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Samuel Heath & Sons PLC

DIRECTORS AND OFFICERS

Directors:

Samuel B. Heath*
(Chairman and Managing Director)
David J. Pick
(Deputy Managing Director)
David J. Richardson, FCMA
(Financial Director)
David F. Coplestone*‡
(Non-executive)
William J. Lancashire
(Director)
David B. Legge, I.Eng.*‡
(Non-executive)
Martin J. Legge*‡
(Non-executive)

* Member of remuneration committee

‡ Member of audit committee

Secretary:

John Park

Group Management Board:

Neil Bosworth

Registered Office:

Cobden Works
Leopold Street
Birmingham B12 0UJ
Registered No. 31942

Registrar:

Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield HD8 0LA

Auditors:

Moore Stephens
Charterhouse
165 Newhall Street
Birmingham B3 1SW

Solicitors:

Shakespeares
10 Bennetts Hill
Birmingham B2 5RS



Samuel Heath & Sons PLC

CHAIRMAN'S STATEMENT

The results for the year to 31st March 1997 were relatively disappointing given my high hopes when I wrote this report twelve months ago. At that time, I ventured what I believe was my first optimistic forecast since becoming chairman in 1970.

What I was not wise enough to foresee was the sudden and then continuous rise in the Pound Sterling. We have for many years sold in local currencies and have prided ourselves in not moving prices either way during buying seasons. This policy, which we still believe to be in the long term interest of the Company, proved costly for us. The recently acquired Tap Division also continued to experience further teething problems.

During the year, because of its unsatisfactory trading, it was agreed to try to find a buyer for The Mander Frame Company. We rather surprisingly failed to do this, but have taken the decision to close down this side of our activities. All costs incurred in doing this have been taken into the accounts for the year 1996/97.

On the positive side, we have continued to build our trade name of Samuel Heath for our bathroom accessories and taps. With this report and accounts, we are enclosing a leaflet which will show you how and where we are doing this. Although this advertising is having some immediate beneficial effects on trading, it is costly and must be seen in the medium and long term context for the Company.

As will be apparent from the accounts, the Group continues to have a strong balance sheet, and your Directors believe that a purchase of the Company's shares at the right price level could benefit the Company and thereby its shareholders. Accordingly, your Directors are seeking your approval for the purchase of up to 15% of the issued share capital, 450,000 shares, between Annual General Meetings, although the Company will not make more than half the allowed purchases in any twelve month period.

At the Extraordinary General Meeting which will follow the Annual General Meeting, a resolution will be proposed to authorise your Directors to purchase ordinary shares between Annual General Meetings at a price of not less than 10 pence per ordinary share and not more than

5% above the average of the middle market quotations of the ordinary shares as derived from the Stock Exchange Daily Official List on the ten dealing days before the purchase is made (exclusive of expenses). The authority will expire at the Annual General Meeting to be held in 1998. Your Directors believe that it is right for the Company to seek the flexibility to purchase its own shares, and they accordingly recommend all shareholders to vote in favour of the resolution. They intend to do so in respect of their own holdings of the Company's shares, which are shown on page 4 of this report.

The Articles of Association of the Company have not been reviewed since 1973 and your Board has decided to take the opportunity to incorporate changes that have occurred arising from both statute and practice in that period. In addition to bringing them into line with modern corporate practice, the new Articles adopt power to pay scrip dividends and adopt Crest.

The current year has begun satisfactorily. We have increased our export prices which have proved reasonably acceptable in most markets, but margins even now are not what they were. With regard to the taps, a decision has been taken and implemented to cease trading with the wholesale customers whom we inherited and to market them in the same way as our accessories. This has involved a write-down of stock returned to us by the distributors which has been taken into the accounts of last year. Although it is early days, as I write this report the new policy looks as though it will succeed.

We are recommending a same again 4.0 pence final dividend making a same again total of 7.0 pence per share for the year.

Sam Heath
Chairman

11th July 1997



Samuel Heath & Sons PLC

DIRECTORS' REPORT

The directors present the audited accounts for the year and report as follows:-

Activities

The Group engages in the manufacture and marketing of a wide range of products in the hardware and giftware field. The Chairman's Statement on page 3 contains a review of the development of the business during the year and an indication of future prospects.

Results

The detailed results for the year and the recommended appropriations are shown on page 10.

Authority for purchase of own shares

At an Extraordinary General Meeting held on 12th August 1996 the Company was given authority to purchase its own shares up to a maximum of 450,000 shares, such authority to expire at the next Annual General Meeting.

Directors

The directors, whose names are shown below, held office at the end of the year. The numbers of ordinary shares in which the directors had an interest were as follows:-

| | 27th June 1997 | 31st March 1997 | 31st March 1996 |
|----------------------------------|----------------|-----------------|-----------------|
| <i>Beneficial interests:</i> | | | |
| S. B. Heath | 485,139 | 485,197 | 568,807 |
| D. F. Coplestone | 104,500 | 104,500 | 104,500 |
| W. J. Lancashire | 3,750 | 3,750 | 3,750 |
| D. B. Legge | 1,000 | 1,000 | 1,000 |
| M. J. Legge | 30,000 | 30,000 | 30,000 |
| D. J. Pick | 1,000 | 1,000 | 1,000 |
| D. J. Richardson | 1,000 | 1,000 | 1,000 |
| <i>Non-beneficial interests:</i> | | | |
| M. J. Legge | 27,500 | 27,500 | 27,500 |

The directors retiring by rotation are Mr. D. J. Pick and Mr. D. B. Legge who offer themselves for re-election. They do not have service contracts with the Company.

Non-executives

Mr. M. J. Legge is 62 years of age and has held a number of directorships in both public and private companies during his working life. He has been on the board for 19 years.

Mr. D. F. Coplestone initially began working in the advertising agency field both in London and Birmingham. After a spell as a very successful independent selling agent, he worked for Samuel Heath & Sons PLC for 28 years. He is 67 years old.

Mr. D. B. Legge is an engineering graduate of Loughborough University. He spent a successful career in the lock manufacturing industry as a director of a major company in that field. He is 59 years old.



Samuel Heath & Sons PLC

DIRECTORS' REPORT

(continued)

Other major shareholdings

The company has been notified of the following other major shareholdings at 27th June 1997.

| | <i>Number of Shares</i> |
|---------------------------|-------------------------|
| C. A. Heath | 383,710 |
| G. S. Heath | 383,710 |
| S. A. Perkins (nee Heath) | 282,810 |
| Britannic Assurance Plc | 100,000 |

Employees

Full and fair consideration is given to applications for employment from disabled persons and to continuing the employment of those who become disabled while employed. The policy is to give equal opportunity for training, career development and promotion.

The awareness and involvement of employees in the group's performance is achieved by consultation and negotiation in meetings involving employees at all levels. An active Works Committee has been in operation for many years.

Corporate Governance

The Board believes that the Company has complied with the Code of Best Practice recommended by the Cadbury Committee throughout the year.

The Company has appointed an Audit Committee consisting of the three non-executive directors.

The members of the Audit and Remuneration Committees are noted on page 2.

The Board is responsible for the Group's system of internal control and considers internal controls are established to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board monitors the effectiveness of the system by way of the organisational structure and a comprehensive system of budgeting and detailed reporting. Capital expenditure is subject to approval by the Board.

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. For this reason, they continue to adopt the going concern basis in preparing the accounts.



Samuel Heath & Sons PLC

DIRECTORS' REPORT

(continued)

Policy on Payment of Creditors

The Group's policy for the payment of creditors is to make payment in accordance with agreed terms and conditions of trade.

Close company status

So far as can be determined the Company has remained a close company for tax purposes.

Auditors

A resolution to re-appoint the auditors Moore Stephens will be proposed at the forthcoming Annual General Meeting.

On behalf of the board

S. B. Heath
Chairman

A handwritten signature in black ink, appearing to be 'S B Heath', with a long horizontal line extending to the right.

11th July 1997



REPORT OF THE REMUNERATION COMMITTEE

Members of the Committee are noted on page 2.

The Company complies with Section A of the best practice provision annexed to the Listing Rules of the London Stock Exchange except that in addition to the three non-executive directors the Committee includes the Company Chairman. They consider this gives the best method of consultation as recommended by the provisions.

The Committee seeks to develop remuneration packages for the executive directors that are both competitive and a fair reflection of an individual's contribution and value to the Company. The total remuneration of the directors has two components:-

- Basic salary and benefits
- Annual cash bonus

The basic salary of each executive director is reviewed annually. In doing so, consideration is given by the Committee not only to rates of pay in businesses of comparable size and nature, but also to individually relevant factors, including the director's own performance during the year.

Annual performance related bonuses are linked closely to the overall financial performance of the Group. The Group does not have any long term incentive schemes.

No director has a service contract.

Executive directors are entitled to join the Samuel Heath & Sons Staff Pension Scheme. With the exception of the Chairman, whose retirement age is 60, their participation in the scheme is on the same basis as for all other eligible employees. Pensionable salary includes all bonuses as the Committee considers the bonuses should be meaningful and motivating and therefore an integral part of remuneration.

The remuneration of the non-executive directors is determined by the Board. The remuneration reflects both the amount of time given and contributions made to the Company's affairs.

The Committee has given full consideration to Section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange.



Samuel Heath & Sons PLC

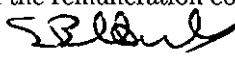
REPORT OF THE REMUNERATION COMMITTEE

(continued)

Details of remuneration are:

| | Salary | Fee | Benefits in kind | Performance related bonuses | Total excluding pension premiums | | Pension premiums | |
|------------------------------------|---------|-------|---------------------|-----------------------------------|-------------------------------------|-----------|---------------------|-----------|
| | £ | £ | £ | £ | 1997 £ | 1996 £ | 1997 £ | 1996 £ |
| <i>Executive</i> | | | | | | | | |
| S. B. Heath | 152,736 | 100 | 14,398 | - | 167,234 | 144,903 | 11,146 | 10,600 |
| D. J. Pick | 48,125 | 100 | 5,786 | 5,000 | 59,011 | 57,602 | 3,834 | 3,202 |
| D. J. Richardson | 45,000 | 100 | 8,237 | 5,000 | 58,337 | 59,609 | 4,419 | 4,148 |
| J. H. Millington (to 21.12.95) | - | - | - | - | - | 46,706 | - | 368 |
| W. J. Lancashire (from 25.1.96) | 44,250 | 100 | 7,387 | 2,500 | 54,237 | 10,045 | 3,735 | 1,090 |
| <i>Non-executive</i> | | | | | | | | |
| D. F. Coplestone | - | 5,100 | 1,060 | - | 6,160 | 3,688 | - | - |
| D. B. Legge | - | 5,100 | - | - | 5,100 | 2,600 | - | - |
| M. J. Legge | - | 5,100 | - | - | 5,100 | 2,600 | - | - |

On behalf of the remuneration committee


S. B. Heath
Chairman

11th July 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing those 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 and the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company 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 the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Samuel Heath & Sons PLC

AUDITORS' REPORT

To the members of Samuel Heath & Sons PLC

We have audited the accounts on pages 10 to 22 which have been prepared under the historical cost convention and the accounting policies set out on page 14.

Respective responsibilities of directors and auditors

As described on page 8 the Company's directors are responsible for the preparation of 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 and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 the Group's and the Company's affairs as at 31st March 1997 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 5 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to any non-compliance with those paragraphs of the code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board.

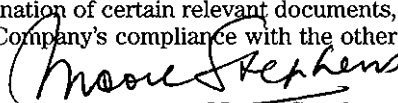
As we have reviewed only such financial controls as we considered necessary for the purpose of expressing our audit opinion on the financial statements, and as we are not required to, we do not express any opinion on the effectiveness of the Group's system of internal financial control or corporate governance procedures as such. Similarly while we have considered the going concern concept in the context of our audit as a whole, we are not required to carry out a special review, and accordingly, we do not express any separate opinion on the Group's ability to continue in operational existence. However, we have assessed whether the statements on going concern and internal financial control are consistent with the information of which we are aware from our audit.

Opinion

With respect to the directors' statements on going concern and internal control on page 5 (other than their opinion concerning effectiveness which is outside the scope of our report), in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are consistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of certain relevant documents, in our opinion the directors' statement on page 5 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Charterhouse
165, Newhall Street
Birmingham B3 1SW


Moore Stephens
Chartered Accountants
and Registered Auditor
11th July 1997



Samuel Heath & Sons PLC
(and subsidiary companies)

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31st March 1997

| | Notes | 1997 £000 | 1996 £000 |
|---|-------|---------------|--------------|
| Turnover | (2) | | |
| Continuing operations | | 9,781 | 9,090 |
| Discontinued operations | | 247 | 351 |
| | | <u>10,028</u> | <u>9,441</u> |
| Cost of sales | | 5,049 | 4,576 |
| Gross profit | | <u>4,979</u> | <u>4,865</u> |
| Insurance claim for business interruption | (4) | — | 70 |
| | | <u>4,979</u> | <u>4,935</u> |
| Distribution costs | | 253 | 227 |
| Administrative expenses | | 3,966 | 3,874 |
| | | <u>4,219</u> | <u>4,101</u> |
| Operating profit | (5) | | |
| Continuing operations | | 792 | 846 |
| Discontinued operations | | (32) | (12) |
| | | <u>760</u> | <u>834</u> |
| Exceptional profit on fixed asset disposals in continuing operations | (4) | — | 110 |
| Interest receivable | | 1 | 24 |
| Interest payable on bank overdraft | | (37) | (29) |
| Profit on ordinary activities before taxation | | <u>724</u> | <u>939</u> |
| Taxation | (6) | 253 | 259 |
| Profit on ordinary activities after taxation | | <u>471</u> | <u>680</u> |
| Deduct: Dividends | | | |
| Interim of 3.0 pence per share paid 27th March 1997 (1996: 3.0 pence) | | 90 | 90 |
| Proposed final of 4.0 pence per share (1996: 4.0 pence) | | 120 | 210 |
| | | <u>210</u> | <u>210</u> |
| Added to reserves | (16) | 261 | 470 |
| Earnings per share | | | |
| The profit after taxation, £471,000 related to 3,000,000 ordinary shares, being the average number in issue during the year (1996: £680,000 related to 3,000,000 ordinary shares) | | | |
| | | 15.7 pence | 22.7 pence |

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



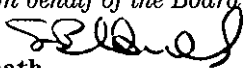
Samuel Heath & Sons PLC
(and subsidiary companies)

GROUP BALANCE SHEET

31st March 1997

| | Notes | 1997 £000 | 1996 £000 |
|---|-------|--------------|--------------|
| Tangible fixed assets | (7) | 2,578 | 2,503 |
| Current assets | | | |
| Stocks | (10) | 1,781 | 1,952 |
| Debtors | (11) | 1,839 | 2,303 |
| Cash at bank | | 102 | 83 |
| | | <u>3,722</u> | <u>4,338</u> |
| Creditors: amounts falling due within one year | | | |
| Corporation tax | | 200 | 238 |
| Other creditors | (12) | 1,287 | 2,005 |
| | | <u>1,487</u> | <u>2,243</u> |
| Net current assets | | <u>2,235</u> | <u>2,095</u> |
| Total assets less current liabilities | | <u>4,813</u> | <u>4,598</u> |
| Provision for liabilities and charges | (14) | 266 | 312 |
| | | <u>4,547</u> | <u>4,286</u> |
| <i>Financed by:</i> | | | |
| Capital and reserves | | | |
| Called up share capital | (15) | 300 | 300 |
| Capital redemption reserve | | 64 | 64 |
| Profit and loss account | (16) | 4,183 | 3,922 |
| Equity shareholders' funds | | <u>4,547</u> | <u>4,286</u> |

Signed on behalf of the Board on 11th July 1997


S. B. Heath
Chairman



Samuel Heath & Sons PLC

PARENT COMPANY BALANCE SHEET

31st March 1997

| | Notes | 1997 £000 | 1997 £000 | 1996 £000 | 1996 £000 |
|---|-------|--------------|--------------|--------------|--------------|
| Fixed assets | | | | | |
| Tangible assets | (8) | 2,578 | | 2,392 | |
| Investments | (9) | 399 | 2,977 | 399 | 2,791 |
| | | | | | |
| Current assets | | | | | |
| Stocks | (10) | 1,781 | | 1,599 | |
| Amounts owed by Group undertakings | | — | | 766 | |
| Other debtors | (11) | 1,839 | | 1,820 | |
| Cash at bank | | 102 | | 76 | |
| | | 3,722 | | 4,261 | |
| | | | | | |
| Creditors: amounts falling due within one year | | | | | |
| Corporation tax | | 200 | | 238 | |
| Amounts owed to Group undertakings | | 1,052 | | 1,052 | |
| Other creditors | (12) | 1,287 | | 1,817 | |
| | | 2,539 | | 3,107 | |
| | | | | | |
| Net current assets | | | 1,183 | | 1,154 |
| | | | | | |
| Total assets less current liabilities | | | 4,160 | | 3,945 |
| | | | | | |
| Provision for liabilities and charges | (14) | | 266 | | 312 |
| | | | 3,894 | | 3,633 |
| | | | | | |
| <i>Financed by:</i> | | | | | |
| Capital and reserves | | | | | |
| Called up share capital | (15) | | 300 | | 300 |
| Capital redemption reserve | | | 64 | | 64 |
| Profit and loss account | (16) | | 3,530 | | 3,269 |
| Equity shareholders' funds | | | 3,894 | | 3,633 |

Signed on behalf of the Board on 11th July 1997

S. B. Heath

Chairman



Samuel Heath & Sons PLC
(and subsidiary companies)

GROUP CASH FLOW STATEMENT

for the year ended 31st March 1997

| | <i>Notes</i> | 1997 | | 1996 | |
|---|--------------|-------------|-------------|-------------|----------------|
| | | £000 | £000 | £000 | £000 |
| Net cash inflow from operating activities | (20) | | 1,552 | | 173 |
| Returns on investments and servicing of finance | | | | | |
| Interest received | | 1 | | 24 | |
| Interest paid | | <u>(37)</u> | | <u>(29)</u> | |
| Net cash outflow from returns on investments and servicing of finance | | | (36) | | (5) |
| Taxation | | | | | |
| U.K. Corporation tax paid | | | (220) | | (209) |
| Capital expenditure | | | | | |
| Purchase of tangible fixed assets | | (517) | | (684) | |
| Sale of tangible fixed assets | (21) | <u>94</u> | | <u>188</u> | |
| Net cash outflow for capital expenditure | | | (423) | | (496) |
| Acquisitions and disposals | | | | | |
| Purchase of subsidiary undertaking | | - | | (453) | |
| Overdrafts acquired with subsidiary undertaking | | <u>-</u> | <u>-</u> | <u>(69)</u> | (522) |
| Equity dividends paid | | | (300) | | (180) |
| Increase/(decrease) in cash | (22) | | <u>573</u> | | <u>(1,239)</u> |

- RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS -

| | 1997 | 1996 |
|-------------------------------|--------------|--------------|
| | £000 | £000 |
| Profit for the financial year | 471 | 680 |
| Dividends | <u>(210)</u> | <u>(210)</u> |
| | 261 | 470 |
| Goodwill written off | - | <u>(518)</u> |
| | 261 | (48) |
| Opening shareholders' funds | 4,286 | 4,334 |
| Closing shareholders' funds | <u>4,547</u> | <u>4,286</u> |



Samuel Heath & Sons PLC

NOTES FORMING PART OF THE ACCOUNTS

31st March 1997

1. Accounting policies

Basis of the accounts

These accounts have been prepared in accordance with applicable accounting standards and on the historical cost basis of accounting. They do not include the parent company's own profit and loss account in accordance with the exemption available under section 230 Companies Act 1985.

Basis of consolidation

The consolidated accounts incorporate the state of affairs at 31st March 1997 of all the subsidiaries in the Group. On the acquisition of a subsidiary the fair value of the underlying net assets is brought into the consolidation. Any difference between that value and the purchase consideration is taken to reserves.

Turnover

Turnover is the invoiced value of sales excluding V.A.T. and excluding transactions within the Group.

Stocks

Stocks are valued at the lower of historical cost (which includes overheads where appropriate) and net realisable value.

Research and development

Expenditure on research, patents and trade marks is written off in the year in which it is incurred.

Deferred taxation

Provision is made at prevailing rates for deferred taxation arising from timing differences between profits as computed for taxation purposes and profits as stated in the accounts, except to the extent that any liability will not be payable in the foreseeable future. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred tax balance.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at year end exchange rates. Any differences arising are written off to the profit and loss account.

Depreciation

Depreciation is provided on all tangible fixed assets, except freehold land, at such rates as will write off the cost of those assets over their estimated useful lives. With minor exceptions the rates used are as follows:

| | |
|------------------------------------|----------------------------|
| Freehold buildings | 2% p.a. on cost |
| Long leasehold land and buildings | 2% p.a. on cost |
| Short leasehold land and buildings | Over the term of the lease |
| Plant and equipment | 10% p.a. on cost |
| Computer equipment | 25% p.a. on cost |
| Vehicles | 25% p.a. on cost |

Pensions

The costs of providing pensions for employees are charged in the profit and loss account over the average working life of employees in accordance with the recommendations of qualified actuaries. Funding surpluses or deficits that may arise from time to time are amortised over the average working life of employees.

2. Turnover

Included in the total turnover are exports to the following parts of the world:

| | 1997 £000 | 1996 £000 |
|----------------------|--------------|--------------|
| Europe—E.U. | 1,637 | 1,494 |
| —Non E.U. | 187 | 105 |
| Americas | 1,083 | 995 |
| Africa | 25 | 27 |
| Asia and Australasia | 399 | 482 |
| | <u>3,331</u> | <u>3,103</u> |

All turnover originated in the U.K. and therefore no analysis by geographical segments has been provided other than as shown above.



Samuel Heath & Sons PLC

NOTES FORMING PART OF THE ACCOUNTS

(continued)

3. Contributions to turnover and profit

| | 1997 | | 1996 | |
|---|------------------|----------------|------------------|----------------|
| | Turnover £000 | Profit £000 | Turnover £000 | Profit £000 |
| Metal products | 9,132 | 767 | 8,388 | 1,107 |
| Pottery | 649 | (11) | 702 | (16) |
| Photograph frames | 247 | (32) | 351 | (12) |
| | <u>10,028</u> | <u>724</u> | <u>9,441</u> | <u>1,079</u> |
| Exceptional profit on fixed asset disposals | | - | | 110 |
| Acquisition related restructuring costs | | - | | (250) |
| | | <u>724</u> | | <u>939</u> |

4. Insurance claim and exceptional profit on fixed asset disposals

During the year to 31st March 1995 a fire occurred at the company's premises. Further proceeds were received in the year to 31st March 1996 in respect of fixed assets lost in the fire and under the claim for consequential loss of profits.

5. Operating profit

(a) Operating costs are analysed as follows:

| | Continuing operations £000 | Discontinued operations £000 | 1997 Total £000 | Continuing operations £000 | Discontinued operations £000 | 1996 Total £000 |
|--|----------------------------------|------------------------------------|-----------------------|----------------------------------|------------------------------------|-----------------------|
| Cost of sales | 4,891 | 158 | 5,049 | 4,220 | 356 | 4,576 |
| Insurance claim for business interruption | - | - | - | (70) | - | (70) |
| Distribution costs | 251 | 2 | 253 | 225 | 2 | 227 |
| Administration expenses | 3,847 | 119 | 3,966 | 3,619 | 5 | 3,624 |
| Acquisition related restructuring costs | - | - | - | 250 | - | 250 |
| | <u>8,989</u> | <u>279</u> | <u>9,268</u> | <u>8,244</u> | <u>363</u> | <u>8,607</u> |

Cost of sales in continuing operations includes an exceptional charge of £75,000 representing the repurchase of stock resulting from a change in marketing policy as a further restructuring of the Taps Division acquired in 1996.

(b) Operating profit is stated after charging the following:

| | 1997 £000 | 1996 £000 |
|---|--------------|--------------|
| Directors' emoluments for the year: | | |
| Fees | 16 | 8 |
| Management remuneration (salaries and benefits) | 327 | 299 |
| Performance related payments | 12 | 21 |
| Pension scheme premiums | 23 | 20 |
| | <u>378</u> | <u>348</u> |
| Depreciation less surplus on disposals | 366 | 363 |
| Auditors' remuneration: | | |
| Audit | 25 | 29 |
| Other services | 1 | 10 |
| Credit for contributions to pension scheme | (117) | (20) |

NOTES FORMING PART OF THE ACCOUNTS

(continued)

6. Taxation

| | 1997 | | 1996 | |
|--|---------------|---------------|---------------|---------------|
| | £000 | £000 | £000 | £000 |
| Corporation tax | | 205 | | 227 |
| Transfer to deferred taxation to equalise capital allowances | 10 | | 25 | |
| Future tax relief on provision for contributions to pension scheme | 38 | 48 | 7 | 32 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | | 253 | | 259 |
| | | <u> </u> | | <u> </u> |

Corporation tax is at an effective rate of 33% (1996: 32%)

7. Tangible fixed assets of the Group

| | Total £000 | Land and buildings £000 | Plant and equipment £000 | Vehicles £000 |
|-------------------------------|---------------|-------------------------------|-----------------------------------|------------------|
| Cost | | | | |
| At 31st March 1996 | 4,248 | 1,253 | 2,445 | 550 |
| Additions | 517 | 48 | 349 | 120 |
| Disposals | (223) | — | (73) | (150) |
| At 31st March 1997 | <u>4,542</u> | <u>1,301</u> | <u>2,721</u> | <u>520</u> |
| Aggregate depreciation | | | | |
| At 31st March 1996 | 1,745 | 287 | 1,280 | 178 |
| Charge for the year | 377 | 25 | 219 | 133 |
| Disposals | (158) | — | (69) | (89) |
| At 31st March 1997 | <u>1,964</u> | <u>312</u> | <u>1,430</u> | <u>222</u> |
| Book value | | | | |
| At 31st March 1997 | <u>2,578</u> | <u>989</u> | <u>1,291</u> | <u>298</u> |
| At 31st March 1996 | <u>2,503</u> | <u>966</u> | <u>1,165</u> | <u>372</u> |

The book value at 31st March 1997 of land and buildings is made up as follows:

| | 1997 £000 | 1996 £000 |
|------------------------------------|--------------|--------------|
| Freehold land and buildings | 829 | 802 |
| Long leasehold land and buildings | 159 | 163 |
| Short leasehold land and buildings | 1 | 1 |
| | <u>989</u> | <u>966</u> |

The net book value of freehold land and buildings includes £46,000 (1996: £46,000) in respect of land which is not depreciated.



Samuel Heath & Sons PLC

NOTES FORMING PART OF THE ACCOUNTS

(continued)

8. Tangible fixed assets of the Parent Company

| | Total £000 | Land and buildings £000 | Plant and equipment £000 | Vehicles £000 |
|-------------------------------|---------------|-------------------------------|-----------------------------------|------------------|
| Cost | | | | |
| At 31st March 1996 | 4,078 | 1,249 | 2,300 | 529 |
| Additions | 629 | 48 | 440 | 141 |
| Disposals | (223) | — | (73) | (150) |
| At 31st March 1997 | <u>4,484</u> | <u>1,297</u> | <u>2,667</u> | <u>520</u> |
| Aggregate depreciation | | | | |
| At 31st March 1996 | 1,686 | 283 | 1,217 | 186 |
| Charge for the year | 377 | 25 | 224 | 128 |
| Disposals | (157) | — | (65) | (92) |
| At 31st March 1997 | <u>1,906</u> | <u>308</u> | <u>1,376</u> | <u>222</u> |
| Book value | | | | |
| At 31st March 1997 | <u>2,578</u> | <u>989</u> | <u>1,291</u> | <u>298</u> |
| At 31st March 1996 | <u>2,392</u> | <u>966</u> | <u>1,083</u> | <u>343</u> |

The book value at 31st March 1997 of land and buildings is made up as follows:

| | 1997 £000 | 1996 £000 |
|------------------------------------|--------------|--------------|
| Freehold land and buildings | 829 | 802 |
| Long leasehold land and buildings | 159 | 163 |
| Short leasehold land and buildings | 1 | 1 |
| | <u>989</u> | <u>966</u> |

The net book value of freehold land and buildings includes £46,000 (1996: £46,000) in respect of land which is not depreciated.

9. (a) Investments

| | 1997 Company £000 | 1996 Company £000 |
|-------------------------------|-------------------------|-------------------------|
| Shares in subsidiaries | | |
| Cost at 31st March 1996 | 852 | 399 |
| Addition | — | 453 |
| Cost at 31st March 1997 | <u>852</u> | <u>852</u> |
| Amount written off to date | <u>453</u> | <u>453</u> |
| Book value at 31st March 1997 | <u>399</u> | <u>399</u> |



Samuel Heath & Sons PLC

NOTES FORMING PART OF THE ACCOUNTS

(continued)

9. (b) Details of subsidiary companies

On 1st April 1996 the trade of W. Adams & Sons Limited acquired in the year ended 31st March 1996 was transferred to the parent company.

All subsidiaries are wholly owned and are dormant.

The cumulative amount of goodwill written off the subsidiaries which were in the group at 31st March 1997 was £518,000.

10. Stocks

| | 1997 | | 1996 | |
|------------------|---------------|-----------------|---------------|-----------------|
| | Group £000 | Company £000 | Group £000 | Company £000 |
| Raw material | 300 | 300 | 395 | 308 |
| Work in progress | 789 | 789 | 733 | 544 |
| Goods for resale | 692 | 692 | 824 | 747 |
| | <u>1,781</u> | <u>1,781</u> | <u>1,952</u> | <u>1,599</u> |

11. Debtors

| | 1997 | | 1996 | |
|--------------------------------------|---------------|-----------------|---------------|-----------------|
| | Group £000 | Company £000 | Group £000 | Company £000 |
| Recoverable within one year: | | | | |
| Trade debtors | 1,764 | 1,764 | 1,844 | 1,510 |
| Other debtors | - | - | 265 | 251 |
| Prepayments | 75 | 75 | 64 | 59 |
| Land and buildings in course of sale | - | - | 130 | - |
| | <u>1,839</u> | <u>1,839</u> | <u>2,303</u> | <u>1,820</u> |

12. Creditors

| | 1997 | | 1996 | |
|--|---------------|-----------------|---------------|-----------------|
| | Group £000 | Company £000 | Group £000 | Company £000 |
| Bank loans and overdrafts | - | - | 554 | 554 |
| Trade creditors | 782 | 782 | 859 | 740 |
| Accruals | 109 | 109 | 171 | 102 |
| Social security, income tax and V.A.T. | 276 | 276 | 211 | 211 |
| Proposed dividends | 120 | 120 | 210 | 210 |
| | <u>1,287</u> | <u>1,287</u> | <u>2,005</u> | <u>1,817</u> |



Samuel Heath & Sons PLC

NOTES FORMING PART OF THE ACCOUNTS

(continued)

13. Deferred taxation

| | 1997 Group and Company £000 | 1996 Group and Company £000 |
|---|--------------------------------------|--------------------------------------|
| Deferred tax liability at 31st March 1996 | 32 | - |
| Charge in respect of accelerated capital allowances | 10 | 25 |
| Charge in respect of future tax relief on contributions to pension scheme | 38 | 7 |
| Deferred tax liability at 31st March 1997 | 80 | 32 |
| <i>Transfer:</i> asset representing future tax relief on contributions to pension scheme, set off against pensions provision, as note 14 | 72 | 110 |
| Liability representing accelerated capital allowances | 152 | 142 |
| <i>Deduct:</i> advance corporation tax on proposed dividends | (30) | (53) |
| Deferred liability referred to in note 14 | 122 | 89 |
| The potential contingent liability at 33% not provided was: | | |
| Accelerated capital allowances | 129 | 129 |
| Deferred capital gains | 15 | 16 |
| | 144 | 145 |

14. Provision for liabilities and charges

| | 1997 Group and Company £000 | 1996 Group and Company £000 |
|---|--------------------------------------|--------------------------------------|
| Provision for future contributions to pension scheme: | | |
| Balance at 31st March 1996 | 333 | 353 |
| Credit for year | (117) | (20) |
| Balance at 31st March 1997 | 216 | 333 |
| <i>Deduct:</i> deferred tax asset, as note 13 | (72) | (110) |
| | 144 | 223 |
| Deferred taxation, as note 13 | 122 | 89 |
| | 266 | 312 |

In order to show a true and fair view, as it relates to future contributions, the deferred tax asset has been deducted from the provision and not included in current assets.

15. Share capital

| | 1997 Company £000 | 1996 Company £000 |
|--|-------------------------|-------------------------|
| <i>Authorised</i> | | |
| 5,000,000 Ordinary shares of 10 pence each | 500 | 500 |
| <i>Allotted, called up and fully paid</i> | | |
| 3,000,000 Ordinary shares of 10 pence each | 300 | 300 |



Samuel Heath & Sons PLC

NOTES FORMING PART OF THE ACCOUNTS

(continued)

16. Profit and loss account

| | 1997 | | 1996 | |
|-------------------------------------|---------------|-----------------|---------------|-----------------|
| | Group £000 | Company £000 | Group £000 | Company £000 |
| Opening balance | 3,922 | 3,269 | 3,970 | 3,317 |
| Retained profit/(loss) for the year | 261 | 261 | 470 | (48) |
| Goodwill written off | - | - | (518) | - |
| | <u>4,183</u> | <u>3,530</u> | <u>3,922</u> | <u>3,269</u> |

17. Particulars of staff

The average number of employees (including directors) during the year was as follows:

| | 1997 | 1996 |
|--------------|------------|------------|
| Monthly paid | 82 | 87 |
| Weekly paid | 161 | 165 |
| | <u>243</u> | <u>252</u> |

The total staff costs were as follows:

| | £000 | £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 3,585 | 3,370 |
| Social security costs | 260 | 270 |
| Other pension costs | 254 | 209 |
| | <u>4,099</u> | <u>3,849</u> |

The highest paid director's emoluments were £167,000 (1996 : £145,000)

Pension benefits are accruing under defined benefit schemes for four directors (1996: six). The pension accrued at the end of the year for the highest paid director was £80,855 (1996: £80,000).

18. Future capital expenditure

The approximate amount at 31st March 1997 of capital expenditure not provided for in these accounts was as follows:

| | 1997 Group and Company £000 | 1996 Group and Company £000 |
|----------------|--------------------------------------|--------------------------------------|
| Contracted for | 166 | 163 |



Samuel Heath & Sons PLC

NOTES FORMING PART OF THE ACCOUNTS

(continued)

19. Pension commitments

The Company operates two pension schemes to provide benefits based on final pensionable pay for the majority of its employees. The assets of these schemes are held separately from those of the Company, being invested with insurance companies. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected accrued benefit method, or the attained age method for the works pension scheme.

The most recent valuation of the staff pension scheme, which is non-contributory, was at 1st July 1994 and was made on the projected accrued benefit method. The main long term actuarial assumptions were that the rate of investment return would be 10% per annum, that increases in earnings would average 7.5% per annum and that present and future pensions would increase at the rate of 5% per annum. Employer's contributions are made at the rate of 17.5% per annum.

This actuarial valuation showed that the market value of the scheme's assets was £2,846,000 and that the actuarial value of those assets represented 112% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The most recent valuation of the works pension scheme was at 6th April 1996 and was made on the attained age method. The main long term actuarial assumptions were that the rate of investment returns would be 8.5% per annum and that increases in earnings would average 7.5% per annum. Employer's contributions are made at 11.6% per annum.

This actuarial valuation showed that the market value of the scheme's assets was £370,000 and that the actuarial value of those assets represented 112% of the benefits that had accrued to members after allowing for expected future increases in earnings.

In accordance with SSAP 24, any consequent savings in the company's contributions will be taken to the profit and loss account over the average expected future service life of the current employees.

20. Reconciliation of operating profit to net cash inflow from operating activities

| | 1997 | 1996 |
|--|--------------|------------|
| | £000 | £000 |
| Operating profit | 760 | 834 |
| Depreciation charges less surplus on disposals | 366 | 363 |
| Pension scheme credit | (117) | (20) |
| Decrease/(increase) in stocks | 171 | (333) |
| Decrease in debtors | 446 | 17 |
| Decrease in creditors | (74) | (688) |
| Net cash inflow from operating activities | <u>1,552</u> | <u>173</u> |

Cash flows from operating activities include (a) outflows of \$37,000 (1996: \$165,000) which relate to the exceptional charge for acquisition related restructuring costs in the 1996 accounts, and (b) inflows of \$83,000 (1996: \$229,000) which relate to the exceptional credits in the 1996 and 1995 accounts in respect of an insurance claim for business interruption.

21. Cash flows relating to exceptional items

Cash flows for capital expenditure include inflows of £18,000 (1996: £92,000) which relate to the exceptional profit on fixed asset disposals in continuing operations disclosed in the 1996 accounts.



Samuel Heath & Sons PLC

NOTES FORMING PART OF THE ACCOUNTS

(continued)

22. Reconciliation of net cash flow to movement in net funds

| | 1997 | 1996 |
|---|--------------|-------------|
| | £000 | £000 |
| Increase/(decrease) in cash in the period | 573 | (1,239) |
| Movement in net funds in the period | 573 | (1,239) |
| Net debt at 31st March 1996 | (471) | 768 |
| Net funds at 31st March 1997 | 102 | (471) |

23. Analysis of net funds

| | At 31st March 1996 £000 | Cash flow £000 | At 31st March 1997 £000 |
|--------------|----------------------------------|----------------------|----------------------------------|
| Cash at bank | 83 | 19 | 102 |
| Overdrafts | (554) | 554 | - |
| Net funds | (471) | 573 | 102 |

24. Controlling party

For the purposes of FRS 8 the Company is controlled by its chairman, Mr. S.B. Heath and his close family.



Samuel Heath & Sons PLC

NOTICE OF MEETING

Notice is hereby given that the one hundred and seventh Annual General Meeting of the Company will be held at the registered office of the Company, Leopold Street, Birmingham on 12th August 1997 at 12.00 noon.

The general business of the meeting will be to consider and, if thought fit, pass the following resolutions.

1. That the Directors' report and audited accounts for the year ended 31st March 1997 be approved and adopted.
2. That a final dividend for the year ended 31st March 1997 of 4.0 pence per share be declared payable on 12th August 1997 to ordinary shareholders registered at the close of business on 23rd July 1997.
3. That Mr. D.J. Pick who retires by rotation be re-elected a director.
4. That Mr. D.B. Legge who retires by rotation be re-elected a director.
5. That Moore Stephens be re-appointed as auditors and that the directors be authorised to fix their remuneration.

By order of the Board

J. Park
Secretary

11th July 1997

Notes:

1. Any member entitled to attend and vote at the above Meeting may appoint one or more persons as proxies, who need not also be members, to attend and vote on his behalf. Proxy forms must be lodged with the Secretary at the registered office not later than 48 hours before the time fixed for the meeting.
2. A statement of the share transactions of each Director for the twelve months to 27th June 1997 is available for inspection at the registered office during usual business hours on any weekday (excluding Saturdays and public holidays) until 12th August 1997 and will also be available at the Annual General Meeting from 11.45 a.m. until 15 minutes after the meeting is closed.



Samuel Heath & Sons PLC

NOTICE OF MEETING

Notice is hereby given that an Extraordinary General Meeting of the Company will be held at the registered office on 12th August 1997 at 12.05 p.m. or so soon thereafter as the Annual General Meeting of the Company convened for 12.00 noon the same day shall have been concluded for the purpose of considering and, if thought fit, passing the following **Resolutions**:

Ordinary Resolution

That the Company be authorised, pursuant to Article 14 of the Articles of Association of the Company, to make market purchases (within the meaning of Section 163 of the Companies Act 1985) on the Stock Exchange up to a cumulative maximum of 450,000 Ordinary shares of 10 pence each in the capital of the Company at a price of not less than 10 pence per ordinary share and not more than 5% above the average of the middle market quotations of the ordinary shares as derived from the Stock Exchange Daily Official List on the 10 dealing days before the purchase.

The prices specified above are exclusive of expenses and of Advance Corporation Tax (if any) payable by the Company.

The authority hereby conferred shall expire at the next Annual General Meeting unless previously varied, revoked or renewed by the Company in General Meeting, provided that the Company shall be permitted to make any contract of purchase of any such shares which will or may be executed wholly or partly after the authority hereby conferred shall have expired.

Special Resolution

The Articles of Association set out in the document produced to the Meeting and signed by the Chairman for the purposes of identification be adopted as the New Articles of Association of the Company to the exclusion of all existing Articles.

By order of the Board

J. Park
Secretary

11th July 1997

Any member entitled to attend and vote at the above Meeting may appoint one or more persons as proxies, who need not also be members, to attend and vote on his behalf. Proxy forms must be lodged with the Secretary at the registered office not later than 48 hours before the time fixed for the meeting.