out in the following reconciliation:

	2005 £	2004 £
(Loss)/profit on ordinary activities before taxation	(253,340)	33,919
Tax on (loss)/profit on ordinary activities at standard rate	(48,135)	6,445
Factors affecting charge:		
Capital allowances in advance of depreciation	(288)	2,207
Small companies relief	-	(809)
UK tax not at standard rate	(21,933)	-
Disallowed expenditure	10,539	9,883
Rounding	(183)	1,274
Adjustment relating to an earlier year	(9,514)	(1,742)
Current tax charge	<u>(69,514)</u>	<u>17,258</u>

9 Intangible fixed assets

	Goodwill £
Cost	
At beginning and end of year	44,933
Amortisation	
At beginning of year	28,461
Charge for year	8,987
At end of year	37,448
Net book value	
At 31 May 2005	7,485
At 31 May 2004	16,472

Notes (continued)

10 Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
Cost					
At beginning of year	139,170	57,546	353,050	56,416	606,182
Additions	9,799	2,188	115,076	-	127,063
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	148,969	59,734	468,126	56,416	733,245
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At beginning of year	46,460	40,350	185,569	19,709	292,088
Charge for year	24,315	9,295	70,016	14,105	117,731
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	70,775	49,645	255,585	33,814	409,819
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 May 2005	78,194	10,089	212,541	22,602	323,426
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 May 2004	92,710	17,196	167,481	36,707	314,094
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

11 Stocks

	2005 £	2004 £
Goods for resale	2,559,263	2,835,867
	<hr/>	<hr/>

12 Debtors

	2005 £	2004 £
Trade debtors	1,409,221	1,407,677
Other debtors	1,885	291
Prepayments and accrued income	124,929	106,039
	<hr/>	<hr/>
	1,536,035	1,514,007
	<hr/>	<hr/>

Included in other debtors is an amount of £1,083 (2004: £nil) owed by Waxman Holdings Limited of which RD Waxman is a director and shareholder.

Notes (continued)

13 Creditors: amounts falling due within one year

	2005 £	2004 £
Trade creditors	966,822	1,177,882
Amounts owed to group undertakings	2,445,316	1,559,615
Corporation tax	5,199	28,514
Other taxes and social security	369,108	388,771
Other creditors	320	1,598
Accruals and deferred income	62,105	117,476
	<u>3,848,870</u>	<u>3,273,856</u>

Included in other creditors is an amount of £nil (2004: £1,375) owed to Waxman Holdings Limited, of which RD Waxman is a director and shareholder.

The company traded on normal commercial terms with Waxman Holdings Limited during the year, the total value of such transactions being £325,585 (2003: £276,682).

14 Called up share capital

	2005 £	2004 £
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

15 Reconciliation of movements in shareholders' funds

	Called up share capital £	Profit and loss account £	Total 2005 £	Total 2004 £
At beginning of year	10,000	1,525,389	1,535,389	1,518,728
(Deficit)/retained profit for the year	-	(183,826)	(183,826)	16,661
	<u>10,000</u>	<u>1,341,563</u>	<u>1,351,563</u>	<u>1,535,389</u>

16 Contingent liabilities

The company has guaranteed the overdrafts of the following companies:

Waxman International Limited
Waxman Fibres Limited

The amount outstanding at the year end was £803,381 (2004: £nil). Mr RD Waxman has an interest in the share capital of Waxman Fibres Limited.

Notes (continued)

17 Commitments

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

	2005 £	2004 £
<i>Land and buildings</i>		
Operating leases which expire:		
Within one year	31,450	-
Within the second to fifth years	-	31,450
After five years	386,708	342,794
	<hr/> 418,158 <hr/>	<hr/> 374,244 <hr/>
<i>Other operating leases</i>		
Operating leases which expire:		
Within one year	48,324	22,836
Within the second to fifth years	146,844	119,376
	<hr/> 195,168 <hr/>	<hr/> 142,212 <hr/>

18 Pension scheme

The company contributes to a defined contribution scheme operated by Waxman Holdings Limited. The pension cost charge for the year amounted to £37,211 (2004: £28,677).

A fellow subsidiary undertaking operates two defined contribution pension schemes. On the advice of the actuary additional contributions have been made during the year. The pension cost charge for the year includes £nil contributed by Waxman Ceramics Limited (2004: £nil).

19 Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2005 £	2004 £
Operating (loss)/profit	(146,364)	87,869
Amortisation charge	8,987	8,989
Depreciation charge	117,731	107,801
Decrease/(increase) in stocks	276,604	(1,092,383)
Increase in debtors	(22,028)	(198,258)
Increase in creditors	658,329	1,328,856
	<hr/> 893,259 <hr/>	<hr/> 242,874 <hr/>
Net cash inflow from operating activities	893,259	242,874

Notes (continued)

20 Analysis of cash flows for headings netted in the cash flow statement

	2005 £	2004 £
Returns on investments and servicing of finance		
Interest received	5,686	-
Interest paid	(112,662)	(53,950)
	<u> </u>	<u> </u>
Net cash outflow for returns on investments and servicing of finance	(106,976)	(53,950)
	<u> </u>	<u> </u>
Capital expenditure		
Purchase of tangible fixed assets	(127,063)	(177,208)
	<u> </u>	<u> </u>

21 Analysis of net funds

	At 31 May 2004 £	Cash flow £	At 31 May 2005 £
Cash at bank and in hand	128,805	645,419	774,224
	<u> </u>	<u> </u>	<u> </u>

22 Deferred tax

The full potential asset not recognised is as follows:

	2005 £	2004 £
Capital allowances in advance of depreciation	3,695	3,983
	<u> </u>	<u> </u>

23 Ultimate parent undertaking

The company is a subsidiary undertaking of Waxman Group Limited, a company registered in England and Wales.

24 Post balance sheet event

Since the balance sheet date the company has completed the purchase of a new distribution warehouse and offices at a cost of £725,000.