Spectrum Franchising Limited

Directors' report and financial statements

Registered number 02130421

31 December 2004



Contents

Company information	1
Directors' report	2
Statement of directors' responsibilities	3
Report of the independent auditors to the members of Spectrum Franchising Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Company information

Directors	RD Openshaw JO Gravenhorst 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 2004.

Principal activities

The principal activity of the company was that of providing accidental damage, fire and water restoration services to the Insurance industry, loss adjustors 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.

The company continues to penetrate the restoration market alongside its franchisee partners. Network turnover for the year to 31 December 2004 was £35,477,037 *(2003: £29,276,628)*. 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	resigned 14 January 2005
CP Roche	
RJ Arneil	resigned 27 February 2004
JO Gravenhorst	appointed 13 September 2004
RD Openshaw	appointed 13 September 2004
P Else	Appointed 7 March 2005

No 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.

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £215.

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



CP Roche
Secretary

Registered office:

Wells House
65 Boundary Road
Woking
Surrey
GU21 5BS

10 June 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
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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

10 June 2005

Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 31 December 2004

	Note	2004 £	2003 £
Turnover	2	**4,878,365**	4,063,173
Cost of sales		**(953,457)**	(1,065,058)
Gross profit		**3,924,908**	2,998,115
Administrative expenses		**(2,553,677)**	(2,157,948)
Operating profit		**1,371,231**	840,167
Other interest receivable and similar income	3	**7,817**	18,186
Interest payable and similar charges	4	**(776)**	(511)
Profit on ordinary activities before taxation	5	**1,378,272**	857,842
Tax on profit on ordinary activities	6	**(415,000)**	(289,000)
Retained profit for the year	15	**963,272**	568,842

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.

Balance sheet

as at 31 December 2004

	Note	£	2004 £	£	2003 £
Fixed assets					
Tangible assets	*9*		**240,312**		287,130
Current assets					
Stocks	*10*	**68,331**		142,354	
Debtors	*11*	**6,807,683**		5,089,367	
Investments	*12*	**7,295**		7,600	
Cash at bank and in hand		**390,647**		465,438	
		7,273,956		5,704,759	
Creditors: amounts falling due within one year	*13*	**(3,346,971)**		(2,787,864)	
Net current assets			**3,926,985**		2,916,895
Total assets less current liabilities			**4,167,297**		3,204,025
Net assets			**4,167,297**		3,204,025
Capital and reserves					
Called up share capital	*14*		**850,000**		850,000
Profit and loss account	*15*		**3,317,297**		2,354,025
Equity shareholders' funds	*16*		**4,167,297**		3,204,025

The financial statements were approved by the board of directors on 10 June 2005 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.

Tangible fixed assets and depreciation

Depreciation is provided 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 cost
IT & Software development	33.3% per annum on net book value

Intangible fixed assets

Intangible fixed assets purchased separately from a business are capitalised at cost and amortised on a straight-line basis over their estimated useful economic life.

Stocks

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

Taxation

Deferred tax is recognised without discounting 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, except as otherwise required by FRS 19.

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 using the rate of exchange ruling at the date of the transaction. All gains or losses 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

	2004	2003
	£	£
Management fees	**2,530,023**	2,131,447
Sales of franchise areas	**296,000**	417,600
Sales of equipment and supplies	**608,624**	548,641
Other sales	**1,443,718**	965,485
	4,878,365	4,063,173

During the year sales of £10,017 *(2003: £5,622)* were made to countries outside the UK.

3 Other interest receivable and similar income

	2004	2003
	£	£
Bank interest receivable	**7,817**	18,186

4 Interest payable and similar charges

	2004	2003
	£	£
Finance charges in respect of finance lease	**776**	511

Notes *(continued)*

5 Profit on ordinary activities before taxation

		2004 £	2003 £
The profit on ordinary activities is stated after charging/(crediting):			
Depreciation and amortisation	- owned	**133,561**	172,673
	- held under finance leases and hire purchase contracts	**-**	16,855
Operating lease rentals	- land and buildings	**47,501**	39,167
	- other	**66,523**	50,449
Auditors' remuneration		**20,000**	20,000
(Profit)/loss on disposal of tangible fixed assets		**(14,000)**	8,547

6 Tax on profit on ordinary activities

(a) Analysis of charge in year

	2004 £	2003 £
The tax charge represents:		
UK corporation tax at 30% *(2003: 30%)*	**429,447**	284,585
Adjustments in respect of prior years	**(24,583)**	-
	404,864	284,586
Deferred taxation		
Origination and reversal of timing differences	**10,136**	4,414
Total deferred tax	**10,136**	4,414
Tax charge on profit on ordinary activities	**415,000**	289,000

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

The current tax charge for the year is lower *(2003: higher)* than the standard rate of corporation tax in the UK of 30% *(2003: 30%)*. The differences are explained below:

	2004 £	2003 £
Profit on ordinary activities before taxation	**1,378,272**	857,842
Tax on profit on ordinary activities at 30% *(2003: 30%)*	**413,482**	257,353
Effects of:		
Expenses not deductible for tax purposes	**701**	2,377
Capital allowances for the year less than depreciation	**749**	23,990
Other short term timing differences	**14,515**	866
Adjustments in respect of prior years	**(24,583)**	-
	404,864	284,586

Notes *(continued)*

6 Tax on profit on ordinary activities *(continued)*

(c) Deferred tax

	2004 £	2003 £
Deferred tax is included in the balance sheet as follows:		
Accelerated capital allowances	**11,861**	10,405
Timing differences on National Advertising Fund	**55,018**	66,610
Deferred tax asset (note 11)	**66,879**	77,015
At 1 January	**77,015**	81,429
Deferred tax charged to the profit and loss account in the year	**(10,136)**	(4,414)
At 31 December	**66,879**	77,015

7 Directors and employees

	2004 £	2003 £
Staff costs during the year were as follows:		
Wages and salaries	**1,255,154**	990,020
Social security costs	**139,262**	106,047
Other pension costs	**34,953**	35,396
	1,429,369	1,131,463

The average number of employees during the year was:

	2004 Number	2003 Number
Directors	**2**	2
Sales	**3**	5
Administration	**53**	54
Operations	**-**	7
	58	68

	2004 £	2003 £
Remuneration in respect of directors was as follows:		
Emoluments	**219,799**	221,284
Pension contributions to money purchase pension schemes	**12,724**	12,776
	232,523	234,060

Notes *(continued)*

7 Directors and employees *(continued)*

During the year two directors *(2003: five)* participated in money purchase schemes.

	2004	2003
The amounts set out above include remuneration in respect of the highest paid director as follows:	**£**	£
Emoluments and long term incentive schemes	**133,425**	118,333
Pension contributions to money purchase pension schemes	**8,112**	8,066
	141,537	126,399

8 Intangible fixed assets

	Franchise licence £
Cost or valuation:	
At 1 January 2004 and 31 December 2004	400,000
Accumulated amortisation:	
At 1 January 2004 and 31 December 2004	400,000
Net book value:	
At 31 December 2004	**-**
At 31 December 2003	-

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 £	IT Software and office £	Total £
Cost or valuation:				
At 1 January 2004	21,500	84,137	703,492	809,129
Additions	-	-	86,743	86,743
Disposals	-	(34,863)	-	(34,863)
At 31 December 2004	21,500	49,274	790,235	861,009
Accumulated depreciation:				
At 1 January 2004	21,500	57,867	442,632	521,999
Provided in the year	-	14,785	118,776	133,561
Disposals	-	(34,863)	-	(34,863)
At 31 December 2004	21,500	37,789	561,408	620,697
Net book value:				
At 31 December 2004	**-**	**11,485**	**228,827**	**240,312**
At 31 December 2003	-	26,270	260,860	287,130

The figures stated above include motor vehicles held under finance leases and similar hire purchase contracts with a net book value of £nil *(2003: £nil)*. The depreciation provided during the year on these assets was £nil *(2003: £16,855)*.

10 Stocks

	2004 £	2003 £
Finished goods and goods for resale	**68,331**	142,354

11 Debtors

	2004 £	2003 £
Trade debtors	**1,751,010**	1,272,706
Amounts owed by group undertakings	**4,974,460**	3,734,827
Deferred tax	**66,879**	77,015
Prepayments and accrued interest	**15,334**	4,819
	6,807,683	5,089,367

Notes *(continued)*

12 Current asset investments

	2004 £	2003 £
EBT	**7,295**	7,600

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 *(2003: £nil)* was allocated. At the year end the company held £4,635 *(2003: £4,600)* of shares in Thornybolt (No 55) and £2,660 *(2003: £3,000)* in cash.

13 Creditors: amounts falling due within one year

	2004 £	2003 £
Payments in advance	**1,226,056**	896,016
Trade creditors	**525,542**	474,232
Amounts owed to group undertakings	**75,777**	41,021
Corporation tax	**197,637**	173,773
Social security and other taxes	**275,081**	221,424
National Advertising Fund (note 1)	**703,393**	672,033
Accruals and deferred income	**343,485**	309,365
	3,346,971	2,787,864

An amount of £nil *(2003: £10,079)*, due to ISS A/S, is included within amounts owed to group undertakings. This attracts interest at 0.95% above LIBOR. No interest is payable on the balance of 'amounts owed to group undertakings' and all loans are unsecured.

14 Called up share capital

	2004 £	2003 £
Authorised:		
1,000,000 ordinary shares of £1 each	**1,000,000**	1,000,000
Allotted, called up and fully paid:		
850,000 ordinary shares of £1 each	**850,000**	850,000

15 Profit and loss account

	£
At 1 January 2004	2,354,025
Profit for the year	963,272
At 31 December 2004	**3,317,297**

Notes *(continued)*

16 Reconciliation of movements in shareholder funds

	2004 £	2003 £
Profit for the year	**963,272**	568,842
Net increase in shareholder funds	**963,272**	568,842
Opening shareholder funds	**3,204,025**	2,635,183
Closing shareholder funds	**4,167,297**	3,204,025

17 Capital commitments

There are no capital commitments contracted for but not provided in these financial statements *(2003: £nil)*.

18 Contingent liabilities

There are no contingent liabilities at 31 December 2004 *(2003: £nil)*.

19 Operating lease commitments

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

	Land and buildings		Other	
	2004 £	2003 £	**2004** £	2003 £
Within one year	**-**	-	**11,789**	50,449
Between two and five years	**45,000**	-	**40,789**	-
After five years	-	39,167	-	-

20 Pensions

The company contributes to the personal pension schemes of certain employees and directors. For the year ended 31 December 2004 this amounted to £34,953 *(2003: £35,396)*.

21 Related party transactions

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 £47,501 *(2003: £39,167)*.

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

Notes *(continued)*

22 Ultimate parent and controlling undertaking

The company is controlled and 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.