

Spectrum Franchising Limited

**Directors' report and financial
statements**

**Registered number 02130421
31 December 2003**



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Company information

Directors	M Lusty CP Roche
Secretary	CP Roche
Company registration number	02130421
Registered office	Wells House 65 Boundary Road Woking Surrey GU21 5BS
Auditors	KPMG LLP St Nicholas House Park Row Nottingham NG1 6FQ
Bankers	HSBC 1 Leeming Street Mansfield Nottinghamshire NG18 1LU

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activity of the company was that of providing accidental damage, fire and water restoration services to the Insurance industry, loss adjusters and brokers via Rainbow International Carpet Care and Restoration Specialist franchise network.

Business review

The results for the year and the financial position of the company are shown in the financial statements.

Following the acquisition by ISS Damage Control Limited on 31 January 2003, the integration within ISS has gone relatively smoothly. In September 2003 the company was awarded the sole restoration supplier contract by Royal Sun Alliance. Network turnover for the year to 31 December 2003 was £29,276,628 (2002: £27,273,599). Network turnover is defined as the sales recorded by our franchise network, and not the turnover of this 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 franchise network also continues to penetrate the domestic and commercial markets in the provision of cleaning and restoration services.

Directors and directors' interests

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

M Lusty (Chairman)

CP Roche

J Hartshorne - resigned 3 February 2003

RC Hutton - resigned 3 February 2003

RE Spencer - resigned 3 February 2003

RJ Arneil - resigned 27 February 2004

M Lusty who held one ordinary share in the company at 1 January 2003 transferred it to Spectrum Holdings Limited on 31 January 2003.

None of the other directors held any shares in the company, their interests in the shares of Spectrum Holdings Limited, the parent company, are shown in that company's financials statements.

Auditors

Grant Thornton resigned as auditors during the year and KPMG LLP were appointed in their place. 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



CP Roche
Secretary

Registered office:

Wells House
65 Boundary Road
Woking
Surrey
GU21 5BS

30 November 2004

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

St Nicholas House
Park Row
Nottingham
NG1 6FQ
United Kingdom

Report of the independent auditors to the members of Spectrum Franchising Limited

We have audited the financial statements on pages 5 to 15.

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 3, 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 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 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 the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

22 December 2004

*Chartered Accountants
Registered Auditor*

Profit and loss account
for the year ended 31 December 2003

	<i>Note</i>	2003 £	2002 £
Turnover	2	4,063,173	4,456,742
Cost of sales		(1,065,058)	(1,833,113)
Gross profit		2,998,115	2,623,629
Administrative expenses		(2,157,948)	(1,485,662)
Operating profit		840,167	1,137,967
Other interest receivable and similar income	3	18,186	83,731
Interest payable and similar charges	4	(511)	(11,001)
Profit on ordinary activities before taxation	5	857,842	1,210,697
Tax on profit on ordinary activities	6	(289,000)	(347,239)
Profit on ordinary activities after taxation transferred to reserves	16	568,842	836,458

In both the current and preceding year, the company made no material acquisitions and had no discontinued operations.

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the result reported in the profit and loss account and the result on an unmodified historical cost basis.

Balance sheet
as at 31 December 2003

	<i>Note</i>	2003	2002
		£	£
Fixed assets			
Tangible assets	9	287,130	396,935
Current assets			
Stocks	10	142,354	120,907
Debtors	11	5,089,367	1,136,761
Investments	12	7,600	177,993
Cash at bank and in hand	13	465,438	3,430,029
		<u>5,704,759</u>	<u>4,865,690</u>
Creditors: amounts falling due within one year	14	<u>(2,787,864)</u>	<u>(2,627,442)</u>
Net current assets		2,916,895	2,238,248
Total assets less current liabilities		3,204,025	2,635,183
Net assets		3,204,025	2,635,183
Capital and reserves			
Called up share capital	15	850,000	850,000
Profit and loss account	16	2,354,025	1,785,183
Equity shareholder funds	17	3,204,025	2,635,183

The financial statements were approved by the board of directors on 30 November 2004 and were signed on their behalf by:



CP Roche
Director

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 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 convention.

Under Financial Reporting Standard 1 *Cashflow statements (1996 revised)* ('FRS 1') the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Turnover

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

National Advertising Fund

Under the terms of the franchise agreement between the company and its franchisees, the company charges each franchisee a levy to be applied to a centrally held fund for use in marketing and promoting the franchise network (the 'National Advertising Fund'). Levies received under this fund are accrued as a liability and any expenditure incurred with respect to the fund are debited to the accrual, with the balance being recognised as an accrual on the balance sheet (notes 13 and 14).

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 valued 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

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are recorded at the date of the transactions. All differences are taken to the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Pensions

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered account. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

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.

2 Turnover

	2003	2002
	£	£
Management Fees	2,131,447	2,015,222
Sales of Franchise Areas	417,600	302,786
Sales of Equipment & Supplies	548,641	734,970
Other Sales	965,485	1,403,764
	<u>4,063,173</u>	<u>4,456,742</u>

During the year sales of £5,622 (2002: £4,055) were made to countries outside the UK.

3 Other interest receivable and similar income

	2003	2002
	£	£
Bank interest receivable	18,186	83,731
	<u>18,186</u>	<u>83,731</u>

4 Interest payable and similar charges

	2003	2002
	£	£
Finance charges in respect of finance lease	511	5,337
Other interest payable and similar charges	-	5,664
	<u>511</u>	<u>11,001</u>

Notes (continued)

5 Profit on ordinary activities before taxation

	2003 £	2002 £
<i>The profit on ordinary activities is stated after charging:</i>		
Depreciation and amortisation - owned	172,673	135,119
- held under finance leases and hire purchase contracts	16,855	16,910
Operating lease rentals - land and buildings	39,167	30,000
Operating lease rentals - other	50,449	34,699
Auditors' remuneration	20,000	20,000
Loss on disposal of tangible fixed assets	8,547	1,875

6 Tax on profit on ordinary activities

(a) Analysis of charge in year

	2003 £	2002 £
<i>The tax charge represents:</i>		
UK corporation tax at 30% (2002: 30%)	284,585	370,883
	284,586	370,883
<i>Deferred taxation</i>		
Origination and reversal of timing differences	4,414	3,356
Total deferred tax	4,414	3,356
Tax charge on profit on ordinary activities	289,000	374,239

(b) Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2002: higher) than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	2003 £	2002 £
Profit on ordinary activities before taxation	857,842	1,210,697
Tax on profit on ordinary activities at 30% (2002: 30%)	257,353	363,209
<i>Effects of:</i>		
Expenses not deductible for tax purposes	2,377	11,010
Capital allowances for the year less than/(in excess of) depreciation	23,990	(3,293)
Other short term timing differences	866	(43)
	284,586	370,883

Notes (continued)

6 Tax on profit on ordinary activities (continued)

(c) Deferred tax

	2003 £	2002 £
<i>Deferred tax is included in the balance sheet as follows:</i>		
Accelerated capital allowances	10,405	(12,316)
Timing differences on bonus payment	-	15,093
Timing differences on National Advertising Fund	66,610	78,652
Deferred tax asset (note 11)	77,015	81,429
At 1 January	81,429	84,785
Deferred tax charged to the profit and loss account in the year	(4,414)	(3,356)
At 31 December	77,015	81,429

7 Directors and employees

	2003 £	2002 £
<i>Staff costs during the year were as follows:</i>		
Wages and salaries	990,020	708,615
Social security costs	106,047	82,189
Other pension costs	35,396	24,031
	1,131,463	814,835

The average number of employees during the year was:

	2003 Number	2002 Number
Directors	2	5
Sales	5	3
Administration	54	49
Operations	7	-
	68	57

	2003 £	2002 £
<i>Remuneration in respect of directors was as follows:</i>		
Emoluments	221,284	252,139
Pension contributions to money purchase pension schemes	12,776	17,926
From Employee Benefit Trust	-	18,942
	234,060	289,007

Notes (continued)

7 Directors and employees (continued)

During the year five directors (2002: five) participated in money purchase schemes.

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

	2003 £	2002 £
Emoluments and long term incentive schemes	118,333	94,580
Pension contributions to money purchase pension schemes	8,066	7,476
	126,399	102,056

8 Intangible fixed assets

	Franchise licence £
<i>Cost or valuation:</i>	
At 1 January 2003 and 31 December 2003	400,000
<i>Accumulated amortisation:</i>	
At 1 January 2003 and 31 December 2003	400,000
<i>Net book value:</i>	
At 31 December 2003	-
At 31 December 2002	-

The intangible fixed asset represented the cost of the know-how associated with United Kingdom master franchise licence acquired in 1989.

Notes (continued)

9 Tangible fixed assets

	Leasehold land and buildings £	Motor vehicles £	Fixtures and fittings £	Total £
<i>Cost or valuation:</i>				
At 1 January 2003	21,500	149,337	615,548	786,385
Additions	-	-	109,418	109,418
Disposals	-	(65,200)	(21,474)	(86,674)
At 31 December 2003	21,500	84,137	703,492	809,129
<i>Accumulated depreciation:</i>				
At 1 January 2003	17,767	82,878	288,805	389,450
Provided in the year	3,733	25,494	160,301	189,528
Disposals	-	(50,505)	(6,474)	(56,979)
At 31 December 2003	21,500	57,867	442,632	521,999
<i>Net book value:</i>				
At 31 December 2003	-	26,270	260,860	287,130
At 31 December 2002	3,733	66,459	326,743	396,935

The figures stated above include motor vehicles held under finance leases and similar hire purchase contracts with a net book value of £nil (2002: £16,855). The depreciation provided during the year on these assets was £16,855 (2002: £16,910).

10 Stocks

	2003 £	2002 £
Finished goods and goods for resale	142,354	120,907

11 Debtors

	2003 £	2002 £
Trade debtors	1,272,706	1,008,926
Amounts owed by group undertakings	3,734,827	-
Other debtors	-	11,771
Loans to directors	-	9,063
Deferred tax	77,015	81,429
Prepayments and accrued interest	4,819	25,572
	5,089,367	1,136,761

Notes (continued)

12 Current asset investments

	2003 £	2002 £
Shares held by the AESOP	-	170,393
EBT	7,600	7,600
	7,600	177,993

AESOP

In 1999 the company contributed £200,000 to the All Employee Share Option Plan ('the AESOP'). At the year end the option plan held no shares (2002: 7,968) in Spectrum Holdings Limited.

EBT

In 2000 the company made a contribution to the Spectrum Franchising Limited Employee Benefit Trust ('the EBT') which has been established to provide benefits to employees and directors of the company. Assets held by the EBT may be distributed to individuals at the unfettered discretion of the trustees, from time to time. During the year £nil (2002: £20,500) was allocated. At the year end the company held £4,600 (2002: £4,600) of shares in Thornybolt (No 55) and £3,000 (2002: £3,000) in cash.

13 Cash at bank

Of the cash at bank balance of £465,438 (2002: £3,430,029), an amount of £465,438 (2002: £712,172) is held on behalf of the franchise partners in respect of monies relating to the National Advertising Fund (note 1).

Additionally, within trade debtors, there is an amount of £206,595 (2002: £nil) due from the franchise partners in respect of the levy owed to the National Advertising Fund under their franchise agreement.

The company also recognises an accrual for £672,033 (2002: £712,172) in respect of the franchise partners' contributions to the National Advertising Fund held centrally by the company (note 14).

14 Creditors: amounts falling due within one year

	2003 £	2002 £
Payments in advance	896,016	598,203
Amounts due under finance leases	-	9,436
Trade creditors	474,232	498,859
Amounts owed to group undertakings	41,021	37,218
Corporation tax	173,773	514,378
Social security and other taxes	221,424	158,914
National Advertising Fund (note 13)	672,033	712,172
Accruals and deferred income	309,365	98,262
	2,787,864	2,627,442

An amount of £10,079 due to ISS A/S is included within amounts owed to group undertakings. This attracts interest at 0.95% above LIBOR.

Notes (continued)

15 Called up share capital

	2003 £	2002 £
<i>Authorised:</i>		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
<i>Allotted, called up and fully paid:</i>		
850,000 ordinary shares of £1 each	850,000	850,000

16 Profit and loss account

	£
At 1 January 2003	1,785,183
Profit for the year	568,842
At 31 December 2003	2,354,025

17 Reconciliation of movements in shareholder funds

	2003 £	2002 £
Profit for the year	568,842	836,458
Net increase in shareholder funds	568,842	836,458
Opening shareholder funds	2,635,183	1,798,725
Closing shareholder funds	3,204,025	2,635,183

18 Capital commitments

There are no capital commitments contracted for but not provided in these financial statements (2002: £nil).

19 Contingent liabilities

There are no contingent liabilities at 31 December 2003 (2002: £nil).

Notes (continued)

20 Operating lease commitments

Amounts payable in the year related to operating lease commitments expiring as follows:

	Land and buildings		Other	
	2003	2002	2003	2002
	£	£	£	£
Between two and five years	-	-	50,449	34,699
After five years	39,167	30,000	-	-
	<u>39,167</u>	<u>30,000</u>	<u>-</u>	<u>-</u>

21 Pensions

The company contributes to the personal pension schemes of certain employees and directors. For the year ended 31 December 2003 this amounted to £35,396 (2002: £24,031).

22 Related party transactions

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

Name of director and connected person	Amount outstanding		Maximum liability during year	Interest due not paid
	2003	2002		
	£	£	£	£
M Lusty	-	9,063	9,063	-
	<u>-</u>	<u>9,063</u>	<u>9,063</u>	<u>-</u>

Other transactions with directors were as follows:

Mr M Lusty owns the property occupied by the company. Rent payable to Mr M Lusty during the year amounted to £39,167 (2002: £30,000).

The company is exempt from the requirements of Financial Reporting Standard Number 8 to disclose transactions with other members of the group.

23 Ultimate parent and controlling undertaking

The company is a subsidiary undertaking of Spectrum Holdings Limited incorporated in England and Wales. The largest and only group into which the results of the company are consolidated is that headed by ISS A/S incorporated in Denmark. The consolidated financial statements of this group are available to the public and may be obtained from the following address: ISS A/S, Bredgade 30, DK1260, Copenhagen, Denmark.