

**SPECTRUM FRANCHISING
LIMITED**

ABBREVIATED ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2002



Company no 2130421

SPECTRUM FRANCHISING LIMITED

ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

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SPECTRUM FRANCHISING LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 December 2002.

Principal activities

The company trades as a carpet dyeing and cleaning master franchise operation under the name Rainbow International Carpet Dyeing and Cleaning Company.

Business review

The results for the year and the financial position of the company are shown in the financial statements. During the year the company increased its Rainbow International Franchisee network to 131 active franchise units.

Network turnover for the year to 31 December 2002 was £27,273,599 (2001 £28,239,573). Network turnover is defined as the sales of the Franchise network, not the turnover of the company.

Rainbow International is the largest restoration network in the UK, providing fire and water restoration service to the insurance industry, and is a lead provider to a number of those companies. The network continues to penetrate the domestic and commercial markets in the provision of cleaning and restoration services.

There was a profit for the year after taxation amounting to £836,458 (2001: profit £542,884). The directors do not recommend payment of a dividend.

Directors

The present membership of the Board is set out below. All directors served throughout the year.

The only director with an interest in the shares of the company is M Lusty who held 1 ordinary share at 31 December 2002 and at 1 January 2002.

The interests of the directors and their families in the shares of Spectrum Holdings Ltd (the parent undertaking) as at 31 December 2002 and 1 January 2002 were as follows:

	Ordinary shares		Ordinary B shares	
	31 December 2002	1 January 2002	31 December 2002	1 January 2002
M Lusty (Chairman)	1,895	1,895	13,925	13,925
J Hartshorne	-	-	-	-
R C Hutton	-	-	-	-
R E Spencer	-	-	-	-
C P Roche	205	205	1,200	1,200

On 24 January 2003, Mr M Lusty sold 225 shares to a trust in which he is a trustee.

SPECTRUM FRANCHISING LIMITED

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

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 of the company 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 maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton offer themselves for reappointment as auditors to the company in accordance with the Companies Act 1985.

ON BEHALF OF THE BOARD



M Lusty

Director

Date

30th January 2003.

**REPORT OF THE INDEPENDENT AUDITORS TO SPECTRUM FRANCHISING LIMITED
UNDER**

SECTION 247B OF THE COMPANIES ACT 1985

We have examined the abbreviated accounts which comprises the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and the notes 1 to 25 together with the full financial statements of Spectrum Franchising Limited prepared under section 226 of the Companies Act 1985 for the year ended 31 December 2002.

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 abbreviated accounts in accordance with the provisions of section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver to the Registrar of Companies abbreviated accounts prepared in accordance with section 246A(3) of the Act and whether the abbreviated accounts have been properly prepared in accordance with that provision.

Basis of opinion

We have carried out the procedures we considered necessary to confirm, by reference to the audited financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts have been properly prepared from those financial statements. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report on the full financial statements.

Opinion

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Companies Act 1985, and the abbreviated accounts which comprise the principal accounting policies, the abbreviated balance sheet and notes 1 to 25 have been properly prepared in accordance with that provision.



GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
NOTTINGHAM

Date 30.1.03.

SPECTRUM FRANCHISING LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

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

The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

TURNOVER

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

INCOME FROM INVESTMENTS

Investment income comprises dividends declared during the accounting period and interest receivable on listed and unlisted investments.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land over their expected useful lives. The rates generally applicable are:

Leasehold improvements	33.3% per annum on cost
Motor vehicles	33.3% per annum on net book value
Fixtures and fittings	33.3% per annum on net book value

INTANGIBLE FIXED ASSETS

Intangible fixed assets are capitalised and amortised on a straight line basis over its estimated useful economic life.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All other exchange differences are dealt with through the profit and loss account.

CONTRIBUTIONS TO PENSION FUNDS

Defined contribution scheme

The company contributes to the personal pension schemes of certain employees and directors.

SPECTRUM FRANCHISING LIMITED

PRINCIPAL ACCOUNTING POLICIES

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

EMPLOYEE BENEFIT TRUST

Assets held by the company's Employee Benefit Trust (EBT) are included in the company's balance sheet as current asset investments, subject to any provision for diminution in value, until they are unconditionally distributed to beneficiaries at the unfettered discretion of the trustees of the EBT.

SPECTRUM FRANCHISING LIMITED

ABBREVIATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002

	Note	2002 £	2001 £
Gross profit		2,623,629	2,562,676
Administrative expenses		(1,485,662)	(1,806,151)
Operating profit		1,137,967	756,525
Other interest receivable and similar income	2	83,731	76,658
Interest payable and similar charges	2	(11,001)	(19,457)
Profit on ordinary activities before taxation	1	1,210,697	813,726
Tax on profit on ordinary activities	3	(374,239)	(270,842)
Profit transferred to reserves	14	836,458	542,884

There were no recognised gains or losses other than the profit for the financial year.

The accompanying accounting policies and notes form an integral part of these abbreviated accounts.

SPECTRUM FRANCHISING LIMITED

ABBREVIATED BALANCE SHEET AT 31 DECEMBER 2002

	Note	2002 £	2002 £	2001 £	2001 £
Fixed assets					
Intangible assets	6	-	-	-	-
Tangible assets	7		<u>396,935</u>		<u>261,827</u>
			<u>396,935</u>		<u>261,827</u>
Current assets					
Stocks	9	120,907		97,339	
Debtors	10	1,136,761		939,674	
Investments	8	177,993		198,493	
Cash at bank and in hand		<u>3,430,029</u>		<u>2,129,941</u>	
		<u>4,865,690</u>		<u>3,365,447</u>	
Creditors: amounts falling due within one year	11	<u>(2,627,442)</u>		<u>(1,775,323)</u>	
Net current assets			<u>2,238,248</u>		<u>1,590,124</u>
Total assets less current liabilities			<u>2,635,183</u>		<u>1,851,951</u>
Creditors: amounts falling due after more than one year	12		<u>-</u>		<u>(53,226)</u>
			<u>2,635,183</u>		<u>1,798,725</u>
Capital and reserves					
Called up share capital	13		850,000		850,000
Profit and loss account	14		<u>1,785,183</u>		<u>948,725</u>
Shareholders' funds	16		<u>2,635,183</u>		<u>1,798,725</u>

These abbreviated accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies.

The abbreviated accounts were approved by the Board of Directors on

M Lusty



Director

30th January 2003


The accompanying accounting policies and notes form an integral part of these abbreviated accounts.

SPECTRUM FRANCHISING LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2002

	Note	2002 £	2001 £
Net cash inflow from operating activities	17	1,829,150	1,291,334
Returns on investments and servicing of finance			
Interest received		83,731	76,658
Interest paid		(5,664)	(14,276)
Finance lease interest paid		(5,337)	(5,181)
Net cash inflow from returns on investments and servicing of finance		72,730	57,201
Taxation		(308,364)	(166,762)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(302,012)	(146,109)
Sale of tangible fixed assets		13,000	-
Net cash outflow from capital expenditure and financial investment		(289,012)	(146,109)
Purchase of investments		-	(33,997)
Distribution from EBT/ AESOP		20,500	45,104
Financing			
Capital element of finance lease rentals		(24,916)	(29,979)
Increase in cash	19	1,300,088	1,016,792

The accompanying accounting policies and notes form an integral part of these abbreviated accounts.

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

1 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities is stated after:	2002 £	2001 £
Auditors' remuneration	20,000	8,000
Depreciation and amortisation:		
Tangible fixed assets, owned	135,119	73,874
Tangible fixed assets, held under finance leases and hire purchase contracts	16,910	22,275
Hire of plant and machinery	34,699	5,350
Other operating lease rentals	30,000	30,000

2 NET INTEREST

	2002 £	2001 £
Finance charges in respect of finance leases	5,337	5,181
Other interest payable and similar charges	5,664	14,276
Other interest receivable and similar income	(83,731)	(76,658)
	(72,730)	(57,201)

3 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge represents:

	2002 £	2001 £
UK Corporation tax at 33% (2001: 33%)	370,883	349,592
Deferred taxation	3,356	(100,835)
	374,239	248,757
Adjustments in respect of prior periods:		
Corporation tax	-	22,085
	374,239	270,842

4 TAX RECONCILIATION

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

	2002 £	2001 £
Profit on ordinary activities before tax	1,210,697	813,726
Tax on profit on ordinary activities at 30 %	363,209	244,118
Effects of:		
Expenses not deductible for tax	11,030	8,802
Capital allowances in excess of depreciation	(3,293)	(3,299)
Short term timing differences	(63)	46,228
Adjustments in respect of prior periods	-	75,828
	<u>370,883</u>	<u>371,677</u>

5 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2002 £	2001 £
Wages and salaries	708,615	1,057,752
Social security costs	82,189	65,227
Other pension costs	24,031	89,528
	<u>814,835</u>	<u>1,212,507</u>

The average number of employees of the company during the year was 44 (2001: 33).

Remuneration in respect of directors was as follows:

	2002 £	2001 £
Emoluments	252,139	216,523
Pension contributions to money purchase pension schemes	17,926	85,740
From employee benefit trust (see note 8)	18,942	442,700
	<u>289,007</u>	<u>744,963</u>

During the year 5 directors (2001: 4) participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid directors as follows:

	2002 £	2001 £
Emoluments and long-term incentive schemes	94,580	84,276
Pension contributions to money purchase pension schemes	7,476	79,476

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

6 INTANGIBLE FIXED ASSETS

	Franchise licence £
Cost or valuation	
At 1 January 2002 and 31 December 2001	400,000
Amortisation	
At 1 January 2002 and 31 December 2001	400,000
Net book amount at 31 December 2002 and 31 December 2001	-

This represents the know-how and the United Kingdom master franchise acquired in 1989.

7 TANGIBLE FIXED ASSETS

	Leasehold land and buildings £	Motor vehicles £	Fixtures and fittings £	Total £
Cost or valuation				
At 1 January 2002	21,500	148,203	364,960	534,663
Additions	-	51,424	250,588	302,012
Disposals	-	(50,290)	-	(50,290)
At 31 December 2002	21,500	149,337	615,548	786,385
Depreciation				
At 1 January 2002	10,600	83,228	179,008	272,836
Provided in the year	7,167	35,065	109,797	152,029
Eliminated on disposals	-	(35,415)	-	(35,415)
At 31 December 2002	17,767	82,878	288,805	389,450
Net book amount at 31 December 2002	3,733	66,459	326,743	396,935
Net book amount at 31 December 2001	10,900	64,975	185,952	261,827

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

The figures stated above include assets held under finance leases and similar hire purchase contracts, as follows:

	Motor vehicles £
Net book amount at 31 December 2002	<u>16,855</u>
Net book amount at 31 December 2001	<u>44,500</u>
Depreciation provided during year	<u>16,910</u>

8 CURRENT ASSET INVESTMENTS

	2002 £	2001 £
Shares held in AESOP	170,393	170,393
Employee Benefit Trust	<u>7,600</u>	<u>28,100</u>
	<u>177,993</u>	<u>198,493</u>

AESOP

In 1999 the company contributed £200,000 to the All Employee Share Option Plan (AESOP). At the year end the option plan held 7,968 shares in Spectrum Holdings Limited.

Employee Benefit Trust

In 2000 the company made a contribution to the Spectrum Franchising Limited Employee Benefit Trust (the Trust) which has been established to provide benefits to employees and directors of the company. Assets held by the Trust may be distributed to individuals at the unfettered discretion of the trustees, from time to time. During the year £20,500 was allocated. At the year end the company held £4,600 of shares in Thornybolt (No 55) and £3,000 in cash.

9 STOCKS

	2002 £	2001 £
Finished goods and goods for resale	<u>120,907</u>	<u>97,339</u>

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

10 DEBTORS

	2002 £	2001 £
Trade debtors	1,008,926	702,583
Amounts owed by group undertakings	-	44,644
Other debtors	11,771	88,397
Loans to directors	9,063	16,021
Deferred tax asset	81,429	84,785
Prepayments and accrued income	25,572	3,244
	<u>1,136,761</u>	<u>939,674</u>

Included above are the following amounts which are due after more than one year:

Trade debtors	-	6,750
Other debtors	-	15,900
	<u>-</u>	<u>22,650</u>

The recoverability of the deferred tax asset is dependant on future taxable profits in excess of those arising from the reversal of deferred tax liabilities.

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Payments in advance	598,203	91,503
Trade creditors	498,859	358,413
Amounts owed to group undertakings	37,218	-
Corporation tax	514,378	451,859
Social security and other taxes	158,914	104,444
National advertising fund	712,172	666,730
Accruals and deferred income	98,262	77,348
Amounts due under finance leases	9,436	25,026
	<u>2,627,442</u>	<u>1,775,323</u>

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 £	2001 £
Amounts owed to group undertakings	-	43,900
Amounts due under finance leases	-	9,326
	-	53,226

Borrowings are repayable as follows:

	2002 £	2001 £
Within one year		
Finance leases	9,436	25,026
After one and within two years		
Finance leases	-	9,326
After two and within five years		
	9,436	34,352

13 SHARE CAPITAL

	2002 £	2001 £
Authorised		
Ordinary shares of £1 each	1,000,000	1,000,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	850,000	850,000

14 RESERVES

	Profit and loss account £
At 1 January 2002	948,725
Retained profit for the year	836,458
At 31 December 2002	1,785,183

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

15 PENSIONS

Defined Contribution Scheme

The company contributes to the personal pension schemes of certain employees and directors.

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Profit for the financial year	836,458	542,884
Net increase in shareholders' funds	836,458	542,884
Shareholders' funds at 1 January 2002	1,798,725	1,255,841
Shareholders' funds at 31 December 2002	2,635,183	1,798,725

17 NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating profit	1,137,967	756,525
Depreciation	152,029	96,149
Loss on sale of tangible fixed assets	1,875	-
Increase in stocks	(23,568)	(23,072)
Increase in debtors	(200,443)	135,518
Increase in creditors	761,290	326,214
Net cash inflow from continuing operating activities	1,829,150	1,291,334

18 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2002 £	Cash flow £	At 31 December 2002 £
Cash in hand and at bank	2,129,941	1,300,088	3,430,029
Finance leases	(34,352)	24,916	(9,436)
Current asset investments	198,493	(20,500)	177,993
	2,294,082	1,304,504	3,598,586

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

19 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £	2001 £
Increase in cash in the year	1,300,088	1,016,792
Cash outflow from finance leases in the year	24,916	29,979
Cash inflow from (decrease) in current asset investments	(20,500)	(11,107)
Change in net debt resulting from cashflows	1,304,504	1,035,664
Movement in net debt in the year	1,304,504	1,035,664
Net funds at 1 January 2002	2,294,082	1,258,418
Net funds at 31 December 2002	3,598,586	2,294,082

20 CAPITAL COMMITMENTS

	2002 £	2001 £
Contracted for but not provided in these statements	-	38,214

21 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2002 or 31 December 2001.

22 LEASING COMMITMENTS

Operating lease payments amounting to £63,208 (2001: £30,000) are due within one year. The leases to which these amounts relate expire as follows:

	2002		2001	
	Land and buildings £	Other £	Land and buildings £	Other £
Between one and five years	30,000	33,208	30,000	-

23 ULTIMATE PARENT UNDERTAKING & CONTROLLING RELATED PARTY

The directors consider that the ultimate parent undertaking of this company is its parent company Spectrum Holdings Limited.

Mr M Lusty is this company's ultimate controlling related party by virtue of his majority shareholding in Spectrum Holdings Ltd.

SPECTRUM FRANCHISING LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2002

24 TRANSACTIONS WITH DIRECTORS

Amounts due in respect of loans, quasi-loans and credit transactions by directors were as follows:

Name of director and connected person	Amount outstanding		Maximum liability during year	Interest due not paid
	2002	2001		
	£	£	£	£
Mr M Lusty	9,063	16,021	26,442	-

Other transactions with directors were as follows:

Mr M Lusty owns the property used by the company. Rent payable to Mr M Lusty during the year totalled £30,000 2001: (£30,000)

The company made payments totalling £-. (2001: £12,508) to Mr C Roche in return for accounting services provided in the year.

As a wholly owned subsidiary of Spectrum Holdings Limited, the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group headed by Spectrum Holdings Limited.

25 RELATED PARTY TRANSACTIONS

During previous year the company made a loan of £65,500 to Melvin Lusty's pension scheme. This loan was repaid in full during the year ended 31 December 2002.