Watts (UK) Limited

Directors' report and financial statements

Registered number 2642521

31 December 2002



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Officers and professional advisors

Directors

Mr J van Kouterik
Mr G Phipps

Secretary

Mr J van Kouterik

Registered office

Grosvenor Park
Evesham
Worcestershire
WR11 1GA

Auditors

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

Principal bankers

Barclays Bank PLC
10 Market Street
Bradford
West Yorkshire
BD1 1NR

Solicitors

Saunders, Roberts
58 Bridge Street
Evesham
Worcestershire
WR11 4SG

Directors' report

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

Principal activity

The company's principal activity during the period continued to be the sale of valves.

Review of developments and future prospects

The year ended 31 December 2002 was successful for Watts (UK) Limited, with turnover for the year at £2,751,000 *(2001: £2,381,000)*. The company's profit before tax was £368,000 *(2001: £388,000)*.

Events during the year

Watts (UK) Limited continued previous years' growth, despite a competitive commercial environment.

Post balance sheet event

On 17 April 2003, Watts (UK) Limited acquired the entire issued share capital of Martin Orgee Limited. The newly acquired company is involved in the sale of plumbing equipment.

Results and dividends

Details of the results for the period are shown in the profit and loss account on page 5 and the notes hereto. The directors do not recommend the payment of a dividend for the year *(2001: £Nil)*.

Directors and their interests

The directors who served during the period were as follows:

J van Kouterik
G Phipps

None of the directors has any disclosable interests in the company or any other group company.

Auditors

A resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

J van Kouterik
Director

1 May 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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
2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

Independent auditors' report to the members of Watts (UK) Limited

We have audited the financial statements on pages 5 to 12.

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

1 May 2003

Profit and loss account

for the year ended 31 December 2002

	Note	**2002** **£000**	2001 £000
Turnover	2	**2,751**	2,381
Cost of sales		**(1,765)**	(1,486)
Gross profit		**986**	895
Distribution costs		**(63)**	(51)
Administrative expenses		**(575)**	(477)
Operating profit	*5*	**348**	367
Interest receivable and similar income		**20**	21
Profit on ordinary activities before taxation		**368**	388
Tax on profit on ordinary activities	*6*	**(106)**	(116)
Profit for the financial year		**262**	272
Retained profit brought forward		**1,114**	842
Retained profit carried forward		**1,376**	1,114

All turnover and operating profit in both this and the preceding period derive from continuing operations.

There are no recognised gains or losses other than those disclosed in the profit and loss account.

There is no difference between the results as disclosed in the profit and loss account and the result on an unmodified historical cost basis in either the current or preceding financial year.

Balance sheet
at 31 December 2002

	Note	**2002**		2001	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*7*		**42**		26
Current assets					
Stocks	*9*	**825**		454	
Debtors (including £27,000 *(2001: £Nil)* due after more than one year)	*10*	**1,185**		1,066	
Cash at bank and in hand		**119**		171	
		2,129		1,691	
Creditors: amounts falling due within one year	*11*	**(785)**		(593)	
Net current assets			**1,344**		1,098
Net assets			**1,386**		1,124
Capital and reserves					
Called up share capital	*13*		**10**		10
Profit and loss account			**1,376**		1,114
Equity shareholders' funds	*14*		**1,386**		1,124

These financial statements were approved by the board of directors on 1 May 2003 and were signed on its behalf by:

J van Kouterik
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 in relation to the company's financial statements.

Accounting convention

The financial statements are prepared under the historical cost convention.

Foreign exchange

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange differences, both realised and unrealised, are dealt within the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents direct materials cost only.

Taxation

Deferred taxation has been accounted for under Financial Reporting Standard 19.

Deferred taxation is provided, without discounting, in respect of all timing differences that have originated but not reversed at the balance sheet date where an event has occurred by the balance sheet date that results in an obligation to pay more or less tax in the future. Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

In previous years deferred taxation was accounted for under Statement of Standard Accounting Practice 15. This change of accounting policy has had no effect on the results for the current year or for previous years.

Pension costs

The company contributes to a pension scheme for the benefit of one of its employees. The scheme, which is of the defined contribution type, is wholly financed by the company. Contributions are charged to the profit and loss account as incurred.

Cash flow statement

The company is a wholly-owned subsidiary of Watts Industries Europe BV, a company registered in Holland and, as such, the company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) to prepare a cash flow statement.

Operating leases

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

Tangible fixed assets

All tangible fixed assets are depreciated on a straight line basis so as to write off the original cost less the estimated residual values over their useful lives at the following annual rates:

Plant, machinery, fixtures and equipment: 33%

Investments

Fixed asset investments are stated at cost less any permanent diminution in the carrying value of the investment.

Notes *(continued)*

2 Turnover

Turnover is stated after deduction of trade discounts and value added tax, and is wholly attributable to the principal activity. All turnover arises within the United Kingdom.

3 Staff numbers and costs

	2002	2001
Average number of persons employed (including directors)		
Sales and distribution	**7**	7
	£000	£000
Staff costs during the period		
Wages and salaries	**196**	173
Social security costs	**24**	19
Pension costs	**5**	4
	225	196

4 Directors remuneration

	2002 **£000**	2001 £000
Directors' emoluments	**59**	54

No director was a member of any defined benefit or money purchase pension scheme operated by the company.

Only one of the directors receives remuneration in respect of his services as a director of the company. The emoluments of the other directors are paid by the immediate parent company.

5 Operating profit

Operating profit is stated after charging/(crediting):	**2002** **£000**	2001 £000
Depreciation of owned assets	**7**	6
Auditors' remuneration - audit work	**6**	6
- non audit work	**1**	1
Exchange (gains)/losses	**(14)**	1
Operating lease rental - land and buildings	**65**	31

6 Tax on profit on ordinary activities

(a) Charge for the year

	2002 **£000**	2001 £000
Current tax		
UK corporation tax	**106**	116

The company has adopted FRS 19 in the current year, as described in note 1.

Notes *(continued)*

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

(b) Factors affecting the charge for the year

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

	2002 £000	2001 £000
Profit on ordinary activities before tax	**368**	388
Profit on ordinary activities multiplied by 30% *(2001: 30%)*	**110**	116
Effects of:		
Timing differences	**(5)**	-
Other	**1**	-
Current tax charge for the year	**106**	116

7 Tangible fixed assets

	Plant, machinery, fixtures and equipment £000
Cost	
At beginning of year	42
Additions	23
At end of year	65
Depreciation	
At beginning of year	16
Provided for in the year	7
At end of year	23
Net book value	
At 31 December 2002	**42**
At 31 December 2001	26

There were no commitments for future capital expenditure either contracted for or authorised by the directors at 31 December 2002 or 31 December 2001.

Notes *(continued)*

8 Investments

	2002 £	2001 £
Shares in participating interests at cost	**250**	250

Shares in participating interests represent a 20% holding in the issued share capital of www.plumbworld.co.uk Limited a company registered in England and Wales. The results for the period of www.plumbworld.co.uk Limited are immaterial to Watts (UK) Limited.

9 Stocks

	2002 £000	2001 £000
Goods for resale	**825**	454

10 Debtors

	2002 £000	2001 £000
Due within one year:		
Trade debtors	**942**	527
Amounts owed by group undertakings	**156**	483
Amounts owed by participating interests	**9**	*40*
Prepayments and accrued income	**51**	16
	1,158	1,066
Due after more than one year:		
Amounts owed by participating interests	**27**	-
Total debtors	**1,185**	1,066

11 Creditors: Amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	**329**	170
Amounts owed to group undertakings	**263**	237
Mainstream corporation tax	**66**	88
Other taxes and social security	**88**	45
Accruals	**39**	53
	785	593

Notes *(continued)*

12 Operating lease commitments

	2002 £000	2001 £000
Annual commitments under operating leases expiring:		
In two to five years	**17**	-
Over five years	**73**	73

13 Called up share capital

	2002 £000	2001 £000
Authorised:		
10,000 ordinary shares of £1 each	**10**	10
Called up, allotted and fully paid:		
10,000 ordinary shares of £1 each	**10**	10

14 Reconciliation of movements in shareholders' funds

	2002 £000	2001 £000
Opening equity shareholders' funds	**1,124**	852
Profit for the financial year	**262**	272
Closing equity shareholders' funds	**1,386**	1,124

15 Pension costs

The company contributes to a pension scheme for the benefit of one of its employees. The scheme which is of the defined contribution type is wholly financed by the company. Contributions are charged to the profit and loss account as incurred.

At 31 December 2002 there were no outstanding pension scheme contributions payable.

16 Parent company

The ultimate parent company is Watts Industries Inc, a company incorporated in the United States of America. Copies of the consolidated financial statements of Watts Industries Inc are available from its offices at 815 Chestnut Street, North Andover, MA 01845, USA.

The immediate parent company is Watts Industries Europe BV a company incorporated in Holland. Copies of the consolidated financial statements are available from Watts Industries Europe BV, Kollergang 14, 6961 LZ Eerbeek, PO Box 98, 6960 AB Eerbeek, Netherlands.

Notes *(continued)*

17 Related party transactions

During the year, Watts (UK) Limited recharged the following amounts to related parties for rent of office space and storage:

	2002 £000	2001 £000
www.plumbworld.co.uk Limited (a company of which J van Kouterik is a director)	2	1
Greene's Industries Limited (a company of which G Phipps is a director)	2	1

During the year Watts UK made the following sales of plumbing equipment to related parties:

	2002 £000	2001 £000
www.plumbworld.co.uk Limited	**15**	208
Greene's Industries Limited	**5**	6

All transactions were carried out at arms' length.

At the balance sheet date, the following amounts were owed by related parties:

- A loan of £36,000 *(2001: £40,000)* remains outstanding from www.plumbworld.co.uk Limited. Repayment is due by March 2006 *(2001: due by 1 December 2002)*. Interest is accruing at 6%.
- Trade debtor due from www.plumbworld.co.uk Limited of £421,000 *(2001: £135,000)*.

Under FRS 8 Related party transactions, the company is exempt from the requirement to disclose transactions with other Watts group undertakings on the grounds that it is a wholly-owned subsidiary of Watts Industries Europe BV and its results are included in that company's consolidated financial statements.

18 Post balance sheet event

On 17 April 2003, Watts (UK) Limited acquired the entire issued share capital of Martin Orgee Limited for total cash consideration of approximately £950,000. The newly acquired company is involved in the sale of plumbing equipment.