

# **Bowater Building Products Limited**

## **Report And Accounts**

31 December 2008

*Registered Number: 5088708*

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**DIRECTORS' REPORT**

The Directors present their report and Financial Statements for the year to 31 December 2008.

Results and Dividends

The Directors report an Operating Loss of £8,776,000 for the year (2007: Operating Loss £2,927,000) after amortisation of goodwill of £378,000 (2007: £378,000) and exceptional costs of £9,598,000 (2007: £4,492,000)

After tax and interest, the net loss for the year amounted to £9,023,000 (2007: loss £3,143,000), which will be transferred to reserves. The Directors do not recommend payment of a dividend.

Principal Activity and Review of the Business

The principal activity of the Company during the year was the extrusion, distribution and sale of PVCu profiles and the manufacture, distribution, installation and sale of double-glazed windows, door units, and related products.

The key figures used by the Directors to manage the business are as follows:

|                                                                     | 2008<br>£000 | 2007<br>£000 | Change<br>%      |
|---------------------------------------------------------------------|--------------|--------------|------------------|
| Turnover                                                            | 62,518       | 64,827       | (4)%             |
| Operating profit before exceptional items and goodwill amortisation | 1,200        | 1,943        | (38)%            |
| Operating loss (after exceptional items and goodwill amortisation)  | (8,776)      | (2,927)      | (200)%           |
| Loss before tax                                                     | (9,023)      | (2,865)      | (215)%           |
| Loss after tax                                                      | (9,023)      | (3,143)      | (187)%           |
| Shareholders' funds                                                 | 19,012       | 28,035       | (32)%            |
| Average number of employees                                         | 349          | 401          | (13)%            |
| Current assets as % of current liabilities                          | 190%         | 182%         | 800 basis points |

This year the Company experienced pressure on sales and operating margins. In response the Company underwent a major re-organisation which reduced annual overheads by £4,200,000. In addition, the Company sold the loss making conservatory roof business which traded as Newdawn and Sun. In 2007 Newdawn and Sun lost £330,000. The Company invested £1,700,000 mainly in new product tooling and £610,000 in customer tooling. Most of the investment was spent on updating and improving the flagship public sector market leading System 10 product and rolling it out to the Company's customers. The investment formed part of an overall £3,200,000 investment in System 10 to be spent in 2008 and 2009.

The exceptional costs include costs of re-organising the Company so as to reduce costs and improve efficiency. Exceptional costs also include the loss on disposal of the Newdawn and Sun business.

Goodwill of £5,808,000 in respect of previous acquisitions has been impaired during the year and included in the operating loss of £8,776,000.

Events After the Balance Sheet Date

Subsequent to the year end a further cost reduction programme was initiated that will result in additional exceptional costs of some £350,000 in 2009, but which reduces annual overhead by £1,000,000.

On 25 November 2009 the Company was sold to a new holding company, "Broomco (4207) Limited", as part of a refinancing agreement. This agreement has significantly reduced the debt levels of the ultimate parent group. Broomco (4207) Limited has available financing facilities of up to £15,150,000, which are secured on the assets of the company.

As part of the refinancing the Company carried out a capital reduction on 20 November 2009 whereby its share premium account was reduced by £9.9 million and cash of the same amount distributed the holding company at that time, Squarepink Limited. Net assets were accordingly reduced by £9.9 million on that date.

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## DIRECTORS' REPORT

### Principal Risks and Uncertainties

Given the current economic climate, visibility of future trading levels is limited. However, as the Company is well invested and has reduced its fixed cost base and is diversified across a number of sectors in the market, an adverse development in any one is not expected to threaten the overall result significantly.

### Likely Future Developments

Central and legacy costs and high overheads have been a financial burden to the Company. However, as the Company reduces its complexity and reaches the final stages of its re-organisation the benefits of the resulting cost savings will become more apparent in 2009 and will take on an even greater significance in 2010.

The Company re-organisation and the investments made have provided a sound basis from which to develop the business in the future. Based on this and trading performance to date the Directors anticipate a significant improvement in operating profitability in 2009.

The Directors expect that the Company will continue to serve its customers' needs in the public sector and private home improvement markets.

The Directors anticipate further investment in new products with an emphasis on energy saving and sustainability.

Following the refinancing arrangements described in the "Events After the Balance Sheet Date" the directors believe the balance sheet underpins Bowater Building Products' position as an ongoing profitable, cash generative business that is well placed to take advantage of expected improvements in market conditions.

### Ultimate Parent Undertaking

At 31 December 2008 the immediate and ultimate parent undertaking was Squarepink Limited. From 25 November 2009 the ultimate parent undertaking is Broomco (4207) Limited.

### Directors

The Directors of the Company during the year were as follows:

|                |                              |
|----------------|------------------------------|
| C J Baranowski | (appointed 29 April 2008)    |
| J M Holland    | (appointed 20 October 2008)  |
| E Patterson    | (resigned 20 March 2008)     |
| N J Richmond   | (resigned 17 June 2008)      |
| K N Franklin   | (resigned 20 March 2008)     |
| P W G Duguid   | (resigned 20 September 2008) |

The Company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

### Disclosure of Information to the Auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

DIRECTORS' REPORT

Employee Involvement

The Directors attach great importance to the maintenance and development of good labour relations and employee involvement and training. The results are discussed at meetings held with senior management and the opportunity is taken to inform them of developments. Employees everywhere are encouraged to be aware of the performance of their business and of the Company as a whole. The diverse nature of the Company's activities places the responsibility for such matters with local management in a manner appropriate to the particular circumstances of each business.

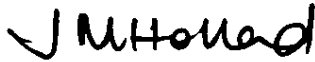
Employee involvement in the Company's profitability is encouraged through locally based bonus and executive bonus schemes.

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Auditors

Ernst & Young LLP will be re-appointed as company auditor in accordance with an elective resolution passed by the Company under section 487 of the Companies Act 2006.

On behalf of the board



J Holland  
Director

30 November 2009

## Bowater Building Products Limited

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### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records that 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BOWATER BUILDING PRODUCTS LIMITED**

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BOWATER BUILDING PRODUCTS LIMITED (CONTINUED)**

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered auditor  
Birmingham

30 November 2009

# Bowater Building Products Limited

## PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2008

|                                                                        | <i>Notes</i> | <i>2008</i><br><i>£000</i> | <i>2007</i><br><i>£000</i> |
|------------------------------------------------------------------------|--------------|----------------------------|----------------------------|
| <b>TURNOVER</b>                                                        | 3            | 62,518                     | 64,827                     |
| Operating charges                                                      |              | (61,318)                   | (62,884)                   |
| Operating profit before exceptional costs and amortisation of goodwill |              | 1,200                      | 1,943                      |
| Amortisation of goodwill                                               | 4            | (378)                      | (378)                      |
| Exceptional costs                                                      | 4            | (9,598)                    | (4,492)                    |
| Total operating costs                                                  | 4            | (71,294)                   | (67,754)                   |
| <b>OPERATING (LOSS)</b>                                                |              | (8,776)                    | (2,927)                    |
| Bank interest receivable                                               |              | 1                          | 62                         |
| Interest payable and similar charges                                   | 7            | (248)                      | -                          |
| <b>(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>                   |              | (9,023)                    | (2,865)                    |
| Taxation                                                               | 8            | -                          | (278)                      |
| <b>NET (LOSS) FOR THE YEAR</b>                                         | 18           | (9,023)                    | (3,143)                    |

The results set out above are in respect of continuing operations.

There are no recognised gains or losses other than those reported above.

# Bowater Building Products Limited

## BALANCE SHEET at 31 December 2008

|                                                       | Notes | 2008<br>£000  | 2007<br>£000  |
|-------------------------------------------------------|-------|---------------|---------------|
| <b>FIXED ASSETS</b>                                   |       |               |               |
| Intangible assets                                     | 9     | -             | 6,186         |
| Tangible assets                                       | 10    | 9,377         | 9,912         |
|                                                       |       | <u>9,377</u>  | <u>16,098</u> |
| <b>CURRENT ASSETS</b>                                 |       |               |               |
| Stocks                                                | 11    | 4,048         | 6,099         |
| Debtors                                               | 12    | 11,082        | 11,077        |
| Cash at bank and in hand                              |       | 9,798         | 10,542        |
|                                                       |       | <u>24,928</u> | <u>27,718</u> |
| <b>CREDITORS: amounts falling due within one year</b> | 13    | (13,088)      | (15,206)      |
| <b>NET CURRENT ASSETS</b>                             |       | <u>11,840</u> | <u>12,512</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       | <u>21,217</u> | <u>28,610</u> |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>         | 15    | (2,205)       | (575)         |
|                                                       |       | <u>19,012</u> | <u>28,035</u> |
| <b>CAPITAL AND RESERVES</b>                           |       |               |               |
| Called up share capital                               | 17    | -             | -             |
| Share premium account                                 | 18    | 23,500        | 23,500        |
| Profit and loss account                               | 18    | (4,488)       | 4,535         |
| <b>SHAREHOLDERS' FUNDS</b>                            | 18    | <u>19,012</u> | <u>28,035</u> |

Approved by the Board



J Holland  
Director

30 November 2009

# Bowater Building Products Limited

## STATEMENT OF CASHFLOWS for the year ended 31 December 2008

|                                                            | <i>Notes</i> | <i>2008</i><br><i>£000</i> | <i>2007</i><br><i>£000</i> |
|------------------------------------------------------------|--------------|----------------------------|----------------------------|
| <b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b> | 19(a)        | 1,240                      | (530)                      |
| <b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>     |              |                            |                            |
| Net interest (paid)/received                               |              | (247)                      | 62                         |
| <b>TAXATION PAID</b>                                       |              | -                          | (35)                       |
| <b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>        |              |                            |                            |
| Payments to acquire tangible fixed assets                  |              | (1,738)                    | (1,424)                    |
| Receipts from sales of tangible fixed assets               |              | 1                          | 260                        |
|                                                            |              | (1,737)                    | (1,164)                    |
| <b>NET CASH OUTFLOW BEFORE FINANCING</b>                   |              | (744)                      | (1,667)                    |
| <b>DECREASE IN CASH</b>                                    | 19(b)        | (744)                      | (1,667)                    |

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

|                                                                    | <i>Notes</i> | <i>2008</i><br><i>£000</i> | <i>2007</i><br><i>£000</i> |
|--------------------------------------------------------------------|--------------|----------------------------|----------------------------|
| Decrease in cash and change in net funds resulting from cash flows |              | (744)                      | (1,667)                    |
| <b>NET FUNDS AT START OF THE YEAR</b>                              |              | 10,542                     | 12,209                     |
| <b>NET FUNDS AT END OF THE YEAR</b>                                | 19(b)        | 9,798                      | 10,542                     |

# Bowater Building Products Limited

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 1. ACCOUNTING POLICIES

#### *Basis of preparation*

The accounts are prepared under the historical cost convention, in accordance with applicable accounting standards.

The company has met its debts as they have fallen due and the Directors believe it will continue to do so. In forming this opinion the Directors have taken account of the refinancing of the Group since the year end as set out in note 24. The Directors therefore believe it is appropriate to prepare the accounts on a going concern basis.

#### *Turnover*

Turnover is defined as the net amount receivable (excluding VAT) for goods supplied and services provided.

#### *Goodwill*

Goodwill arising on acquisitions, representing the excess of the fair value of the consideration over the fair values attributed to the Company's share of identifiable net assets acquired, is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its estimated useful economic life of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### *Depreciation*

Depreciation is calculated to write-off the book value of tangible assets over their expected lives by equal annual instalments, except that depreciation is not provided on assets under construction.

Tangible assets are depreciated at the following rates:

|                               |   |               |
|-------------------------------|---|---------------|
| Short leasehold property      | - | life of lease |
| Plant, machinery and vehicles | - | 10% to 50%    |

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale: purchase cost on a first-in, first-out basis.

Work in progress and finished goods: cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred prior to completion and disposal.

#### *Foreign currencies*

Transactions in foreign currency are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

All differences are taken to the profit and loss account.

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 1. ACCOUNTING POLICIES (continued)

#### *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, except that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Leasing*

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

#### *Pensions*

The Company operates a money purchase pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

### 2. ULTIMATE PARENT UNDERTAKING

At 31 December 2008 the Company's immediate and ultimate parent undertaking was Squarepink Limited. From 25 November 2009 the Company's immediate and ultimate parent undertaking is Broomco (4207) Limited.

### 3. TURNOVER

All of the Company's turnover and loss before taxation arises from the manufacture, distribution and sale of extruded PVCu profile, door units, double-glazed windows, and related products and all of the Company's operating assets are used for this purpose. With the exception of £2,360,000 (2007: £3,013,000) of turnover to the Irish Republic, the destination of all turnover is the United Kingdom.

### 4. OPERATING PROFIT

|                                                                                          | 2008          | 2007          |
|------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                          | £000          | £000          |
| This is stated after charging/(crediting):                                               |               |               |
| Decrease/(increase) in overhead element of stocks of finished goods and work in progress | 465           | (158)         |
| Raw materials                                                                            | 32,117        | 32,820        |
| Staff costs (note 5)                                                                     | 10,634        | 12,347        |
| Depreciation - owned assets                                                              | 2,082         | 2,302         |
| Amortisation of goodwill                                                                 | 378           | 378           |
| Operating lease rentals - equipment                                                      | 1,596         | 1,949         |
| - land and buildings                                                                     | 1,767         | 1,757         |
| Auditors' remuneration - audit services                                                  | 47            | 64            |
| - taxation and other services                                                            | 8             | 22            |
| Other operating charges                                                                  | 23,056        | 17,434        |
| Other operating income                                                                   | (856)         | (1,161)       |
|                                                                                          | <u>71,294</u> | <u>67,754</u> |

Other operating income includes rentals receivable of £494,000 (2007: £252,000).

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 4. OPERATING PROFIT (continued)

Exceptional items included in other operating charges are:

|                                                                       | 2008         | 2007         |
|-----------------------------------------------------------------------|--------------|--------------|
|                                                                       | £000         | £000         |
| Business restructuring                                                | 2,735        | 2,447        |
| Property closure provision                                            | 1,055        | -            |
| Impairment of goodwill                                                | 5,808        | -            |
| Bad debt and asset write-off in respect of customer in administration | -            | 2,045        |
|                                                                       | <u>9,598</u> | <u>4,492</u> |

Business restructuring during 2008 principally comprises the cost of closing the company's Head Office function and the loss on sale of the Newdawn and Sun business.

Property closure provisions relate to ongoing lease commitments on premises that the company has vacated.

### 5. EMPLOYEES

|                       | 2008          | 2007          |
|-----------------------|---------------|---------------|
|                       | £000          | £000          |
| (a) Staff costs:      |               |               |
| Wages and salaries    | 9,151         | 10,693        |
| Social security costs | 1,012         | 1,125         |
| Other pension costs   | 471           | 529           |
|                       | <u>10,634</u> | <u>12,347</u> |

|                                      | No.        | No.        |
|--------------------------------------|------------|------------|
| (b) Number of employees:             |            |            |
| Monthly average number of employees: |            |            |
| Manufacturing and production         | 158        | 200        |
| Selling and administration           | 191        | 201        |
|                                      | <u>349</u> | <u>401</u> |

### 6. DIRECTORS' EMOLUMENTS

|                                                         | 2008         | 2007       |
|---------------------------------------------------------|--------------|------------|
|                                                         | £000         | £000       |
| Emoluments                                              | 540          | 874        |
| Compensation for loss of office                         | 811          | -          |
| Company contributions to money purchase pension schemes | 56           | 78         |
|                                                         | <u>1,407</u> | <u>952</u> |
|                                                         | No.          | No.        |
| Members of the money purchase pension schemes           | 4            | 3          |

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 4. DIRECTORS' EMOLUMENTS (continued)

The amounts in respect of the highest paid director are as follows:

|                                                              | 2008<br>£000 | 2007<br>£000 |
|--------------------------------------------------------------|--------------|--------------|
| Emoluments                                                   | 144          | 293          |
| Company contributions paid to money purchase pension schemes | 17           | -            |

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

|                 | 2008<br>£000 | 2007<br>£000 |
|-----------------|--------------|--------------|
| Exchange losses | 248          | -            |

### 8. TAXATION

|                                                         | 2008<br>£000 | 2007<br>£000 |
|---------------------------------------------------------|--------------|--------------|
| Charge/(credit) for the year:                           |              |              |
| Corporation tax - adjustments in respect of prior years | -            | (65)         |
| Deferred taxation - on capital allowances               | -            | 199          |
| - on other timing differences                           | -            | 144          |
|                                                         | -            | 343          |
|                                                         | -            | 278          |

The tax assessed for the year ended 31 December 2008 varies from the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are explained below:

|                                                             | 2008<br>£000 | 2007<br>£000 |
|-------------------------------------------------------------|--------------|--------------|
| Loss on ordinary activities before tax                      | (9,023)      | (2,865)      |
| Expected credit at UK average tax rate of 28.5% (2007: 30%) | (2,572)      | (860)        |
| Effects of:                                                 |              |              |
| Expenses not deductible for tax purposes                    | 107          | 244          |
| Non-deductible impairment of goodwill                       | 1,655        | -            |
| Capital allowances lower than depreciation                  | 582          | 850          |
| Net (decrease)/increase in general provisions               | (5)          | 9            |
| Unrelieved tax losses carried forward                       | 233          | -            |
| Group relief received for nil payment                       | -            | (243)        |
| Prior period adjustments                                    | -            | (65)         |
| Current tax credit                                          | -            | (65)         |

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 8. TAXATION (continued)

With effect from 1 April 2008, the main rate of Corporation Tax has been reduced from 30% to 28%. In addition, there have been a number of changes to the capital allowance regime, including a reduction in the rate of capital allowances on plant and machinery from 25% to 20% and the phased withdrawal of Industrial Buildings Allowances over the four years to 31 March 2011.

### 9. INTANGIBLE FIXED ASSETS

|                                    | <i>Goodwill</i><br>£000 |
|------------------------------------|-------------------------|
| Cost:                              |                         |
| At 1 January and 31 December 2008  | 7,677                   |
| Amortisation:                      |                         |
| At 1 January 2008                  | 1,491                   |
| Charge for the year                | 378                     |
| Impairment write-down              | 5,808                   |
| At 31 December 2008                | 7,677                   |
| Net book value at 31 December 2008 | -                       |
| Net book value at 31 December 2007 | 6,186                   |

### 10. TANGIBLE FIXED ASSETS

|                     | <i>Short<br/>leasehold<br/>buildings</i><br>£000 | <i>Plant,<br/>machinery<br/>and vehicles</i><br>£000 | <i>Total</i><br>£000 |
|---------------------|--------------------------------------------------|------------------------------------------------------|----------------------|
| Cost:               |                                                  |                                                      |                      |
| At 1 January 2008   | 1,618                                            | 16,122                                               | 17,740               |
| Reclassification    | -                                                | 874                                                  | 874                  |
| Additions           | -                                                | 1,650                                                | 1,650                |
| Disposals           | (19)                                             | (252)                                                | (271)                |
| At 31 December 2008 | 1,599                                            | 18,394                                               | 19,993               |
| Depreciation:       |                                                  |                                                      |                      |
| Opening balance     | 416                                              | 7,412                                                | 7,828                |
| Reclassification    | -                                                | 874                                                  | 874                  |
| Charge for year     | 137                                              | 1,945                                                | 2,082                |
| Disposals           | (7)                                              | (161)                                                | (168)                |
| At 31 December 2008 | 546                                              | 10,070                                               | 10,616               |
| Net book value      |                                                  |                                                      |                      |
| At 31 December 2008 | 1,053                                            | 8,324                                                | 9,377                |
| At 31 December 2007 | 1,202                                            | 8,710                                                | 9,912                |

The reclassification noted above (which does not affect the net book value of fixed assets) corrects the cost of the assets to the company and their related depreciation. Differences had arisen as a result of the recording of disposals of assets which had been fair valued when the company commenced trading with assets acquired from a predecessor company.

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 11. STOCKS

|                                     | 2008<br>£000 | 2007<br>£000 |
|-------------------------------------|--------------|--------------|
| Raw materials                       | 905          | 1,031        |
| Work in progress and finished goods | 3,143        | 5,068        |
|                                     | <u>4,048</u> | <u>6,099</u> |

The difference between purchase price or production cost of stocks and their replacement cost is not material.

### 12. DEBTORS

|                                            | 2008<br>£000  | 2007<br>£000  |
|--------------------------------------------|---------------|---------------|
| Trade debtors                              | 9,456         | 9,646         |
| Amounts due from fellow group undertakings | -             | 48            |
| Prepayments and accrued income             | 1,626         | 1,383         |
| Total debtors due within one year          | <u>11,082</u> | <u>11,077</u> |

### 13. CREDITORS

|                                          | 2008<br>£000  | 2007<br>£000  |
|------------------------------------------|---------------|---------------|
| Amounts falling due within one year:     |               |               |
| Trade creditors                          | 9,934         | 11,578        |
| Other taxes and social security costs    | 1,080         | 588           |
| Amounts due to fellow group undertakings | 576           | 576           |
| Other creditors                          | 741           | 1,619         |
| Fixed asset creditors                    | 757           | 845           |
|                                          | <u>13,088</u> | <u>15,206</u> |

### 14. OBLIGATIONS UNDER OPERATING LEASE CONTRACTS

Operating lease rentals payable in 2009 relate to commitments expiring:

|                            | 2008<br>£000 | 2007<br>£000 |
|----------------------------|--------------|--------------|
| Land and buildings:        |              |              |
| Within one year            | 124          | 7            |
| Between two and five years | 117          | 415          |
| After five years           | 1,406        | 1,400        |
|                            | <u>1,647</u> | <u>1,822</u> |
| Equipment:                 |              |              |
| Within one year            | 67           | 138          |
| Between two and five years | 917          | 924          |
| After five years           | 4            | -            |
|                            | <u>988</u>   | <u>1,062</u> |

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 15. PROVISIONS FOR LIABILITIES AND CHARGES

Movements on the provisions during the year were as follows:

|                             | <i>Property<br/>Closure<br/>£000</i> | <i>Warranty<br/>£000</i> | <i>Restructuring<br/>£000</i> | <i>Other<br/>£000</i> | <i>Total<br/>£000</i> |
|-----------------------------|--------------------------------------|--------------------------|-------------------------------|-----------------------|-----------------------|
| Balance at 1 January 2008   | 198                                  | 40                       | 284                           | 53                    | 575                   |
| Charge for the year         | 1,172                                | -                        | 1,824                         | 37                    | 3,033                 |
| Utilised during the year    | (81)                                 | (23)                     | (1,299)                       | -                     | (1,403)               |
| Balance at 31 December 2008 | <u>1,289</u>                         | <u>17</u>                | <u>809</u>                    | <u>90</u>             | <u>2,205</u>          |

#### *Property Closure*

Provision has been made for anticipated costs likely to be incurred under the terms of the various leases, until such time as the leases expire or may be assigned. These costs are expected to be incurred over periods up to the next nine years.

#### *Restructuring*

Provision has been made for restructuring within the business. These costs are expected to be incurred primarily within one year.

### 16. DEFERRED TAX

The potential deferred tax asset not provided is:

|                               | <i>2008<br/>£000</i> | <i>2007<br/>£000</i> |
|-------------------------------|----------------------|----------------------|
| Capital allowances            | 1,540                | 938                  |
| Short-term timing differences | 105                  | 74                   |
| Tax losses                    | 229                  | -                    |
|                               | <u>1,874</u>         | <u>1,012</u>         |

The potential deferred tax asset is not recognised due to the uncertainty regarding suitable future taxable profits against which it may be offset.

### 17. SHARE CAPITAL

|                                                | <i>2008<br/>No</i> | <i>2007<br/>No</i> | <i>2008<br/>£</i> | <i>2007<br/>£</i> |
|------------------------------------------------|--------------------|--------------------|-------------------|-------------------|
| Ordinary shares of £1 each                     |                    |                    |                   |                   |
| Authorised, allotted, called up and fully paid | <u>4</u>           | <u>4</u>           | <u>4</u>          | <u>4</u>          |

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 18. STATEMENT OF RESERVES AND RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

|                     | <i>Share<br/>Premium<br/>£000</i> | <i>Profit and<br/>loss<br/>£000</i> | <i>Shareholders'<br/>Funds<br/>£000</i> |
|---------------------|-----------------------------------|-------------------------------------|-----------------------------------------|
| At 1 January 2007   | 23,500                            | 7,678                               | 31,178                                  |
| Loss for the year   | -                                 | (3,143)                             | (3,143)                                 |
| At 31 December 2007 | 23,500                            | 4,535                               | 28,035                                  |
| Loss for the year   | -                                 | (9,023)                             | (9,023)                                 |
| At 31 December 2008 | 23,500                            | (4,488)                             | 19,012                                  |

### 19. NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

|                                                     | <i>2008<br/>£000</i> | <i>2007<br/>£000</i> |
|-----------------------------------------------------|----------------------|----------------------|
| Operating loss                                      | (8,776)              | (2,927)              |
| Depreciation                                        | 2,082                | 2,302                |
| Loss on disposal of fixed assets                    | -                    | 656                  |
| Amortisation of goodwill                            | 378                  | 378                  |
| Impairment of goodwill                              | 5,808                | -                    |
| Decrease in stocks                                  | 2,051                | 210                  |
| (Increase) in debtors                               | (5)                  | (600)                |
| (Decrease) in creditors                             | (2,030)              | (876)                |
| Increase in provisions                              | 1,732                | 327                  |
| Net cash inflow/(outflow) from operating activities | 1,240                | (530)                |

The company incurred operating cash outflows of £1,360,000 in respect of exceptional restructuring costs.

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 19. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

#### (b) Analysis of net funds

|               | <i>At 1 January<br/>2007<br/>£000</i> | <i>Cash<br/>flow<br/>£000</i> | <i>Non-cash 31 December<br/>movement<br/>£000</i> | <i>At<br/>2007<br/>£000</i> |
|---------------|---------------------------------------|-------------------------------|---------------------------------------------------|-----------------------------|
| 2007:<br>Cash | 12,209                                | (1,667)                       | -                                                 | 10,542                      |

|               | <i>At 1 January<br/>2008<br/>£000</i> | <i>Cash<br/>flow<br/>£000</i> | <i>Non-cash 31 December<br/>movement<br/>£000</i> | <i>At<br/>2008<br/>£000</i> |
|---------------|---------------------------------------|-------------------------------|---------------------------------------------------|-----------------------------|
| 2008:<br>Cash | 10,542                                | (744)                         | -                                                 | 9,798                       |

### 20. CAPITAL EXPENDITURE COMMITMENTS

|                                         | <i>2008<br/>£000</i> | <i>2007<br/>£000</i> |
|-----------------------------------------|----------------------|----------------------|
| Amounts contracted for but not provided | 525                  | 990                  |

### 21. RELATED PARTY TRANSACTIONS

Transactions with Bowater Windows Pinking Trustee Limited, which was a fellow subsidiary, were as follows:

|                                 | <i>2008<br/>£000</i> | <i>2007<br/>£000</i> |
|---------------------------------|----------------------|----------------------|
| Reimbursement of warranty costs | 740                  | 1,007                |

At 31 December 2008 the Company had a debtor of nil (2007 - £25,000) due from Bowater Windows Pinking Trustee Limited.

At 31 December 2008 the company had a debtor of nil (2007 - £23,000) due from Bowater Trustees Limited, a fellow subsidiary.

The company owes £576,000 (2007 - £576,000) to Bourne End One Limited, a fellow subsidiary.

Transactions with the Squarebeige Limited Group of companies, which had common shareholders, were as follows:

|                                                                      | <i>2008<br/>£000</i> | <i>2007<br/>£000</i> |
|----------------------------------------------------------------------|----------------------|----------------------|
| Sales to Squarebeige Group                                           | -                    | 3,011                |
| Purchases from Squarebeige Group                                     | -                    | 238                  |
| Management expenses and payroll costs recharged to Squarebeige Group | -                    | 2,045                |

# Bowater Building Products Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 21. RELATED PARTY TRANSACTIONS (continued)

|                                                                    | 2008<br>£000 | 2007<br>£000 |
|--------------------------------------------------------------------|--------------|--------------|
| Balance outstanding at the year-end – owing from Squarebeige Group | -            | 1,941        |
| Less provision for bad debt                                        | -            | (1,763)      |
| Net debtor (being VAT recoverable)                                 | -            | 178          |

Squarebeige Limited was placed in administration in January 2008.

### 22. CONTINGENT LIABILITIES

As at 31 December 2008, together with its parent undertaking at that date, the Company was a party at the year end to cross guarantees under group banking arrangements with Barclays Bank PLC. These totalled £10,050,000 at the year-end (2007: £11,150,000).

### 23. PENSIONS

The Company operates a money purchase pension scheme. Amounts due to the scheme at the year end were £62,000 (2007: £86,000).

### 24. EVENTS SINCE THE BALANCE SHEET DATE

Subsequent to the year end a further cost reduction programme was initiated that will result in additional exceptional costs of £350,000 in 2009, but which reduces annual overheads by £1,000,000.

On 25 November 2009 the company was sold to a new holding company, "Broomco (4207) Limited", as part of a refinancing agreement. Broomco (4207) Limited has available financing facilities of up to £15,150,000, which are secured on the assets of the company.

As part of the refinancing the company carried out a capital reduction on 20 November 2009 whereby its share premium account was reduced by £9.9 million and cash of the same amount distributed the holding company at that time, Squarepink Limited. Net assets were accordingly reduced by £9.9 million on that date.