MESSAGE FROM THE NEW CHAIRMAN

29796.

Following the refocusing of the Group on its distribution activities through the sale of its Engineering Division, I was very pleased to accept the appointment as Non-Executive Chairman, on 10 November 1997, in succession to Bob Wickham, who has provided a comprehensive Chairman's Statement on pages 2 to 4. The process of restructuring the Group to restore shareholder value will continue and the new Board will implement a strategy for the future.

When John Hall was appointed Chief Executive in August he set himself an ambitious short term agenda: to sell the Engineering Division, to sell or close the non-core activities, to dispose of unoccupied properties and to review the values of the Group's assets thereby presenting the accounts to 30 June 1997 on a more conservative basis.

I am pleased to report that he and his colleagues have achieved significant progress. The Engineering Division and the business of Gainsborough (Porth) Limited were sold on 10 November 1997 and 11 November 1997 respectively, the disposal of two unoccupied properties has been completed and the accounts to 30 June 1997 reflect the new approach.

The Graystone name is principally associated with the Group's former engineering activities. Following the sale of those activities and the repositioning of the Group to focus on distribution activities, the Board believes that the Group's name should be changed to that of our core brand. Accordingly, the Board is proposing a resolution at the Annual General Meeting to change the holding company name to Ring PLC.

Focusing the business on distribution will lead to changes in the non-executive roles. Bob Wickham and Alan McClue have agreed to remain on the Board until these changes are effected.

I look forward to the challenges ahead as your new Non-Executive Chairman and reporting to you on future progress.

K Jackson

21 November 1997

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COMPANIES HOUSE 31/12/97

CHAIRMAN'S STATEMENT

The period since 1 July 1996 has been highly eventful for the Graystone Group with major changes to its management and activities. Profit before exceptional items and taxation in the year ended 30 June 1997 amounted to £4.1 million (1996: £9.4 million). Exceptional operating items less credits totalled £1.3 million and exceptional non operating items relating to discontinued operations and asset write downs amounted to £0.5 million. This resulted in fully diluted earnings per share of 3.5p (1996: 15.0p). For the reasons explained below, the Directors are not recommending a final ordinary dividend but do expect to resume ordinary dividend payments following the first six months of the year ending 30 June 1998.

Major corporate developments

Following an appraisal of the Group's operations earlier this year, the then Board of Directors concluded that the Engineering Division would require significant further investment to improve its prospects. It also concluded that the Group's prospects would be enhanced by focusing the Group's resources on the Distribution Division which the Board believed had better growth prospects than the Engineering Division. Accordingly in May, the Board's intention to sell the Engineering Division was announced.

The Board therefore sought offers from potential purchasers of the companies comprising the Engineering Division. Following a detailed review of the various offers received, the offer from Broomco (1300) Limited, ("Broomco"), was determined to be of the highest value to the Group. Accordingly, the Company entered into negotiations and a period of exclusivity with Broomco. The negotiations were satisfactorily concluded and the Engineering Division was sold, subject to shareholders' approval, on 24 October 1997 to Broomco for a consideration of approximately £17.7 million.

During the year, the Board also received an approach which might have led to an offer being made for the Group. However, after preliminary discussions, the potential offeror decided not to proceed towards making an offer.

Changes to the Board of Directors

Against the background of the Group's proposed exit from its engineering activities and focus on its distribution activities, there have been numerous changes to the Board of Directors.

The Group has previously announced the resignations of Dick Richardson, Mike Goodchild, Colin Davies and Patrick Fox, formerly Chairman and Chief Executive, Group Managing Director - Engineering, Corporate Finance Director and Executive Director, respectively.

Following the resignation of Dick Richardson, John Hall was promoted from Managing Director - Distribution to Chief Executive and I was appointed as Non-Executive Chairman pending a new permanent appointment.

Further changes to the Board were announced on 24 October 1997: Mike Fawcett and Don Hammond resigned on 22 October 1997 from the roles of Group Operating Finance Director and Deputy Managing Director - Engineering, respectively. Mike Fawcett will, however, assume the role of Business Development Director within the Distribution Division.

Also on 22 October 1997, Tony Welham, a Certified Accountant who has been Finance Director of Ring Group Limited since 1986, was appointed Group Finance Director.

The announcement on 24 October 1997 also referred to the appointment, following completion of the disposal, of Ken Jackson as Non-Executive Chairman of the Group. Ken, aged 58, has over 20 years of management experience in a wide range of industries. Since 1993 he has been Chief Executive of Carbo PLC. He is a former Non-Executive Director of Motorworld Group PLC and is currently a Non-Executive Director of Nightfreight PLC.

CHAIRMAN'S STATEMENT

As a result of these changes the new Board of Directors will comprise:

Ken Jackson	Non-Executive Chairman
John Hall	Chief Executive
Tony Welham	Group Finance Director
Alan McClue	Non-Executive Director
Bob Wickham	Non-Executive Director

Review of activities

Following his appointment as Chief Executive, John Hall initiated a review of the Group's operations and financial reporting.

The results of this review supported the Board's conclusion that the Engineering Division would require significant further investment to improve its prospects and also that the Distribution Division afforded greater prospects for growth than the Engineering Division. The disposal will strengthen the Group's balance sheet and increase the resources available for investment in the Distribution Division. The short term dilution in earnings is believed by the Directors to be justified by the improved long term potential of the Group. Following the sale, the Board intends to relocate the Group's head office to the Ring premises in Leeds which will enable various costs to be eliminated.

The review also concluded that whilst the Group's reported results have, over recent years, reflected an aggressive approach in their preparation, particularly in the use of fair value provisions, which was within accepted accounting standards, the new Board has resolved to adopt a more conservative accounting approach.

The results for the year ended 30 June 1997 reflect a difficult trading year and the impact of this more conservative approach. The results take into account write downs in respect of certain Group assets, charges expected to arise from the planned disposal of non-core businesses and surplus properties and the planned relocation of the Group's head office. They also take into account prudent provisions against losses which are the subject of litigation and against the fall in value of the Graystone ordinary shares within the Group's Employee Share Ownership Plan. In addition, various costs were charged against the results for the year which would previously have been treated as fair value adjustments or capitalised but, under its new approach, the Board did not consider such treatment to be appropriate.

Operating review

Continuing business: Distribution Division

The year to 30 June 1997 was a year of both challenge and opportunity for the Distribution Division.

Both the DIY retail and automotive aftermarket sectors of the Division experienced a significant consolidation of their customer bases which contributed to increased pressure on both sales volumes and margins.

To reduce the impact of this pressure, the Division introduced new product ranges and sourced an increasing proportion of products from the Far East. Both moves, however, have necessitated an increased utilisation by the Division of working capital, which management has sought to mitigate by negotiating improved credit terms with certain of the Division's suppliers.

Notwithstanding these moves, the Division's sales increased from £59.1 million in the year ended 30 June 1996 to only £60.5 million in this financial year. However, the Board is confident that the actions taken this year will enhance the Division's sales in the year ending 30 June 1998.

To cater for the expected increase in volume of business, the Board has installed a new computerised warehousing system. The costs of implementation of this system, together with the costs of introducing new product ranges, contributed to an increase in overhead expenditure.

As a result of the above factors, operating profits, before exceptional items but including continuing head office costs, fell from £5.1 million in the year ended 30 June 1996 to £2.7 million this year.

The Board is confident, however, that the actions taken will reap benefits for the Division during the financial year 1997/98.

CHAIRMAN'S STATEMENT

Activities to be discontinued: Engineering Division

Turnover in the Engineering Division, whose sale was completed on 10 November 1997, fell from £30.1 million to £27.3 million and operating profits before exceptional items fell from £5.5 million to £2.9 million.

Activities to be discontinued: Non-core activities

The three non core businesses, which the Board intends to divest from the Group in the near future, incurred an aggregate operating loss before exceptional items of £0.4 million in the year ended 30 June 1997 (1996: £0.2 million loss).

Exceptional operating costs

The profit and loss account identifies separately £1.3 million (net) of exceptional items charged against operating profit.

Of this amount approximately £0.8 million, in respect of continuing businesses, principally relates to provisions established against losses which are the subject of litigation, which the Company is pursuing, and against the fall in value of Graystone ordinary shares within the Group Employee Share Ownership Plan.

The balance of approximately £0.5 million, in respect of businesses to be discontinued, relates to the write down of assets and provisions in respect of the closure of the head office at Wilmslow offset, in part, by profits on realisation of assets.

Balance Sheet

As at 30 June 1997, shareholders' funds amounted to £5.0 million (1996: £8.2 million). At the same date net debt amounted to £13.0 million, including convertible loan stock of £0.8 million (1996: £7.1 million, including convertible loan stock of £1.5 million) giving net gearing of 259 per cent (1996: 86 per cent).

The disposal of the Engineering Division will significantly improve both shareholders' funds and net gearing in the Group's consolidated balance sheet. Although the disposal will result in a profit in the Group's profit and loss account before adjustments in respect of goodwill released on disposal, the need to write down the carrying value of the investment in each of the companies comprising the Engineering Division has given rise to a deficit balance in the Graystone PLC profit and loss account.

Dividend

In light of the impact of the disposal of the Engineering Division on the Company's profit and loss account, the Board has resolved not to recommend that a final ordinary dividend be paid in respect of the year ended 30 June 1997. The interim ordinary dividend was 2.2p (net) per ordinary share (1996: total for the year 6.4p (net)).

The Board proposes to address the deficit in the Graystone PLC profit and loss account through a reduction of its share premium account. This requires, *inter alia*, the approval of shareholders, which is being sought at the next Annual General Meeting, and court sanction.

Following the conclusion of this process, the Board intends to pursue a dividend policy appropriate to the nature and performance of the ongoing Group.

Prospects

The Board believes that following the disposal of the Engineering Division and the reduction in the Group's cost base, the resultant Group will have a solid foundation on which to build its future. The Directors are confident that the resultant Group will be able to increase shareholder value by focusing on its distribution activities.

Turnover in the Distribution Division for the first three months of the current financial year is encouraging, exceeding both budget and the actual sales for the corresponding period last year.

R J J Wickham
10 November 1997

CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

Focus on distribution activities.

As described in the Chairman's Statement, the period since 1 July 1996 has been one of dramatic change for the Group, not least in its operating activities.

During the early 1990's, the Group pursued a strategy of building a focused engineering business which became organised within three business groups: electrical components and equipment, mechanical products and systems and distribution of tools and parts to the automotive aftermarket. In 1995, the Group acquired Ring Group Limited, thereby significantly increasing its distribution activities.

The new Board has determined that the future of the Group and the best opportunities for restoring shareholder value lie in developing the distribution business. With the sale of engineering and the sale or closure of non-core activities, the new Board's strategy is clearly focused on the Group becoming the best distributor of lighting and automotive aftermarket products in the UK.

We aim to achieve this through our business being a complete service supplier to our customers in each of the product areas, lighting and automotive.

Investing in IT

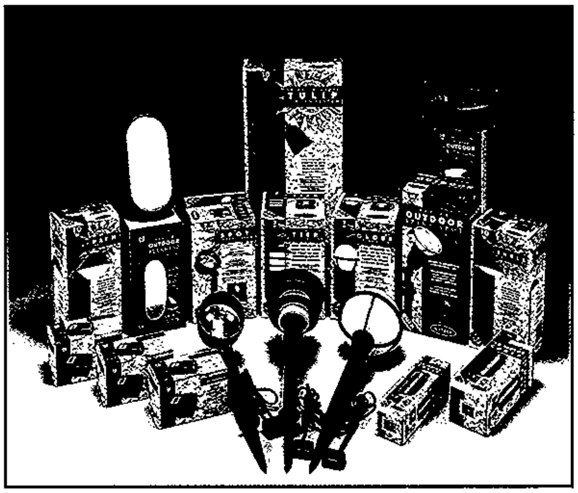
Our strong marketing and product development skills are complemented by experienced and dedicated support teams aided by sophisticated on-line integrated IT systems. I believe our major investment in IT has given us a significant competitive advantage in addition to cost savings and improved efficiency. An on-line warehousing system was introduced at Ring during the year which has enabled us to improve stock availability whilst at the same time reducing staffing levels.

Our investment in IT will continue, with the ongoing roll-out of the electronic group communications network, electronic cataloguing, enhanced electronic document processing and new computer systems.

Consolidation of customer bases

During the year our business suffered from the consolidation of customers in both of our product areas. However, this was not unexpected and over recent years we have invested heavily in new product ranges to mitigate the impact of this consolidation. We believe that, as a result of this initiative, our position has been strengthened and we are well placed to grow the business.

Lighting



	1997	1996
Turnover	**£28.6m**	£28.5m

Ring Lighting, a trading division of Ring Lamp Company Ltd, is a leading supplier to most DIY multiple retailers in the UK.

The business originally developed in the 1980's from the sale of domestic light bulbs and fluorescent fittings. Over the years this range has broadened significantly and we are now regarded as the complete lighting product supplier to the DIY market.

During the year we lost a substantial amount of turnover when Homebase took over Texas Homecare and rationalised the combined product ranges.
We addressed the impact of this change by expanding our product introductions and focusing on lower cost products from the Far East which enabled us to replace the lost business and indeed show a marginal increase in turnover over the previous year. These steps adversely impacted our margins; however, we believe that we will increasingly reap the benefits of this investment as time progresses.

New product launches included a wide range of garden and low voltage halogen products to the consumer market and a range of security products to the commercial market.

Our aim is to continue to broaden the range and depth of the existing lighting business.

Automotive

	1997	1996
Turnover	£31.7m	£30.6m

The Automotive business incorporates:

Ring Automotive*

M&F Components Ltd

BMAC Ltd

Van-Line Ltd

Lancer Products Ltd

Lighten Point Corporation Europe Ltd

Grove Products (Caravan Accessories) Ltd

R P Whitehead*

(*trading divisions of Ring Lamp Company Ltd.)

Since the mid 1980's Ring Automotive has been the premier supplier of autobulbs and driving lamps to the aftermarket.

Our market strength has enabled us to broaden our product offerings into other product groups including auto electrics.

The year has seen significant consolidation of the automotive aftermarket which has created margin pressure as the new groups have exerted their buying leverage. Although the process is on-going we believe the market is becoming more stable and we continue to develop new business with the enlarged groups, most notably with the newly launched premium performance bulbs.

CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

BMAC Ltd, our distributor and assembler of lighting for the train and bus markets at both original equipment and aftermarket level, is already beginning to show benefits from the investment in rolling stock by the train companies. We are designing a range of new lights for the bus market from which we expect to benefit next year.

Our existing caravan business was strengthened during the year by the acquisition of Grove Products (Caravan Accessories) Ltd, giving us a firm foundation in the leisure market which we feel can be profitably developed. The company has performed well since its acquisition. Its present leased premises are too small to cater for expected growth and it will shortly be relocating to more modern premises owned by the Group near its existing site.

Our team

I cannot emphasise enough that service is the key factor in the success of our business.

We have, I believe, one of the best teams in our industry and I would like to thank them for all their hard work and support during the recent difficult times. They will continue to strive to improve their performance for our customers.

Prospects for the current year

The current financial year has started well with particularly strong sales performance in lighting products. The Directors are confident that the result for the year will reflect the benefit of management initiatives taken to date.

J M Hall

FINANCIAL REVIEW

Accounting approach

As referred to in the Chairman's Statement, over recent years the financial statements have been prepared with an aggressive approach, especially in the use of fair value provisions. Although this was within accepted accounting standards, the Directors have resolved to adopt a more conservative approach and various costs which would previously have been treated as fair value adjustments or capitalised have been charged against the results for the year.

Trading results

Accordingly, the results take into account write downs in respect of non-core businesses and surplus properties together with prudent provisions against losses which are the subject of litigation and against the fall in value of the Company's shares within the Group Employee Share Ownership Plan.

As reported to the shareholders the year to 30 June 1997 was in the event a difficult year. Turnover decreased to £89.5m, compared with £92.1m for the previous year. The decrease of £2.6m occurred in the Engineering Division. Operating profit fell by £6.4m to £4.1m reflecting the difficult trading and the change in the accounting approach.

Net debt

The £5.5m increase in the net debt to £13.0m as at 30 June 1997 can be summarised as follows:

		£m	£m
Operating profit			4.1
Interest and dividend payments			(4.3)
Depreciation net of capital expenditure and disposals			1.0
Provisions movement			(0.7)
Working capital movement			(1.7)
Tax paid			(1.8)
Acquisitions	– Ring Group deferred consideration	(1.0)	
	– Grove Products	(1.2)	
Disposals	– Starbuck Motor Spares	0.4	
			(1.8)
Other movements			(0.3)
Total movement – net debt			(5.5)

Shareholders' funds and gearing

Shareholders' funds were reduced by £3.2m to £5.0m principally due to the writing off of £3.5m goodwill. Goodwill of £1.1m was written off relating to the acquisition of Grove Products (Caravan Accessories) Ltd together with a provision, and goodwill write off, of £2.35m relating to the expected payment of deferred consideration in respect of Lighten Point and Grove Products.

The higher cash utilisation and reduced shareholders' funds resulted in the level of gearing increasing from 86% to 259%. In November 1997 this was significantly reduced by the sale of the Engineering Division.

Also, since the year end the remaining convertible loan stock has been redeemed and the outstanding balance on the FKI loan stock of £0.5m was discharged on completion of the sale of the Engineering Division.

Sale of the Engineering Division

On 10 November 1997 the sale of the Engineering Division was approved by shareholders and completed on that day.

The consideration of £17.7m referred to in the Chairman's Statement was adjusted in accordance with the disposal agreement to £17.4m reflecting the £0.3m residual taxation liability within the Engineering Division. The £17.4m was settled by the payment of £16.6m in cash and the assumption by Broomco of the £0.8m overdraft held within the Division.

Taxation

The tax charge was £0.8m reflecting an effective rate of 34%. Full details are given in note 7 of the accounts.

Reporting systems and controls

During the current year we intend to strengthen our financial planning systems and introduce an internal audit function. The Group covers known currency exposures without taking speculative risks.

A F Welham

CURRENT DIRECTORS

Mr K Jackson - *Non-Executive Chairman* (aged 58), was appointed to the Board in November 1997. He has over 20 years management experience in a wide variety of industries. Since 1993 he has been Chief Executive of Carbo PLC. He is also a non-executive director of Nightfreight PLC.

Mr J M Hall - *Chief Executive* - (aged 50), who joined the Board in July 1995 following the acquisition of Ring Group Ltd of which he has been Managing Director since 1986, was appointed Group Chief Executive in August 1997. Previously he worked for Asda plc.

Mr A F Welham - *Group Finance Director* (aged 48), was appointed to the Board in October 1997. Admitted to the Association of Chartered Certified Accountants in 1976, he had been Finance Director of Ring Group Limited for nine years prior to its acquisition by the Group in 1995 and has been Finance Director of the Distribution Division since then.

Mr W A McClue - *Non-Executive Director* (aged 50), was the Chairman of Graystone from January 1987 to February 1991, having joined the Company in December 1986. He was previously Chief Executive of Porter Chadburn plc and Petrocon Group plc. He is currently a director of several private engineering companies.

Mr R J J Wickham - *Non-Executive Director* (aged 63), was appointed to the Board in February 1994. He retired as General Manager of the Bank of Scotland in December 1993 after a career of over 43 years with the bank. He is currently a non-executive director of a number of public companies.

REGISTERED OFFICE AND ADVISERS

Secretary and registered office

J M Yates
Emerson Court
Alderley Road
Wilmslow
Cheshire SK9 1NX

Auditors

Ernst & Young
Chartered Accountants
100 Barbirolli Square
Manchester M2 3EY

Stockbrokers

Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

Henry Cooke, Lumsden plc
One King Street
Manchester M60 3AH

Bankers

Bank of Scotland
Douglas House
117 Foregate Street
Chester CH1 1HE

National Westminster Plc
Leeds City Office
8 Park Row
Leeds LS1 1QT

Financial Advisers

Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

Registrars

IRG plc
34 Beckenham Road
Beckenham
Kent BR3 4TU

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 30 June 1997.

Principal activities and review

The principal activities of the Group during the year were in distribution and engineering, comprising the merchanting of automotive components and lighting products and the manufacture of electrical and mechanical components and equipment. Since the year end, as advised to shareholders in a circular dated 24 October 1997 and approved at the Extraordinary General Meeting held on 10 November 1997, the Engineering Division has been sold. A review of the continuing distribution activities is set out in the Chief Executive's Statement on pages 5 to 8.

Results and dividends

The operating profit for the year amounted to £4,112,000 (1996: £10,538,000) and the profit before taxation was £2,269,000 (1996: £9,329,000).

In light of the impact of the disposal of the Engineering Division on the Company's profit and loss account, the Board has resolved not to recommend the payment of a final dividend on the ordinary share capital. The interim dividend paid on 20 June 1997 was 2.2p (net) per ordinary share.

The net profit for the year after taxation, minority interests, the above interim dividend and the dividends due on the preference shares was £86,000 (1996: £3,670,000), which has been transferred to reserves.

Acquisitions and disposals

On 3 October 1996 the Company acquired the entire issued share capital of Grove Products (Caravan Accessories) Ltd, a distributor of caravan accessories. The consideration paid on completion was £1,250,000, comprising £1,050,000 cash with the balance in new ordinary shares. Deferred consideration up to a maximum of £350,000 is payable based on the profit before taxation for the year ending 31 December 1997.

On 31 December 1996 the entire issued share capital of Starbuck Motor Spares Ltd, a distributor of automotive parts direct to trade users, was sold to C L Services Ltd. £650,000 was paid on completion, followed by a further £50,000 following agreement of the net assets in the completion accounts. The £200,000 balance of deferred consideration is payable in four equal annual instalments of £50,000 on each of the four following anniversaries of completion.

By an agreement to surrender dated 31 January 1997, Ptarmigan Hotels Ltd agreed to surrender the lease of The Barbican Hotel in Lincoln for £1 and sold the fixtures and fittings for a consideration in cash and refund of moneys due under the lease amounting in aggregate to £50,000.

On 10 November 1997, following shareholders' approval at the Extraordinary General Meeting held that day, the companies comprising the Engineering Division were sold to an investment company. The consideration of £17.7m referred to in the Chairman's Statement was adjusted in accordance with the disposal agreement to £17.4m reflecting the £0.3m residual taxation liability of the Engineering Division. The £17.4m was settled by payment of £16.6m in cash and the assumption by Broomco of the £0.8m overdraft held within the Division.

On 11 November 1997, Gainsborough (Porth) Ltd, a manufacturer of decorative products, sold its business and certain assets to Gainsborough Decorations Ltd for a consideration of £1.

Share capital and reorganisation

Following shareholders' approval at the last Annual General Meeting on 22 November 1996 the Company's authorised ordinary share capital was consolidated and divided into 56,500,000 ordinary shares of 50p each on the basis of one new ordinary share of 50p for every ten existing ordinary shares of 5p each.

Although the disposal of the companies comprising the Engineering Division will result in a profit in the Group's consolidated profit and loss account before adjustments in respect of goodwill released on disposal, the need to write down the carrying value of the investment in certain of those companies gives rise to a deficit balance in the Company's profit and loss account. The Company would not, until the deficit is made good, be in a position to pay any dividends. The Board is therefore proposing a reduction of the Company's share premium account, which will create a special capital reserve to be used to eliminate the deficit on the Company's profit and loss account. This will enable the Company to pay dividends out of future earnings.

The proposed reduction of the Company's share premium account requires the approval of shareholders at the Annual General Meeting and, subject thereto, will not be effective until the High Court has granted an Order. Accordingly, as soon as is practicable after the passing of the necessary resolution, the Company will petition the High Court for an appropriate Order and will give any appropriate undertaking required for the protection of creditors. The Board intends to take all necessary steps to have the petition heard as soon as possible.

DIRECTORS' REPORT

Directors

The directors at the date of this report are listed on page 10. Messrs. A F Welham and K Jackson were not appointed until 22 October and 10 November 1997 respectively. Accordingly, having been appointed since the last Annual General Meeting, each of them retires and being eligible offers himself for re-appointment. Mr Welham has a service agreement with the Company, which is subject to termination upon two years notice by either party. Mr Jackson does not have a service agreement. Mr R J J Wickham, who does not have a service agreement, retires by rotation and offers himself for re-election. Messrs. J M Hall, W A McClue and R J J Wickham served throughout the year together with Messrs. R E Richardson, M A Fawcett and D W Hammond. Mr Richardson resigned on 22 August 1997 and the latter two directors resigned on 22 October 1997. Additionally, Mr M P Goodchild served as director until 2 December 1996, when he resigned; and Messrs. C E Davies and P A C Fox were directors until they both resigned on 22 May 1997.

The Company maintains a directors and officers liability insurance policy, which covers all directors of the Company. Otherwise, no director had an interest in any contract of significance to which the Company or any of its subsidiary undertakings was a party during the year.

Directors interests

The beneficial interests of the directors and their families at the end and beginning of the year in the share capital of the Company were as follows:-

	Ordinary shares of 50p	
	30 June 1997	1 July 1996
R E Richardson	**113,490**	117,240
J M Hall	**201,703**	45,455
M A Fawcett	**10,000**	8,181
D W Hammond	**48,928**	48,928
W A McClue	**64,075**	64,075
R J J Wickham	**7,000**	3,287

During the period from 30 June 1997 to 14 November 1997 Mr J M Hall has purchased a further 300,000 ordinary shares and Mr A F Welham, who held 35,690 shares at the date of his appointment, increased his ordinary shareholding to 70,690.

No director had any interest in the 3.5% non-voting cumulative preference shares of 62.5p each or in the 19.2% non-voting convertible cumulative preference shares of 25p each. The directors' interests in share options are detailed in the Remuneration Committee report.

Substantial shareholdings

The Company has been notified or was made aware of the following shareholdings representing 3% or more of the issued ordinary share capital as at 14 November 1997

	Number of Ordinary Shares of 50p	Percentage
Edinburgh Fund Managers	5,580,000	14.09%
M&G Investment Management	3,980,599	10.04%
Mr D R Rivlin	3,625,778	9.14%
Melton Medes Ltd & Mr N R Puri	2,470,548	6.23%
Mercury Asset Management	2,007,319	5.06%
N M Rothschild Asset Management	1,342,644	3.39%
Commercial Union Asset Management	1,325,000	3.34%

Employment policies

The Group recognises the need for good communications and is committed to involving all employees in its development. Employees are kept informed of, consulted and encouraged to express their views, on matters which are likely to affect their interest in and contributions to their company, its profitability and performance.

It is the Group's policy to give full consideration to suitable applications for employment by disabled persons. Where an employee becomes disabled whilst employed, arrangements are made wherever practicable to continue that employment or provide training for any other suitable position. Disabled persons are eligible to participate in all career development opportunities available to staff.

DIRECTORS' REPORT

Research and development

The Group carries on a programme of research and development relevant to the present and future requirements of its activities and the needs of its customers.

Charitable and political donations

Charitable donations made during the year amounted to £3,445. There were no political donations.

Supplier payment policy

The Group's policy on the payment of suppliers states that they will be paid in accordance with agreed terms and conditions of trade.

At 30 June 1997 the Company's trade creditors falling due within one year represented approximately 50 days of purchases.

Special business

The special resolution numbered 6 proposes that the name of the Company be changed to Ring PLC for the reasons referred to in the Chairman's Message.

The special resolution numbered 7 relates to the proposed capital reorganisation referred to earlier in this report under share capital. If approved by shareholders, subject to the granting of an High Court Order, the Company would then be in a position to pay dividends out of future earnings.

The directors seek the renewal for a further year of their general authority in accordance with section 80 of the Companies Act 1985 to allot unissued shares. If shares are to be allotted using that authority and are to be paid for in cash, generally they must be offered first to shareholders in proportion to their existing holdings. This is the statutory pre-emption right of shareholders. However, there may be circumstances in which it is in the interests of the Company for the directors to have the flexibility to finance business opportunities by issuing shares for cash other than by way of a rights issue. Part (b) of the special resolution numbered 8 again seeks to renew the directors authority for a further year to disapply the pre-emption rights, but only up to a limit of 5% of the Company's existing issued ordinary share capital. If approved, such authority would expire at the conclusion of the Annual General Meeting for 1998 or 15 months after the date of passing the resolution, whichever is the earlier.

Taxation status

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their re-appointment will be submitted at the Annual General Meeting in accordance with section 385(2) of the Companies Act 1985.

Approved by the Board
on 21 November 1997

John M. Yates

J M Yates
Secretary

REPORT OF THE REMUNERATION COMMITTEE

Membership and terms of reference

The Remuneration Committee comprises the three non-executive directors and is chaired by Mr W A McClue. None of its members has any personal financial interest in the Group, other than as a shareholder, or day to day involvement in the Group's businesses, or a service contract with the Company. Meetings are held periodically as required to review and present recommendations to the Board regarding the remuneration of the executive directors and senior management.

Remuneration policy

The remuneration policy is intended to attract, motivate and retain executives of the right calibre through a remuneration package, which is competitive in terms of basic salary, incentives and rewards. In framing this policy the Remuneration Committee has complied with section A and has given full consideration to section B of the best practice provisions annexed to the Stock Exchange Listing Rules.

Executive directors

The executive directors' remuneration package has the following elements:

- basic salaries are reviewed annually at 1 July taking into account individual responsibilities and skills set in the context of external market comparisons
- annual performance bonuses and the criteria against which they are payable are linked directly to the financial performance of the Group and/or individual targets of trading profitability. The bonuses of R E Richardson, C E Davies and M A Fawcett were based on 1.75% of salary for each percentage point improvement in fully taxed, fully diluted earnings per share. Those of M P Goodchild, P A C Fox and D W Hammond were based on a percentage of salary for the achievement of budget and profit for the year for their respective business operations. The percentages were 20% for M P Goodchild and 15% for P A C Fox and D W Hammond. Additional discretionary bonuses are payable for exceptional performance which results in incremental profit to the Group
- certain of the directors participate in Inland Revenue approved profit-related pay schemes, where an element of their salary is related to the profit of their business operation
- benefits in kind are provided in the form of a fully expensed company car, private medical expenses insurance and telephone expenses
- pension benefits are provided either under the Group's contracted-out defined benefit scheme with an employer's contribution rate presently of 9.7% of pensionable salary or by the payment to an individual defined contribution scheme's of up to 11% of pensionable salary

Each existing executive director has a service agreement, which is terminable by either party giving two years notice at any time.

Directors' emoluments

	Basic salary and fees £'000	Annual bonus* £'000	Subtotal £'000	Pension contribution £'000	Benefits in kind £'000	Total 1997 £'000	Total 1996 £'000
EXECUTIVE DIRECTORS							
R E Richardson (resigned 22.8.97)	205	40	245	26	11	282	273
M P Goodchild (resigned 2.12.96)	44	26	70	8	5	83	136
J M Hall	123	–	123	12	13	148	144
C E Davies (resigned 22.5.97)	94	19	113	12	8	133	139
M A Fawcett (resigned 22.10.97)	86	17	103	13	10	126	111
P A C Fox (resigned 22.5.97)	76	12	88	13	4	105	108
D W Hammond (resigned 22.10.97)	85	10	95	5	14	114	107
	713	124	837	89	65	991	1,018
NON-EXECUTIVE DIRECTORS							
W A McClue	17	–	17	–	–	17	15
R J J Wickham	17	–	17	–	–	17	15
	747	124	871	89	65	1,025	1,048

* Bonus payments relate to performance in the 1995/96 financial year but were paid in 1996/97. No bonus payments have been or will be paid to directors in respect of the year ended 30 June 1997.

REPORT OF THE REMUNERATION COMMITTEE

Compensation payments

In addition to the emoluments shown above, consequent upon the termination of their employment by the Company, three of the directors who resigned received the following payments by way of compensation for breach of contract and/or consultancy fees for the period ended 30 June 1997:

M P Goodchild	– £30,000 together with £79,998 under a consultancy agreement
C E Davies	– £30,000 together with £9,500 under a consultancy agreement
P A C Fox	– £30,000 together with £7,500 under a consultancy agreement

Mr Goodchild's consultancy agreement terminated on 30 June 1997.

Since the year end:

Mr R E Richardson received a compensation payment of £356,500 together with an additional pension contribution of £49,680 for breach of contract.

Under the terms of their consultancy agreements with the Company, C E Davies and P A C Fox have received payments of £9,500 per month and £7,500 per month respectively. The consultancy agreement with Mr Fox has been terminated and the consultancy agreement with Mr Davies will terminate upon his acquiring a shareholding in the company which has acquired the Engineering Division.

Pensions

Until he left the Group Mr M P Goodchild was, and each of Mr M A Fawcett and Mr D W Hammond are, a member of the group defined benefit pension scheme referred to in note 22 to the accounts. Each of the other executive directors accrued pension benefits in a separate money purchase scheme.

Directors share options

Beneficial interests in options to subscribe for ordinary shares of 50p each under the executive share option scheme at the end and beginning of the year were as follows:

	No.	Price		No.	Price
R E Richardson	90,446	84.6p	M A Fawcett	25,124	84.6p
	90,446	114.4p		45,223	114.4p
	25,124	124.4p		10,049	124.4p
	15,000	127.5p		10,000	127.5p
C E Davies	37,686	84.6p	P A C Fox	37,686	84.6p
	42,710	114.4p		30,148	114.4p
	14,069	124.4p		10,049	124.4p
	12,500	127.5p		7,500	127.5p
D W Hammond	37,686	84.6p	J M Hall	30,000	127.5p
	35,173	114.4p			
	10,049	124.4p			
	7,500	127.5p			

The Company's mid market ordinary share price on 30 June 1997 was 57.5p, and the range of prices during the year was 47.5p to 150p.

No options were granted or exercised during the year.

The options set out above are exercisable as follows:
- 84.6p from 6 July 1996 expiring 5 July 2003
- 114.4p from 21 January 1997 expiring 20 January 2004
- 124.4p from 14 October 1997 expiring 13 October 2004*
- 127.5p from 8 December 1998 expiring 7 December 2005*

*except for Messrs. Richardson, Davies and Fox, whose options have lapsed.

Annual General Meeting

The Chairman of the Committee will be present at the Annual General Meeting to answer any questions raised relating to the remuneration policy and practice.

W A McClue
Chairman, Remuneration Committee
21 November 1997

CORPORATE GOVERNANCE

The Board supports the principles of corporate governance outlined in the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance ("the Code"). The Company has complied with the provisions of the Code throughout the financial year except those regarding the number of non-executive directors and their period of office and has adopted the recommendations of the Greenbury Committee insofar as required by the Stock Exchange Listing Rules.

Audit Committee
During the year the Audit Committee was comprised of two non-executive directors. It now comprises the three non-executive directors and is chaired by Mr R J J Wickham and, when appropriate, executive directors are invited to attend the Committee's meetings. The Committee's terms of reference include the review of the Group's financial statements and internal control systems together with the conduct of the external audit.

Remuneration Committee
The Remuneration Committee comprises the non-executive directors. The Committee is chaired by Mr W A McClue and its report is set out on pages 14 and 15.

Nomination Committee
The Nomination Committee is chaired by Mr K Jackson and is comprised of the non-executive directors and the Chief Executive. It is responsible for nominating for approval candidates for appointment to the Board.

Non-executive directors
The non-executive directors are not appointed for specified fixed terms, but they retire by rotation and are presented periodically for re-election by shareholders. Following recent board changes culminating in the appointment of Mr K Jackson, the three non-executive members comprise a majority of the Board. Moreover, the roles of Chairman and Chief Executive have now been separated.

Going concern
After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Internal financial controls
The Group's system of internal financial control, for which the directors have overall responsibility, is designed to safeguard the Group's assets against unauthorised use or disposition, to ensure the maintenance of proper accounting records and the reliability of financial information used within the business and for publication. This system, by its nature, can provide only reasonable, not absolute, assurance against material misstatement or loss.

The key features and procedures of the system of internal financial control are as follows:

- an organisation structure which supports clear lines of communication and tiered levels of authority;
- a schedule of matters reserved for the Board's approval to ensure it maintains control over appropriate strategic, financial, organisational and compliance issues;
- the preparation of detailed annual budgets covering profit and cash flow, which are approved by the Board; the review of monthly detailed reports comparing actual performance with budget and of updated financial forecasts;
- the procedures for the appraisal, approval and control of capital investment proposals including acquisitions;
- in view of the major changes within the Group there has been a delay in the introduction of a formal system of internal audit, but it is the intention to introduce such a system during the financial year ending 30 June 1998. Reports will be made directly to the Audit Committee.

The directors confirm that they have reviewed the effectiveness of the Group's system of internal financial control.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these accounts, 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT BY THE AUDITORS

to Graystone PLC on corporate governance matters

In addition to our audit of the accounts we have reviewed the directors' statements on page 16 on the Company's compliance with the paragraphs of the the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on page 16, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 16 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Ernst & Young
Chartered Accountants
Manchester
21 November 1997

REPORT OF THE AUDITORS

to the members of Graystone PLC

We have audited the accounts on pages 18 to 37, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 18 and 19.

Respective responsibilities of directors and auditors

As described on page 16 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor
Manchester
21 November 1997

ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention, modified by the revaluation of certain freehold properties. The accounts are prepared in accordance with applicable accounting standards.

Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and each of its subsidiary undertakings for the year ended 30 June. Except as stated in the notes to the accounts, the results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from or up to the effective date of acquisition or disposal.

Turnover

Turnover comprises the invoiced value of goods and services supplied by the Group exclusive of VAT and intra-group transactions.

Leased assets

Assets held under leasing arrangements that give rights approximating to ownership are capitalised as finance leases. The amount capitalised is the present value of the minimum payments payable during the term of each lease. The corresponding leasing commitments are included in creditors. The interest element of the rental obligations is charge to the profit and loss account using the annuity method.

Rentals in respect of all other leases are charged to the profit and loss account on a straight line basis over the lease term.

Depreciation

Freehold and long leasehold land is not depreciated. Depreciation on other assets is calculated to write off the cost or valuation on a straight line basis over the estimated useful lives, at the following rates:

Freehold buildings:	– 50 years
Short leasehold property:	– over period of lease
Plant and equipment:	– 4 - 15 years
Motor vehicles:	– 4 - 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the periods of the leases where these are shorter.

Government grants

Governments grants towards capital expenditure are treated as deferred income and are credited to the profit and loss account annually on the same basis as that on which the relevant asset is depreciated. Government grants towards revenue expenditure are credited to the profit and loss account at the time that the expenditure is incurred or on the date of receipt if later.

ACCOUNTING POLICIES

Stocks and work in progress

Stocks are valued at the lower of cost, on a first in first out basis, and net realisable value after making due allowance for any obsolete or slow moving items. In the case of finished goods and work in progress, cost comprises direct materials, direct labour and an appropriate proportion of production overheads.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that the liability will crystallise.

Pension benefits

Pension benefits are funded over the employees' periods of service. Contributions to certain personal pension policies are charged to the profit and loss account as incurred.

Goodwill

Purchased goodwill is written off immediately to reserves in the case of acquisitions of businesses which form part of the Group's core activities. Goodwill relating to businesses not regarded as forming part of the Group's core activities is amortised through the profit and loss account over the directors' estimate of its useful life.

Foreign currency translation

On consolidation, foreign currency values in the profit and loss accounts of overseas subsidiaries are translated into sterling at the average rate of exchange ruling throughout the period. Foreign currency values in the balance sheets of overseas subsidiary companies are translated at the rates of exchange ruling at the balance sheet date. The difference between the average rate and closing rate for the profit and loss account is taken to reserves.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 1997

	Continuing business £'000	Activities to be discontinued £'000	Exceptional items £'000	Note	1997 £'000	1996 £'000
Turnover						
Continuing operations	57,950	27,981	–		**85,931**	89,700
Acquisitions	2,378	–	–		**2,378**	–
	60,328	27,981	–		**88,309**	89,700
Discontinued operations	1,196	–	–		**1,196**	2,361
	61,524	27,981	–	1	**89,505**	92,061
Operating costs	(58,690)	(25,419)	(1,284)	2/3	**(85,393)**	(81,523)
Operating profit						
Continuing operations	2,458	2,562	(1,284)		**3,736**	10,432
Acquisitions	283	–	–		**283**	–
	2,741	2,562	(1,284)		**4,019**	10,432
Discontinued operations	93	–	–		**93**	106
Operating profit	2,834	2,562	(1,284)	1/2	**4,112**	10,538
Profit on sale of discontinued operation				23	**220**	10
Loss on sale of discontinued operation				23	**(275)**	(106)
Provision for loss on sale of prior year discontinued operations					**(60)**	–
Provision for loss on sale of operations to be discontinued				10	**(432)**	–
					(547)	(96)
Profit on ordinary activities before interest					**3,565**	10,442
Interest payable				6	**(1,823)**	(1,395)
Interest receivable				6	**527**	282
Profit on ordinary activities before taxation					**2,269**	9,329
Tax on profit on ordinary activities				7	**(764)**	(2,705)
Profit for the year after taxation and before dividends and minority interest					**1,505**	6,624
Minority interest					**(19)**	–
Dividends – equity shares				8	**(883)**	(2,479)
Dividends – non-equity shares				8	**(517)**	(475)
					(1,419)	(2,954)
Retained profit for the year					**86**	3,670
Earnings per share				9	**2.4p**	15.8p
Earnings per share fully diluted				9	**3.5p**	15.0p

BALANCE SHEETS

30 June 1997

		Group		Company	
	Note	30 June 1997 £'000	30 June 1996 £'000	30 June 1997 £'000	30 June 1996 £'000
Fixed assets					
Tangible assets	10	8,704	10,343	252	302
Investments	11	91	200	45,326	57,345
Intangible assets	11	–	460	–	–
		8,795	11,003	45,578	57,647
Current assets					
Stocks	12	16,728	15,311	–	–
Debtors: amounts falling due within one year	13	17,425	17,363	13,017	7,678
amounts falling due after more than one year	13	253	294	403	28
Cash at bank and in hand		2,125	3,169	1,499	994
		36,531	36,137	14,919	8,700
Creditors: amounts falling due within one year (including convertible loan stock)	14	33,898	30,645	20,310	14,264
Net current assets/(liabilities)		2,633	5,492	(5,391)	(5,564)
Total assets less current liabilities		11,428	16,495	40,187	52,083
Creditors: amounts falling due after more than one year	15	5,028	5,746	3,994	4,090
Provisions for liabilities and charges	17	559	1,713	6	206
Minority interests – equity shares		92	78	–	–
– non-equity shares		743	743	–	–
		5,006	8,215	36,187	47,787
Capital and reserves					
Called-up share capital – equity shares	18	19,822	18,839	19,822	18,839
– non-equity shares	18	2,387	2,387	2,387	2,387
		22,209	21,226	22,209	21,226
Share premium account	19	21,783	20,171	21,783	20,171
Shares to be issued		–	2,000	–	2,000
Other reserves	19	1,050	1,080	955	955
Profit and loss account	19	(40,036)	(36,262)	(8,760)	3,435
Total shareholders' funds		5,006	8,215	36,187	47,787

J M Hall
A F Welham

21 November 1997

OTHER PRIMARY STATEMENTS

Statement of total recognised gains and losses

	1997 £'000	1996 £'000
Profit for the year attributable to shareholders of the Company	1,486	6,624
Exchange differences - overseas subsidiaries	(370)	(79)
Expenses of issuing shares	(5)	(32)
Total recognised gains and losses relating to the year	1,111	6,513

Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Profit attributable to members of the Company	1,486	6,624
Dividends	(1,400)	(2,954)
	86	3,670
New share capital issued in consideration for the acquisition of Grove Products Limited including share premiums of £132,000 (1996: £nil)	200	–
New share capital issued on conversion of convertible loan stock including share premiums of £240,000 (1996: £240,000)	400	400
Share issue costs	(5)	(32)
Goodwill written off	(3,540)	(6,963)
Goodwill reinstated on disposals	50	–
Other recognised gains and losses	(370)	(78)
Shares to be issued including share premium of £nil (1996: £1,310,000)	–	2,000
Write off of revaluation reserve for hotel property	(30)	–
Net decrease in shareholders' funds	(3,209)	(1,003)
Opening shareholders' funds	8,215	9,218
Closing shareholders' funds	5,006	8,215
Attributable to:		
Equity share interests	(444)	2,765
Non-equity share interests	5,450	5,450
	5,006	8,215

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 1997

	1997 £'000	1996 £'000
Cash flow from operating activities (Note 1)	3,240	6,842
Returns on investments and servicing of finance (Note 2)	(1,744)	(1,533)
Taxation	(1,777)	(1,354)
Capital expenditure and financial investment (Note 2)	(494)	(100)
Acquisitions and disposals (Note 2)	(1,803)	(9,270)
Equity dividends paid	(2,571)	(2,061)
Cash outflow before use of liquid resources and financing	(5,149)	(7,476)
Management of liquid resources and financing (Note 2)		
– issue of shares	–	9,534
– (decrease)/increase in debt	(1,734)	1,660
	(1,734)	11,194
(Decrease)/increase in cash in the year	(6,883)	3,718
Reconciliation of net cash flow to movement in net debt:		
(Decrease)/increase in cash in the year	(6,883)	3,718
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	1,734	(1,660)
Change in net debt resulting from cash flows	(5,149)	2,058
Loans and finance leases acquired with subsidiary	(42)	–
New finance leases	(352)	(642)
Conversion of debt into share capital	400	400
Reclassification of ESOP loan as a secured bank loan (note 17)	(200)	–
Translation difference	(128)	(97)
Movement in debt in the year	(5,471)	1,719
Net debt at 1 July	(7,502)	(9,221)
Net debt at 30 June	(12,973)	(7,502)

	1997 £'000	1996 £'000
Net debt is comprised of:		
Bank overdraft and short term loans net of cash at bank	(4,600)	2,662
Other secured bank loans	(6,299)	(6,141)
Other loans	(527)	(1,045)
Convertible loan stock	(750)	(1,900)
Obligations under finance leases	(797)	(1,078)
Net debt at 30 June	(12,973)	(7,502)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

1 **Reconciliation of operating profit to operating cash flows**

	1997 £'000	1996 £'000
Operating profit	4,112	10,538
Depreciation charges	1,545	1,563
Provision to write down goodwill	460	–
Provision to write down ESOP investment	109	–
(Profit)/loss on disposal of fixed assets	(56)	(118)
Fair value and other provision movements	(1,207)	(2,347)
(Increase)/decrease in stocks	(1,242)	2,326
(Increase)/decrease in debtors	(25)	(32)
Increase/(decrease) in creditors	(456)	(5,088)
Net cash inflow from operating activities	3,240	6,842

2 **Analysis of cash flows for headings netted in the cash flow statement**

	1997 £'000	1996 £'000
Returns on investments and servicing of finance		
Interest received	527	282
Interest paid	(1,646)	(1,205)
Preference dividend paid	(536)	(505)
Interest element of finance lease rental payments	(84)	(105)
Minority interests	(5)	–
Net cash outflow for returns on investments and servicing of finance	(1,744)	(1,533)
Capital expenditure and financial investment		
Purchase of tangible fixed assets, net of leasing finance	(808)	(650)
Sale of tangible fixed assets	314	550
Net cash outflow for capital expenditure and financial investment	(494)	(100)
Acquisitions and disposals		
Purchase of subsidiary undertakings	(1,122)	(3,369)
Net cash balances acquired with subsidiary	32	280
Sale of subsidiary undertakings	397	2,402
Costs associated with acquisitions in prior years	(1,110)	(8,583)
Net cash outflow for acquisitions and disposals	(1,803)	(9,270)
Management of liquid resources and financing		
Issue of ordinary share capital	–	550
Rights issue of ordinary share capital, less issue costs	–	8,984
	–	9,534
Debt due within a year:		
– repayment of loans	(3,116)	(1,045)
– new based rate linked term loans repayable quarterly over 5 years	410	707
Debt due beyond a year:		
– new based rate linked term loans repayable quarterly over 5 years	1,640	2,788
Capital element of finance lease rental payments	(668)	(790)
	(1,734)	1,660
Net cash (outflow)/inflow from management of liquid resources and financing	(1,734)	11,194

NOTES TO THE FINANCIAL STATEMENTS

1. **Segmental information**

An analysis of turnover, operating profit and capital employed by division and by geographical location is given below. The split into continuing business, activities to be discontinued and discontinued operations has been provided to identify the results of the continuing business.

	1997			1996		
	Turnover £'000	Operating Profit £'000	Capital employed £'000	Turnover £'000	Operating Profit £'000	Capital employed £'000
Continuing business						
Distribution	60,549	2,934	13,459	59,067	4,810	11,481
Non-core	1	(27)	32	5	1	51
Head office costs	–	(166)	(104)	–	298	(1,825)
	60,550	2,741	13,387	59,072	5,109	9,707
Exceptional items (note 3)	–	(798)	–	–	–	–
	60,550	1,943	13,387	59,072	5,109	9,707
Activities to be discontinued						
Engineering	27,340	2,934	8,643	30,051	5,490	8,972
Non-core	641	(439)	153	591	(167)	1,423
Head office costs	–	67	–	–	–	–
	27,981	2,562	8,796	30,642	5,323	10,395
Exceptional items (note 3)	–	(486)	–	–	–	–
	27,981	2,076	8,796	30,642	5,323	10,395
Discontinued operations						
Distribution	1,196	93	–	2,361	106	369
Inter-divisional trading	(222)	–	–	(14)	–	–
	89,505	4,112	22,183	92,061	10,538	20,471
Geographical location by origin:						
United Kingdom	83,593	3,021	19,041	84,286	8,865	18,040
Rest of Europe	2,001	767	1,904	2,819	1,024	1,497
North America	3,172	301	922	4,677	649	715
Rest of World	739	23	316	279	–	219
	89,505	4,112	22,183	92,061	10,538	20,471
By destination						
United Kingdom	77,351			78,799		
Rest of Europe	5,596			6,693		
Far East and Middle East	1,417			481		
North America	3,816			5,245		
Rest of World	1,325			843		
	89,505			92,061		

	1997	1996
Reconciliation of capital employed to total net assets:		
Net operating assets as above	22,183	20,471
Bank overdraft and short term loans	(7,547)	(1,170)
Corporation tax – debtor	398	405
Investments	91	258
Deferred consideration receivable	347	235
Deferred consideration payable	(2,350)	–
Corporation tax – creditor	(1,620)	(2,890)
Finance lease and hire purchase contracts	(797)	(1,078)
Proposed dividend	(233)	(1,940)
Loans	(4,631)	(5,255)
	5,841	9,036
Minority interests	(835)	(821)
	5,006	8,215

NOTES TO THE FINANCIAL STATEMENTS

2. Operating costs

	Continuing business £'000	Activities to be discontinued £'000	Exceptional items £'000	1997 £'000	1996 £'000
Changes in stocks of finished goods and work in progress	(1,429)	619	242	(568)	4,145
Raw materials and consumables	43,732	10,255	–	53,987	47,698
Employee costs (note 4)	8,032	10,393	–	18,425	18,217
Depreciation	887	658	–	1,545	1,563
Other operating expenses	7,468	3,494	1,042	12,004	9,900
	58,690	25,419	1,284	85,393	81,523

Included in the above are operating costs relating to acquisitions and disposals during the year:

	Acquisitions £'000	Disposals £'000
Changes in stocks of finished goods and work in progress	(90)	8
Raw materials and consumables	1,711	850
Employee costs	219	166
Depreciation	17	4
Other operating expenses	238	75
	2,095	1,103

Operating costs are stated after charging/(crediting):

	1997 £'000	1996 £'000
Hire of plant, equipment and vehicles under operating leases	546	368
Leasehold property rents	523	498
Auditors' remuneration - audit fees	223	255
Profit on the disposal of tangible fixed assets	(56)	(118)

Fees payable to Ernst & Young for non-audit services were £174,000 (1996: £203,000)

3. Exceptional items

Exceptional items comprise:	£'000
Continuing business	
Provision established against prior year losses which are the subject of litigation and the fall in the value of Graystone ordinary shares within the Group Employee Share Ownership Plan.	798
Activities to be discontinued	
Write down of assets and provisions, less exceptional credits, relating to activities to be discontinued and the relocation of head office	486
	1,284

4. Staff costs and numbers

	1997 £'000	1996 £'000
Wages	16,293	16,110
Social security costs	1,451	1,424
Other pension costs	681	683
	18,425	18,217

The average number of persons employed by the Group during the year, including directors, was as follows:

	Number	Number
Management and administration	311	344
Production	596	631
Sales and distribution	267	250
	1,174	1,225

NOTES TO THE FINANCIAL STATEMENTS

5. Emoluments of directors

	1997 £'000	1996 £'000
Emoluments	962	987
Contributions to money purchase schemes	63	61
	1,025	1,048

The emoluments, including pension contributions, of the highest paid director were £282,000 (1996: £273,000).

Full details of the directors' emoluments and compensation payments are given in the report of the Remuneration Committee.

6. Interest payable and receivable

	1997 £'000	1996 £'000
Interest payable		
Bank loans and overdrafts and other loans repayable within 5 years	1,587	1,077
Other loans	54	85
Convertible loan stock	83	112
Finance lease charges	84	105
Other	15	16
	1,823	1,395
Interest receivable		
On cash deposits	497	262
Other	30	20
	527	282

7. Taxation

	1997 £'000	1996 £'000
The charge based on the profit for the year comprises:		
Corporation tax at 32.5% (1996: 33%)	1,207	2,321
Adjustments relating to prior years	(655)	(68)
Overseas tax	319	462
Deferred taxation (note 17)	(107)	(10)
	764	2,705

The current year tax charge reflects the disallowance for taxation purposes of various disallowable expenditure, the goodwill write-off relating to Gainsborough (Porth) Ltd (note 11) and the writing down of assets in activities to be discontinued.

The 1997 adjustments relating to prior years relate to matters which it had been considered prudent to provide for at the previous year end, but which have now been settled.

8. Dividends

	1997 £'000	1996 £'000
Ordinary - equity shares - Interim dividend paid 2.2p (1996: 2.1p)	883	801
- Final dividend proposed nil (1996: 4.3p)	–	1,678
Preference - non-equity shares	517	475
	1,400	2,954

9. Earnings per ordinary share

The calculation of earnings per share is based on the profits on ordinary activities, after taxation, minority interests and preference share dividends, of £969,000 (1996: £6,149,000). The weighted average number of shares in issue during the year was 39,609,829 (1996: 38,897,673). On a fully diluted basis, the earnings were £1,542,000 (1996: £6,681,000) and the weighted average number of shares in issue during the year was 44,357,588 (1996: 44,377,036). Comparative figures have been restated to reflect the 10 for 1 consolidation of shares in November 1996.

10. Tangible fixed assets

Group	Freehold land and buildings £'000	Long leasehold property £'000	Short leasehold property £'000	Plant, equipment and vehicles £'000	Total £'000
Cost or valuation					
At 30 June 1996	5,430	751	759	24,563	31,503
Exchange differences	(232)	–	(1)	(1,261)	(1,494)
Relating to acquisitions	–	–	13	229	242
Additions	42	–	5	1,113	1,160
Disposals	(36)	–	–	(1,153)	(1,189)
Disposal of subsidiary undertaking	(125)	–	(288)	(126)	(539)
Property revaluation	(30)	–	–	–	(30)
At 30 June 1997	**5,049**	**751**	**488**	**23,365**	**29,653**
Depreciation					
At 30 June 1996	1,289	118	337	19,416	21,160
Exchange differences	(99)	–	–	(1,151)	(1,250)
Relating to acquisitions	–	–	12	150	162
Charge for year - recurrent	87	22	26	1,410	1,545
Charge for year - exceptional	432	–	–	–	432
Disposals	(27)	–	–	(904)	(931)
Disposal of subsidiary undertaking	–	–	(82)	(87)	(169)
At 30 June 1997	**1,682**	**140**	**293**	**18,834**	**20,949**
Net book amounts					
At 30 June 1997	**3,367**	**611**	**195**	**4,531**	**8,704**
At 30 June 1996	4,141	633	422	5,147	10,343

Company	Plant, equipment and vehicles £'000
Cost	
At 30 June 1996	398
Additions	52
Disposals	(81)
At 30 June 1997	**369**
Depreciation	
At 30 June 1996	96
Charge for year	59
Disposals	(38)
At 30 June 1997	**117**
Net book amounts	
At 30 June 1997	**252**
At 30 June 1996	302

During the year, the Group reduced the carrying value of several properties that it intends to dispose of, to their estimated realisable value. This resulted in a write off of the revaluation reserve of £30,000 in respect of an hotel property revalued in 1989 and exceptional depreciation charges of £432,000. As a result of this review all tangible fixed assets at 30 June 1997 are included at cost less cumulative depreciation.

The net book amounts of plant, equipment and vehicles for the Group and Company respectively included £976,000 (1996: £1,207,000) and £151,000 (1996: £194,000) in respect of leased assets.

Included in freehold land and buildings for the Group at 30 June 1997 is land with a net book value of £1,196,000 (1996: £1,269,000) which is not depreciated.

11. Fixed asset investments and intangible assets

	Group		Company	
	30 June 1997 £'000	30 June 1996 £'000	**30 June 1997 £'000**	30 June 1996 £'000
(i) Investment in subsidiary undertakings				
Cost at 30 June 1996	–	–	60,023	56,907
Additions	–	–	3,730	3,116
Disposals	–	–	(440)	–
Provisions	–	–	(18,078)	(2,878)
Net book amount 30 June 1997	–	–	45,235	57,145
(ii) Investment in own shares	91	200	91	200
	91	200	45,326	57,345

Provisions have been made in the Company's accounts against the carrying value of the investments in the subsidiaries. The provisions have been made for the following reasons:	£m
Writing down the carrying value of engineering companies to be sold	5.3
Writing down the carrying value of British Syphon Industries Ltd to reflect the imminent sale of most of its businesses	4.6
Related to the sale of the Engineering Division	9.9
Provision against the carrying value of non core businesses	1.0
Write down of the carrying value of businesses which have been combined with other group companies	4.3
Total provisions	15.2

(iii) Investment in subsidiary undertakings

The subsidiary undertakings at 30 June 1997 which have traded during the year or formed part of the Engineering Division were:

Principal subsidiary undertakings by division	*Principal activity*
Distribution	
Ring Group Ltd	Distribution holding company
Ring Lamp Company Ltd	Automotive parts and lighting distributor
BMAC Ltd	Transportation lighting equipment assembler and distributor
M&F Components Ltd	Automotive accessories and spares distributor
Van-Line Ltd	Automotive and industrial consumables distributor
Lancer Products Ltd*	Automotive parts distributor
Lighten Point Corporation Europe Ltd*	Automotive parts distributor
Grove Products (Caravan Accessories) Ltd*	Caravan accessories distributor
R P Whitehead Ltd	Packaging materials distributor
Engineering	
Cableform Ltd*	Lighting products, controls and electrical equipment
Cableform Inc.	Electrical equipment
Greenspear Products Ltd	Dormant
H A Birch & Company Ltd*	Dormant
Inter Cable Systems Ltd*	Dormant
Airmatic Engineering (UK) Ltd*	Precision engineering
Portobello Fabrications Ltd	Metal fabricator
Thomas Eaves Ltd*	Cold forged steel and brass fasteners
Maschinenfabrik Eimeldingen GmbH	Precision engineering
Eimeldingen Corporation	Precision engineering
Campden Instruments Ltd	Laboratory equipment and instruments
Flowcool Systems Ltd	Temperature control equipment manufacturer
Parking Equipment and Services Ltd	Car parking and security systems supplier
Parking Control Systems (Pty) Ltd **	Car parking and security systems supplier

11. Fixed asset investment and intangible assets (continued)

Non-core activities	
Mary Ford Publications Ltd*	Book publisher
Ptarmigan Hotels Ltd*	Hotels
Gainsborough (Porth) Ltd*	Promotional gifts manufacturer
Head office	
British Syphon Industries Ltd*	Industrial holding company
Marshall's Universal PLC	Industrial holding company

*Direct subsidiaries of the parent undertaking, Graystone PLC
**Graystone PLC owns 51%

The parent undertaking or its subsidiary undertakings own 100% of the ordinary and preference issued share capitals of the above undertakings, with the exception of Parking Control Systems (Pty) Ltd (51% owned) and Marshall's Universal PLC, in which 31.3% of the preference shares are held by others.

All subsidiaries have a co-terminous year end with Graystone PLC except for Lighten Point Corporation Europe Ltd (31 October) and Grove Products (Caravan Accessories) Ltd (31 December) in order to facilitate the earn-out calculations.

All the above companies are registered in England and Wales and based in the United Kingdom, except for Cableform Inc., which is registered in the State of Delaware and Eimeldingen Corporation which is registered in the State of Indiana both of which trade in the USA. Maschinenfabrik Eimeldingen GmbH is incorporated and its main place of activity is Germany, and Parking Control Systems (Pty) Ltd is incorporated and trades in South Africa.

(iv) Investment in own shares
The Graystone Employee Share Ownership Plan (ESOP) trust was established in January 1995 to hedge the future obligations of the Group in respect of shares awarded under the Graystone PLC Executive Share Option Scheme (1995). During the year the trust purchased 376,250 ordinary 5p shares at an average price of 13.125p. No options lapsed, nor were any options granted or exercised during the year. Dividends from Graystone PLC to the trust have not been waived.

As recommended by UITF Abstract 13 (Accounting for ESOP Trusts) the assets and liabilities of the ESOP have been recognised as the assets and liabilities of the sponsoring company. The administration costs of the ESOP trust are charged to the profit and loss account of the Group as they accrue.

Provision has been made against the cost of the shares held in the Company's ESOP scheme reflecting the diminution of the value of the shares held.

(v) Intangible assets
The 1996 intangible asset related to the goodwill of Gainsborough (Porth) Ltd, the business of which was reacquired during that year. Due to continued losses in that company the goodwill was written off during the year.

12. Stocks

	Group	
	30 June 1997 £'000	30 June 1996 £'000
Raw materials and consumables	2,370	3,032
Work in progress	1,442	1,580
Finished goods	12,916	10,699
	16,728	15,311

13. Debtors

	Group		Company	
	30 June 1997 £'000	30 June 1996 £'000	30 June 1997 £'000	30 June 1996 £'000
Amounts falling due within one year:				
Trade debtors	14,396	15,093	–	–
Amounts owed by subsidiary undertakings	–	–	11,392	6,212
Other debtors	1,175	1,261	17	506
Prepayments and accrued income	1,362	576	554	43
Corporation tax recoverable	398	405	960	888
Deferred consideration for sale of operations of subsidiary undertakings	94	28	94	29
	17,425	17,363	13,017	7,678
Amounts falling due after more than one year:				
Deferred consideration for sale of operations of subsidiary undertakings	253	207	403	28
Other debtors	–	87	–	–
	17,678	17,657	13,420	7706

14. **Creditors:** Amounts falling due within one year

	Group		Company	
	30 June 1997 £'000	30 June 1996 £'000	30 June 1997 £'000	30 June 1996 £'000
Bank overdrafts and short term bank loans (secured)	6,725	507	11,195	5,158
Convertible loan stock (note 21)	750	1,900	750	1,900
Other secured bank loans (note 15)	1,678	1,415	1,141	887
Other loans (note 15)	517	517	508	508
Consideration for acquisition of subsidiaries – current year (note 23)	350	–	350	–
Consideration for acquisition of subsidiaries - prior year	2,000	1,000	2,000	–
Trade creditors	11,655	12,353	183	183
Amounts owed to subsidiary undertakings	–	–	2,588	2,443
Other taxation and social security	1,994	2,030	59	56
Other creditors and accruals	5,976	5,507	569	382
Obligations under finance leases (note 16)	400	586	47	52
Corporation tax	1,620	2,890	692	779
Proposed equity dividends	–	1,688	–	1,688
Non-equity dividends	233	252	228	228
	33,898	30,645	20,310	14,264

15. Creditors: Amounts falling due after more than one year

	Group		Company	
	30 June 1997 £'000	30 June 1996 £'000	**30 June 1997 £'000**	30 June 1996 £'000
Secured bank loans	**4,621**	4,726	**3,878**	3,418
Other loans	**10**	528	**8**	517
Obligations under finance leases (note 16)	**397**	492	**108**	155
	5,028	5,746	**3,994**	4,090

£1,280,000 (1996: £1,835,000) of the secured bank loans are secured by charges over the borrowing subsidiary companies' assets, the remainder being secured on assets of the Group.

The total borrowings of the Group at 30 June 1997 are repayable as follows:

	Bank loans and overdrafts		Other borrowings	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000
Within one year	**8,403**	1,922	**517**	517
Between one and two years	**1,574**	1,442	**10**	508
Between two and five years	**3,047**	3,284	**–**	9
Over five years	**–**	–	**–**	11
Totals	**13,024**	6,648	**527**	1,045

16. Obligations under finance leases

	Group		Company	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000
Obligations under finance leases fall due as follows:				
Between one and two years	335	391	87	155
Between two and five years	62	101	21	–
	397	492	108	155
Within one year (note 14)	400	586	47	52
	797	1,078	155	207

17. Provisions for liabilities and charges

	Group		Company	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000
Fair value provisions (see below)	521	1,368	–	–
Deferred taxation (see below)	32	139	–	–
Other provisions	6	206	6	206
	559	1,713	6	206

Fair value provisions

Movements in fair value provisions during the year are as follows:

	Group	
	1997 £'000	1996 £'000
At 30 June 1996	1,368	786
Created during year following acquisition of subsidiary undertakings:		
Current year acquisitions	–	223
Prior year acquisitions (note 23)	33	2,706
Released during year	(880)	(2,347)
At 30 June 1997	521	1,368

17. Provision for liabilities and charges (continued)

Deferred taxation
Movements in deferred taxation balances during the year are as follows:

	Group	
	1997	1996
	£'000	£'000
At 30 June 1996	139	149
Released during year (note 7)	(107)	(10)
At 30 June 1997	32	139

Deferred taxation provided in the Group accounts and the amounts not provided, calculated at the rate of 31% (1996: 33%), are as follows:

	Provided		Not provided	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Accelerated capital allowances	174	210	–	–
Other timing differences	(120)	(7)	–	–
Losses carried forward	(22)	(64)	–	–
	32	139	–	–

The Company had no deferred tax liabilities, either provided or unprovided, at 30 June 1997 (1996: nil).

Other provisions
The movement on other provisions reflects the reclassification of the ESOP loan as a secured bank loan falling due after more than one year.

18. Called-up share capital

The authorised and allotted share capital at 30 June 1997 and 1996 was:

	Authorised		Allotted and fully paid	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Equity shares				
Ordinary shares of 50p each	28,250	28,250	19,822	18,839
Non-equity shares				
19.2% convertible preference shares of 25p each	5,000	5,000	2,374	2,374
3.5% cumulative preference shares of 62.5p each	13	13	13	13
	5,013	5,013	2,387	2,387
Total	33,263	33,263	22,209	21,226

On 1 July 1996 the holders of £400,000 of the Company's convertible loan stock exercised their rights to convert the holding into 3,200,000 ordinary shares of 5p each on the basis 8 ordinary 5p shares for every £1 nominal value of loan stock.

On 3 October 1996 1,352,657 ordinary 5p shares were issued at 14.8p to the vendors of Grove Products (Caravan Accessories) Ltd as part of the consideration for the acquisition.

On 8 October 1996 15,094,340 ordinary 5p shares were issued at 13.25p to the vendors of Ring Group Ltd in satisfaction of the deferred consideration payment for the acquisition.

On 22 November 1996 the Company's authorised and issued share capital was consolidated and converted into 56,500,000 ordinary shares of 50p each on the basis of one new ordinary share of 50p for every ten existing ordinary shares of 5p each.

On 14 January 1997 a holder of 25p convertible preference shares exercised their option to convert into 1,232 ordinary 50p shares.

The holders of the convertible preference shares of 25p each are entitled to receive in priority to the equity shareholders a fixed cumulative dividend of 19.2% per annum until 1 January 2004. From 1 January 1996, the shares can be converted into fully paid equity shares on the basis of two ordinary 50p for every five 25p preference shares. Any outstanding preference shares at 1 January 2004 shall automatically convert into fully paid ordinary shares on the same basis. The holders of the preference shares are not entitled to vote at general meetings so long as dividends are not greater than six months in arrears. On a winding-up, the assets available for distribution shall be applied to repaying the preference shareholders, in priority to the equity shareholders, at a rate of £1 per fully paid share and arrears of dividends due.

18. Called-up share capital (continued)

The holders of the cumulative preference shares of 62.5p each are entitled to receive, with equal priority to the convertible preference shareholders, a fixed dividend of 3.5% per annum. Voting rights and entitlement to assets on a winding-up are identical to those held by the holders of the convertible preference shares.

19. Reserves

	Share premium £'000	Revaluation reserve £'000	Other non distributable £'000	Profit and loss account £'000
Group				
At 30 June 1996	20,171	30	1,050	(36,262)
Shares issued in year - equity shares (note 18)	1,617	–	–	–
Equity share issue costs	(5)	–	–	–
Write off revaluation reserve for hotel property (note 10)	–	(30)	–	–
Other recognised gains and losses	–	–	–	(370)
Goodwill written off on current and prior year acquisitions (note 23)	–	–	–	(3,540)
Goodwill reinstated on disposals	–	–	–	50
Retained profit for the year	–	–	–	86
At 30 June 1997	**21,783**	**–**	**1,050**	**(40,036)**
Company				
At 30 June 1996	20,171	–	955	3,435
Shares issued in year - equity shares	1,617	–	–	–
Equity share issue costs	(5)	–	–	–
Other recognised gains and losses	–	–	–	(33)
Loss absorbed for the year	–	–	–	(12,162)
At 30 June 1997	**21,783**	**–**	**955**	**(8,760)**

At 30 June 1996, the provisional share premium included in the shares to be issued for the further consideration for Ring Group Ltd was £1,310,000. However, due to the fall in the share price, the actual premium was £1,245,000.

In accordance with the exemption allowed by section 230(1) of the Companies Act 1985 the Company has not presented its own profit and loss account. The loss before management charges and dividends received from subsidiary undertakings for the year within the accounts was £19,002,000 (1996: £4,660,000). However included in this figure is a provision of £15,200,000 against the Company's investment in subsidiary companies (note 11).

The cumulative amount of goodwill written off in relation to acquisitions, net of goodwill relating to businesses disposed of, is £51,866,000 (1996: £48,376,000).

20. Financial commitments

Authorised future capital expenditure, before deduction of available governments grants, amounted to:

	Group		Company	
	30 June 1997 £'000	30 June 1996 £'000	**30 June 1997 £'000**	30 June 1996 £'000
Contracted	20	216	–	–

The annual commitment under non-cancellable operating leases was as follows:

	Group		Company	
	Land and buildings £'000	Plant equipment and vehicles £'000	Land and buildings £'000	Plant, equipment and vehicles £'000
Leases expiring:				
Within one year	35	76	–	–
Within one to two years	78	304	–	3
Within two to five years	–	264	–	2
Thereafter	422	4	–	–
	535	648	–	5

21. Convertible loan stock

The movement on the convertible loan stock during the year was:

	£'000
At 30 June 1996	1,900
Converted to ordinary shares on 1 July 1996 (note 18)	(400)
Redeemed at par	(750)
At 30 June 1997 (note 14)	750

Subsequent to the year end the whole of the outstanding convertible loan stock was redeemed at par.

22. Pensions

The Group operates two contracted-out pension schemes, contributions to which are administered externally and the assets of which are held separately by professional investment managers.

One scheme is funded by contributions from members at 5% of pensionable salary and by contributions from participating companies at rates recommended by an independent actuary. The last triennial actuarial valuation was carried out as at 5 April 1997 using the projected unit method. The principal assumptions on a continuing prospective rights basis used by the actuary in his valuation were an investment return of 9% pa, salary increases of 7.5% pa and dividend growth of 4.25% pa. The market value of the assets as at the valuation date was £20,680,000 and their actuarial value on a discounted income basis was £18,789,000 which exceeded the value of the liabilities and represented 102% of the benefits that had accrued to members after allowing for expected future salary increases. The amount charged to the profit and loss account is £394,000 (1996: £401,000). In the light of the actuarial valuation referred to above, and the funding position of the scheme, no prepayment or provision is included in the accounts to recognise differences between amounts of the regular cost of pension contributions and the amounts funded or paid directly.

The other scheme is a defined contribution scheme.

23. Acquisitions and disposals

On 3 October 1996 the Company acquired the entire issued share capital of Grove Products (Caravan Accessories) Ltd, a distributor of caravan accessories. The consideration paid on completion was £1,250,000, comprising £1,050,000 cash and the balance in new ordinary shares. Deferred consideration up to a maximum of £350,000 is payable based on the profit before taxation for the year ending 31 December 1997, and has been recognised in these accounts.

The accounts also reflect the expected additional deferred consideration in respect of the prior year acquisition of Lighten Point Corporation Europe Ltd.

All acquisitions have been accounted for using the acquisition method rather than the merger basis of accounting.

Acquisitions

	Current acquisitions			Prior year acquisitions
	Net tangible assets acquired £'000	Fair value adjustments £'000	Fair value of assets £'000	Fair value ajustments £'000
Fixed assets	79	–	79	–
Stock	380	–	380	–
Debtors	308	–	308	–
Cash	32	–	32	–
Creditors	(431)	–	(431)	(33)
Corporation tax	(96)	–	(96)	–
	272	–	272	(33)
Goodwill written off			1,400	2,140
Total fair value of consideration			1,672	2,107
Discharged by:				
Shares			200	–
Cash - paid (inclusive of expenses)			1,122	107
- to be paid			350	2,000
			1,672	2,107

23. Acquisitions and disposals (continued)

The fair value adjustments in respect of prior year acquisitions were made for costs relating to Lighten Point Corporation Europe Limited.

The aggregate goodwill of £3,540,000 relates to the acquisition of core businesses and has been written off to reserves (note 19).

Analysis of the net outflow of cash

	Acquisitions Current year £'000	Acquisitions Prior year £'000
Cash paid consideration as above	1,122	107
Cash at bank and in hand acquired	(32)	–
Costs related to shares issued in respect of Ring Group Ltd	–	3
Cash consideration deferred from prior year	–	1,000
	1,090	1,110

Disposals

On 31 December 1996 the entire issued share capital of Starbuck Motor Spares Ltd, a distributor of automotive parts direct to trade users, was sold to C L Services Ltd. £650,000 was paid on completion, followed by a further £50,000 following confirmation of net assets in the completion accounts. The £200,000 balance of deferred consideration is payable in four equal annual instalments of £50,000 on each of the four following anniversaries of completion. Goodwill of £50,000 was reinstated to reserves following disposal.

By an agreement to surrender dated 31 January 1997 Ptarmigan Hotels Ltd agreed to surrender the lease of The Barbican Hotel, Lincoln for £1 and sold the fixtures and fittings for a consideration in cash and refund of moneys due under the lease amounting in aggregate to £50,000.

	Net tangible assets disposed of £'000
Fixed assets	370
Stock	203
Debtors	408
Creditors	(290)
Corporation tax	(118)
	573
Goodwill reinstated on disposal	50
	623
Profit on sale of Starbuck Motors Ltd	220
Loss on sale of Barbican Hotel	(275)
	568
Discharged by:	
Cash - received (net of expenses)	368
To be received	200
	568

Analysis of the net inflow of cash

	£'000
Cash consideration received as above	368
Deferred consideration from prior year disposals	29
	397

24. Contingent liabilities

The parent company together with certain other Group companies is party to a composite guarantee given in respect of bank overdrafts of the participating companies. At 30 June 1997 the total of overdrafts guaranteed by the parent company was £1,458,000 (1996: £1,198,000).

Guarantees have been given by the Company in respect of amounts drawn against a Revolving Credit Facility which amounted to £4,819,000 at 30 June 1997 (1996: £4,306,000).

A counter indemnity has been given by the Company to a subsidiary of Barclays Bank PLC who have guaranteed up to £350,000 loaned to an independent trust for purposes of establishing an Employees Share Option Plan (see note 11).

25. Post balance events

On 1 August 1997 Mr. R E Richardson resigned as a director and his employment was terminated pursuant to a compromise agreement under which payments of £406,180 (including pension contributions of £49,680) were made.

On 27 August 1997 the remaining convertible redeemable loan stock of £750,000 was redeemed at par.

On 24 October 1997 the Company entered into a contract, subject to shareholder approval, to dispose of its Engineering Division for cash consideration to Broomco, a newly formed company, which is a subsidiary of IMI, an investment company. The disposal was approved at a meeting of shareholders on 10 November 1997 and the contract was completed later that day. The consideration of £17.7m referred to in the Chairman's Statement was adjusted in accordance with the disposal agreement to £17.4m reflecting the £0.3m residual taxation liability of the Engineering Division. The £17.4m was settled by the payment of £16.6m in cash and the assumption by Broomco of the £0.8m overdraft held within the Division.

On 11 November 1997 Gainsborough (Porth) Limited sold its business to Gainsborough Decorations Limited, a company recently established by various consultants to Gainsborough (Porth) Limited. The consideration was £1 in cash. However the settlement of debtors and creditors of Gainsborough Porth, together with the effect of other transactions related to the disposal, will result in a small increase in the cash generated as a result of the disposal.

FIVE YEAR STATEMENT

	1996/97 £'000	1995/96 £'000	1994/95 £'000	1993/94 £'000	1992/93 (as restated) £'000
Turnover	89,505	92,061	46,969	36,151	9,921
Profit on ordinary activities before taxation	2,269	9,329	6,362	4,131	200
Taxation on ordinary activities	(764)	(2,705)	(1,515)	(844)	–
Profit on ordinary activities after taxation	1,505	6,624	4,847	3,287	200
Minority interests	(19)	–	–	–	–
Dividends	(1,400)	(2,954)	(2,349)	(935)	–
Retained profit for the year	86	3,670	2,498	2,352	200
Earnings per ordinary share	2.4p	15.8p	15.4p	14.5p	5.7p
Fixed assets	8,795	11,003	10,733	7,832	5,905
Current assets less current and deferred liabilities and deferred income	(1,645)	1,646	2,463	(1,011)	(4,172)
Provision for liabilities and charges	(559)	(1,713)	(935)	(1,066)	(665)
Net assets	6,591	10,936	12,261	5,755	1,068
Convertible loan stock	(750)	(1,900)	(2,300)	(2,700)	(3,250)
Minority interest	(835)	(821)	(743)	(743)	–
Total shareholders funds	5,006	8,215	9,218	2,312	(2,182)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and seventh Annual General Meeting of Graystone PLC will be held at the offices of Hoare Govett Corporate Finance Limited at 4 Broadgate, London EC2M 7LE on Tuesday 23 December 1997 at 10.30am to transact the following business.

Ordinary business

1. To receive the accounts for the year ended 30 June 1997 together with the reports of the directors and auditors.

2. To re-elect Mr K Jackson as a director of the Company.

3. To re-elect Mr A F Welham as a director of the Company.

4. To re-elect Mr R J J Wickham, a director retiring by rotation.

5. To re-appoint Ernst & Young as auditors and to authorise the directors to fix their remuneration.

Special business

To consider and, if thought fit, pass each of the following resolutions as a Special Resolution:

6. THAT the name of the Company be changed to "Ring PLC".

7. THAT the share premium account of the Company be reduced from £21,783,000 to £11,783,000.

8. (a) THAT in substitution for all existing authorities, the directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (as amended) (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of the authorised but unissued share capital of the Company at the date of the passing of this Resolution for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this Resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement;

   (b) THAT in substitution for all existing authorities, the directors be empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority conferred upon them by paragraph (a) of this Resolution as if sections 89(1) of the Act did not apply to any such allotment PROVIDED THAT such power:-

   (i) expires 15 months after the date of passing of this Resolution or at the conclusion of the next annual general meeting following the passing of this Resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot securities in pursuance of that offer or agreement; and

NOTICE OF ANNUAL GENERAL MEETING

(ii) is limited to allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company and, if in accordance with their rights the directors so determine, holders of other securities of any class made in proportion (as nearly as may be) to their existing holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer and, failing which, shall be on the basis that their holdings had been converted into or that they had subscribed for ordinary shares on the basis then applicable) but subject to the directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient to deal with equity securities representing fractional entitlements and to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory; and

(iii) is limited to allotments of equity securities for cash otherwise than pursuant to paragraph (ii) above up to an aggregate nominal value not exceeding £991,133 representing 5% of the issued ordinary share capital.

By order of the Board
J M Yates
Secretary

Registered Office
Emerson Court
Alderley Road
Wilmslow, Cheshire
SK9 1NX

21 November 1997

Notes:

1. Holders of preference shares are not entitled to attend or vote at this meeting. An ordinary shareholder entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his place. A proxy need not be a member of the Company.

2. The following documents will be available for inspection at the registered office of the Company during usual business hours (Saturday excepted), from the date of this notice until the date of the Annual General Meeting, and also during and at least fifteen minutes before the start of the meeting:

   (a) The register of directors' interests and transactions.

   (b) A copy of the memorandum and articles of association of the Company.

   (c) Copies of all directors' service contracts with the Company or any of its subsidiaries of more than one years' duration.

3. Pursuant to section 34 of the Uncertificated Securities Regulations 1995, the time by which a person must be on the register of members in order to have the right to vote is 10.30am on 20 December 1997. Changes to entries on the register of members after that time will be disregarded.

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