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## Corporate profile

The Gaskell Group is engaged in the manufacture and distribution of carpets, carpet tiles, underlays and other non-woven textiles. Gaskell has been manufacturing carpets for nearly 100 years and is unique in providing the complete spectrum of textile floorcovering products including fibre bonded, tufted and Axminster ranges.

The Group has four operating subsidiaries :-

- |                                  |   |
|----------------------------------|---|
| Gaskell Textiles Limited         | - manufacturer of carpet underlays, fibrebonded carpet, automotive upholstery, sports surfaces and other non-woven products and distributor of tufted carpet tiles. |
| Gaskell Carpets Limited          | - manufacturer of Axminster and tufted broadloom carpet and carpet yarn spinner.  |
| Bamber Carpets Limited           | - manufacturer of tufted carpet and carpet tiles.   |
| Modulus Flooring Systems Limited | - distributor of tufted carpets and carpet tiles.   |

The Group operates from seven sites, primarily in the North West of England, and employs over 700 people.

## Financial highlights

	1998	1997	
	£m	£m	Increase
Sales	52.6	48.8	+ 8%
Operating profit	5.3	4.0	+ 31%
Pre-tax profit	5.1	3.7	+ 38%
Basic earnings per share	17.6p	12.9p	+36%
Dividend per share	4.3p	2.1p	+105%

*“the Group has continued to make significant progress during 1998 and has again achieved record levels for both turnover and pre-tax profits”*

## Chairman's statement



*... "this performance is a testimony to the management team assembled over that period which has ensured a more focused sales and marketing effort, improved product quality, sound capital investment and increased manufacturing efficiencies."*

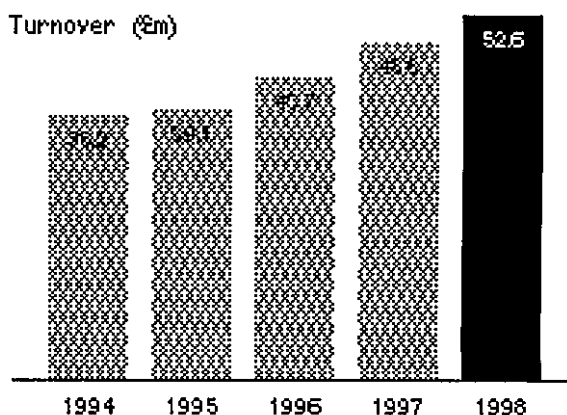
The Group has continued to make significant progress during 1998 despite difficult trading conditions in certain of its markets, and has again achieved record levels for both turnover and pre-tax profits. The Group's five year trading history shows that since 1994 sales have grown by almost 40% to over £50m and operating profits have increased almost fivefold to exceed £5m. This performance is a testimony to the management team assembled over that period which has ensured a more focused sales and marketing effort, improved product quality, sound capital investment and increased manufacturing efficiencies.

### Results

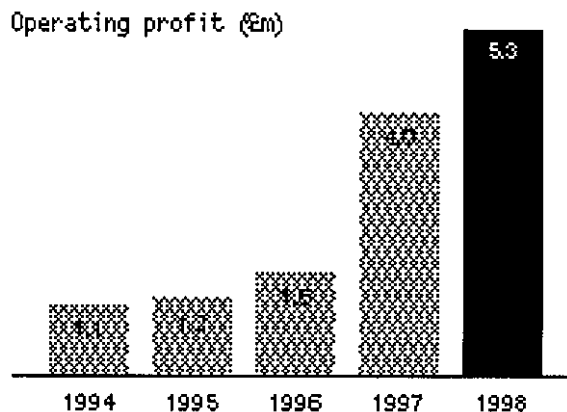
The Group's turnover rose by 8% in 1998 to £52.6m. This sales growth was achieved primarily from increased activity in the office, leisure and automotive sectors. The continued strength of sterling meant that little progress was made in export markets during the year although this remains an area of significant potential growth for the future. Retail sales were maintained at around 1997 levels despite the lack of building society 'windfall' receipts and higher interest rates for much of the year. Gross margins improved by 2% largely as a result of lower raw material costs, reflecting the continued success of many new cost reduction initiatives across the Group. Overheads have increased due to a combination of new product developments, continued expansion of the Group's salesforce and higher depreciation charges arising from the heavy capital investment programme.

The Group's operating profits increased by 31% to £5.27m (1997 - £4.02m). Interest charges have fallen by £147,000 to £220,000 primarily due to lower average borrowing levels. Consequently, pre-tax profits rose by 38% to £5.05m (1997 - £3.66m) and earnings per share advanced by 36% to 17.6p (1997 as restated - 12.9p).

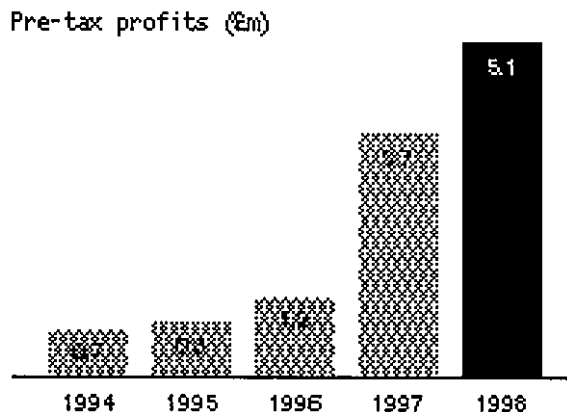
Turnover (£m)



Operating profit (£m)



Pre-tax profits (£m)



## Chairman's statement *continued*

### Dividends

In light of this excellent performance, the Board has continued its recent progressive dividend policy in recommending a final dividend of 3.1p per ordinary share (1997 as restated - 1.5p). This represents a 107% increase over 1997 and produces a full year dividend of 4.3p per ordinary share (1997 as restated - 2.1p).

### Share subdivision

Following the significant increase in the Company's share price during 1997 the Directors recommended the subdivision of each existing 20p Ordinary share into 4 new Ordinary shares of 5p each. This subdivision was proposed in order to bring the Company's share price more into line with other companies in the household goods and textiles sector and to increase the overall marketability of the shares. The subdivision was approved by shareholders at an Extraordinary General Meeting held on 1st October 1998 and dealings in the new shares commenced on 5th October 1998.

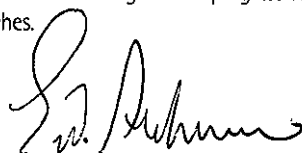
### People

In May 1998, Gaskell Textiles Limited was presented with its Investors in People award, in recognition of its excellent achievements in the areas of personnel development and training. Other group companies are making similar investments in these key areas. In October 1998 we were pleased to announce the appointments to the Board of Mr Peter Livesey, Managing Director of Gaskell Textiles Limited and Mr Gerry Wheeler, Managing Director of Bamber Carpets Limited. Both have made significant contributions to the Group's recent success and have major roles to play in its future development. In January 1999 Mr Roderick Davies was appointed Managing Director of Modulus Flooring Systems Limited in succession to Mr Bob Scott who left the Group in September. I am pleased to report that the Group has also recently announced the launch of a significantly enhanced pension scheme for its weekly paid employees. This scheme, which has been well received, will be effective from April 1999 and is a clear demonstration of the Board's commitment to providing a competitive benefits package for its workforce. On behalf of the Board and the shareholders I would like to thank our employees throughout the Group for their valuable contribution during the year.

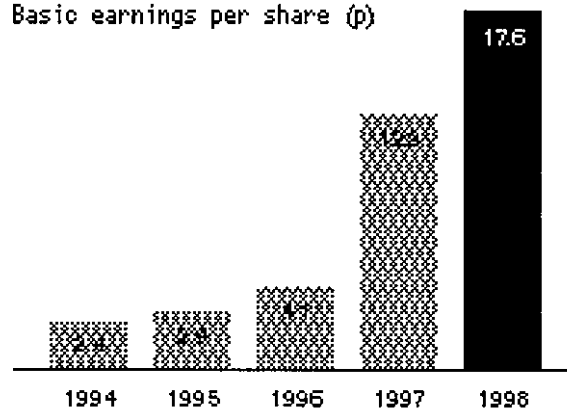
### Prospects

After another strong performance in 1998, the Gaskell Group has now become firmly re-established as a leading player in the UK carpet industry. Although difficult trading conditions continue to prevail in 1999 especially in the retail sector, I am confident that the Group can again take advantage of the many opportunities for organic growth, while continuing its search for appropriate acquisitions to complement these opportunities. With an excellent management team, a highly committed workforce and an extensive programme of investment in new equipment and products, the Group is well placed to make further significant progress as the new millennium approaches.

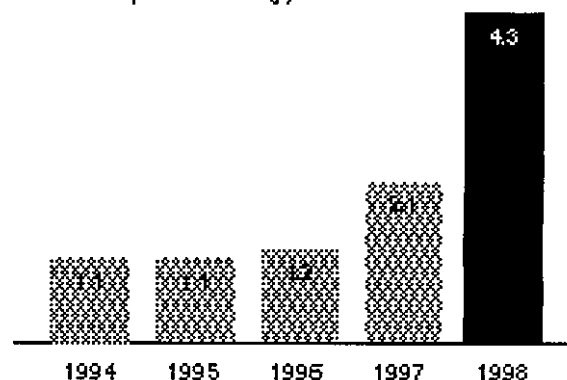
E D ANDREW  
Chairman  
29th March 1999



Basic earnings per share (p)



Dividend per share (p)



## Chief executive's review



*... "a year of significant investment with the acquisition of substantial new plant and equipment, the purchase of a small felt underlay business and the introduction of many new products."*

1998 has again been a year of significant investment across the Group with an expansion of the Group's premises at both Clayton Park, Accrington and Bamber Bridge, the acquisition of substantial new plant and equipment, the purchase of a small felt underlay business and the introduction of many new products. Such heavy investment has been a cornerstone of the Group's strategy in recent years and has played a key role in differentiating Gaskell from its competitors and in delivering both increased turnover and lower production costs.

### Subsidiary performance

**Gaskell Textiles Limited** increased its sales by 14% to £25m and was again highly profitable. To accommodate this continued expansion, the company has recently taken a further 32,000 square feet of leasehold space at its Clayton Park premises. In recognition of its improved quality standards, the company has recently achieved ISO9001 and is now targeting the attainment in 1999 of the environmental standard ISO14001. The Tile division achieved further substantial growth in 1998 with the popular Teviot and Fiesta ranges benefiting from the introduction of new colours, while the launch of three new products - Carnival, Solar Eclipse and Jazz Tones - further enhanced the division's reputation for innovative design. A number of major contracts were acquired during the year from prestigious end users including Scottish Widows, The Inland Revenue, Boots and Midland Bank. Additional new product ranges will be added to the portfolio in 1999 including Sisal, Suede and Optimum Millennium. The Underlay division made further progress during 1998 despite a difficult retail marketplace. It recently secured a substantial order from the Ministry of Defence, while the launch of the new TwinTack range at the Harrogate Show in September also proved highly successful.

In November, the division was further expanded by the acquisition of the Silentlay Felts business from Silentnight Holdings PLC for £275,000. The turnover of Silentlay Felts was approximately £1m in its last full financial year. The Automotive Division increased its turnover by 20% in 1998, primarily as a result of a contract to supply materials for the new Honda Civic and Accord ranges. The prospects for this division, which returned to profitability in 1998 after several years of losses, now look much brighter. The Special Products business has also achieved significant growth in the current year due to further penetration of its traditional markets such as sports surfaces as well as developing new customers in the clothing, geotextile and audio markets.

The recent acquisition of a new calendering machine will provide new products and sales opportunities for both the Automotive and Special Products divisions. Export sales suffered from the failure of two major customers during 1998 and the general strength of sterling. However, increased sales and marketing effort has resulted in many new overseas contacts being developed which should generate additional turnover in 1999 and beyond.

**Gaskell Carpets Limited** continued its impressive recovery under the new management team after returning to profit in 1997. Turnover increased by 7% to over £18m due primarily to the growth of its UK Contract business. The hospitality market has performed strongly in 1998 with major contributions from the Kensington and Inn Collection ranges. The acquisition of a new high speed Axminster loom due for installation in the second quarter of 1999 at a projected cost of £630,000 should help to secure further growth in the leisure sector.

Gaskell Textiles Limited's installation at Scottish Widows headquarters in Edinburgh

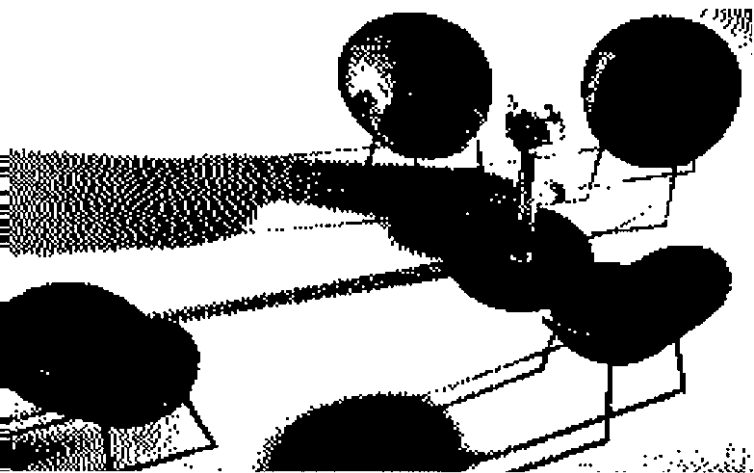




Revenue	1994
Operating Profit	1994
Operating Profit	1994
Operating Profit	1994
Operating Profit	1994
Operating Profit	1994
Operating Profit	1994
Operating Profit	1994
Operating Profit	1994
Operating Profit	1994

Operating Profit

Optimum carpet tiles at Point West, London



The new Summer Gardens Yellow Shell by Gaskell Carpets Limited

#### **Gaskell Carpets Limited** | *continued*

The launch of the Merit, Enhance and Acumen ranges has also led to the company making substantial progress in the healthcare and general contract markets. A number of new ranges and the enhancement of the company's custom offer should ensure that further market share is attained. The Retail division's sales have held up well despite a highly competitive and generally depressed marketplace. The launch of sixteen new colours to the flagship Summer Gardens range and the introduction of additional sampling and point of sale materials has helped to give Gaskell Carpets a competitive edge in the high street. The continued expansion of the Premier Partner network has again played a key role in the division's development during 1998 and further new products, including Chelsea House, should generate additional sales growth in 1999. Export sales were held largely at prior year levels despite the continued strong pound and a lack of the very large hotel projects which formed a key part of 1997 activity.

**Bamber Carpets Limited** increased sales by 4% in 1998, with a significant proportion of its turnover again attributable to intra group business. Operating margins remained strong as a result of both the high activity levels and the success of continued cost reduction initiatives. A full year's benefit from the new ultrasonic tile cutting machine led to both increased material yields and improved product quality. In October 1998 a 20,000 square feet extension to the company's Bamber Bridge premises was completed on schedule. This facility provides additional production and warehousing space to accommodate future business growth. Following the recent investment in new design equipment and personnel, Bamber Carpets anticipates significant growth of its external customer base during 1999, to supplement the further expansion of its output for fellow group companies.

Despite a relatively strong start, **Modulus Flooring Systems Limited** encountered a difficult year which culminated in the departure of its Managing Director, Mr Bob Scott, in September. The company continued to benefit from a number of major contracts including those with the BBC, London Transport, Capital Bank and Abbey National and total sales grew by 3% to almost £5.5m. However, margins declined in the face of fierce competition and there was a need to re-align stocks with the increasing trend of sales towards tile rather than broadloom products. Consequently, trading profits fell in 1998 to just above a break-even position. Following the appointment of Mr Roderick Davies as Managing Director and the resultant refocusing of the company's sales and marketing effort, increased returns are now anticipated. Revisions to the product offering including the revamped Vanguard and the new Thames Valley range should also help to achieve stronger sales growth in 1999.

#### **Capital investment**

The Group's total fixed asset expenditure in 1998 was £3.4m, of which £0.8m was financed through leasing and hire purchase arrangements. The principal items included the building extension at Bamber Carpets Limited (£700,000) and the calendaring machine at Gaskell Textiles Limited referred to earlier. In addition, new Groupwide computer hardware and software systems have been purchased at a cost of more than £700,000 while Gaskell Carpets Limited has spent approximately £100,000 in modernising its Rishton office facilities and creating a factory shop. New computerised design equipment has been acquired at both Rishton and Clayton Park at a total cost of £135,000. A number of other smaller capital items have also been purchased as part of the general drive towards further improving manufacturing efficiencies and product quality. The Group has recently completed the sale of its Lee Mill, Bacup site for £225,000 after a long period of marketing.

#### **Future plans and prospects**

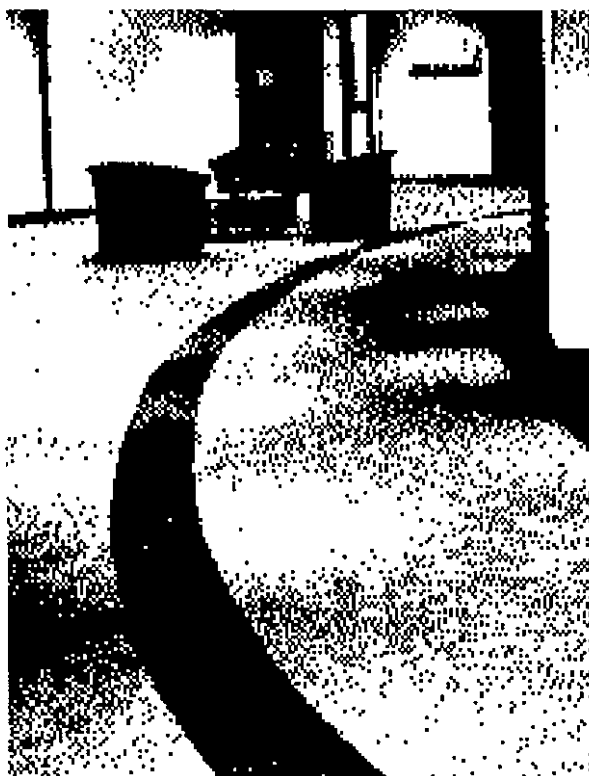
Notwithstanding the economic uncertainty at the current time, the Group will continue to pursue its exciting growth plans. There will be further substantial capital investment in 1999 including a new backing plant and an additional felt set at Gaskell Textiles Limited and the previously noted high speed Axminster loom at Gaskell Carpets Limited. As indicated above, the Group's recent investment in additional design equipment and resources will ensure that a significant number of new products will again be brought to the market in 1999. This investment, together with the continued expansion of the Group's salesforce, should help to ensure both an increased share of existing markets and the penetration of new market sectors. Ambitious cost reduction plans should also secure further improvements to gross margin such that the overall returns to shareholders continue their recent upward trend as we move into the new millennium.

G CAHILL

Chief Executive  
29th March 1999

*G. Cahill*





Jazz Tones with Optimum Accent at Friar's House, Coventry



Modulus Flooring Systems Limited's Kinetics installation at the BBC, White City London



Optimum carpet tiles at Exchange Plaza, Edinburgh

# Financial review



## Results for the year

Details of the Group's trading results are set out in the Chairman's Statement and Chief Executive's Review on pages 2 to 7.

## Taxation

The Group's taxation charge for 1998 was £1.6m, an effective rate of 31%. Full provision has again been made in the accounts for deferred taxation with the exception of certain capital gains where no liability is expected to arise in the foreseeable future.

## Balance sheet

The Group's total net assets were £17.7m at 31st December 1998, increasing by £2.8m due to the profit for the financial year of £3.5m and issues of new shares for £0.2m, less dividends payable in respect of 1998 of £0.9m.

## Accounting policies

The Group's accounting policies are set out on page 16 and reflect compliance with all applicable accounting standards. No accounting policy changes have been made during the year, with the exception of the policy relating to goodwill which has been revised to comply with Financial Reporting Standard 10. Earnings per share figures have been restated to comply with Financial Reporting Standard 14 and to reflect the share subdivision during the year.

## Cashflow

The Group produced a positive cashflow of £1m in 1998, resulting in a closing net overdraft of £0.3m and a gearing level of 16% (1997- 18%). A cash inflow of £5.2m was generated from operating activities, despite a £1.6m rise in working capital. Stocks increased by £1.6m to support the many new products and generally higher activity levels. Capital expenditure accounted for payments from existing overdraft facilities of £2.4m and repayments under leasing and hire purchase arrangements of £0.6m. Dividends and interest payments amounted to almost £0.8m and corporation tax payments a further £1.3m.

## Borrowing facilities

In May 1998, the Group converted £1m of its bank overdraft to medium term loan primarily in order to achieve a more conventional borrowing structure which is better aligned with the Group's asset base. The Group's bank overdraft facilities are £4.7m, well in excess of current overdraft levels. The significant headroom within the facility provides the flexibility to accommodate

another large capital investment programme in 1999, further enhancements to the product range and the funding of small opportunistic acquisitions as and when they arise. Leasing and hire purchase facilities will continue to be used, where necessary, to supplement the Group's funding arrangements for capital expenditure.

## Treasury

The Group operates a central treasury function which is primarily responsible for managing borrowings and foreign currency risks. Forward exchange contracts and similar instruments will continue to be used on a selective basis to hedge against currency exposures on both trading and capital transactions.

## Year 2000

The Board has considered the risks associated with the Year 2000 issue. It has agreed contracts for the supply of new computer hardware and software to cover all of the Group's key business systems at a capital cost of approximately £700,000. The new systems are expected to bring substantial benefits to the business by providing increased functionality and a fully integrated solution not currently available to the Group. The suppliers of this computer equipment, which is expected to be fully installed by the middle of 1999, have informed the Group that such equipment is millennium compliant. A review of the remaining hardware and software, including that related to design and manufacturing equipment and of the major customers and suppliers has been undertaken by project teams in each Group company and is close to completion. The costs arising from this review are not expected to be material in relation to the Group's overall results and are being expensed as incurred. There can be no absolute assurance that the steps taken by any company will successfully avoid difficulties associated with the Year 2000 issue. However, the Board believes it has taken all reasonable steps to protect the Group.

## Going concern

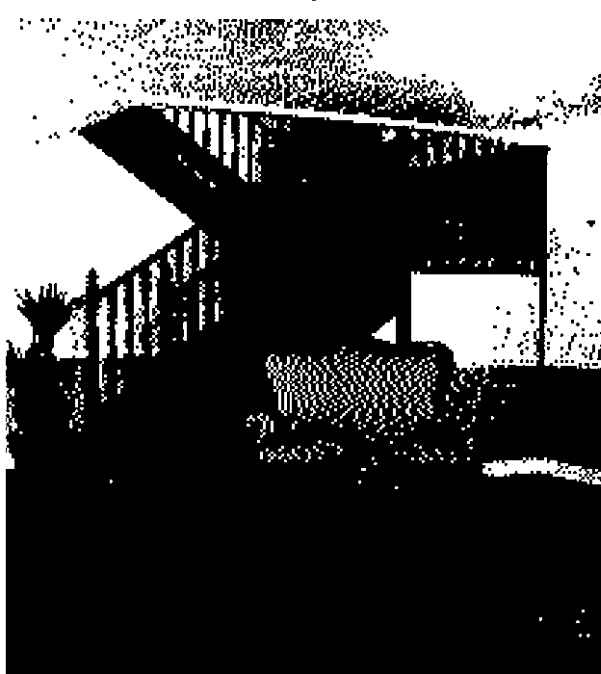
The Directors' statement on going concern, as required by the Combined Code, is set out on page 12.

R HOPKIN

Finance Director

29th March 1999

Gladham Homes, Wolverhampton - Kensington Florette



## Directors



**Gerard Cahill,**  
Chief Executive

Aged 56, he was appointed to the Board in 1983. He has over 35 years' service with the Group and was Managing Director of Gaskell Textiles between 1981 and 1993. He was appointed to the position of Group Chief Executive when the roles of Chairman and Chief Executive were split in 1993.



**Edward Andrew,**  
Chairman

Aged 62, he was appointed to the Board in 1971 and has been Group Chairman since 1982. Mr Andrew's family owns approximately 23% of the Company's ordinary shares. He is also Chairman and major shareholder of Andrew Industries Limited.



**Richard Hopkin,**  
Finance Director and Company Secretary

Aged 42, he joined the Group in 1994 as Group Finance Director and Company Secretary. Prior to this he was Group Financial Controller and Company Secretary of Magnet Group Plc and earlier had qualified as a Chartered Accountant before being promoted to Senior Manager at Arthur Andersen.



**Peter Livesey,**  
Executive Director

Aged 48, he joined the Group in January 1996 in his current position of Managing Director of Gaskell Textiles Limited. Prior to this he had held senior management positions at Lucas, Rover and Lear Corporation.

**Jerry Daw,**  
Executive Director

Aged 48, he joined the Group in 1989 as Marketing Director of Gaskell Textiles Limited. He held the position of Managing Director of Bamber Carpets Limited from 1991 to 1996 when he moved to his current role as Managing Director of Gaskell Carpets Limited. Prior to joining the Group he held senior sales and marketing management positions at Smith & Nephew plc.

**Gerry Wheeler,**  
Executive Director

Aged 44, he joined the Group as Sales and Marketing Director of Gaskell Carpets Limited in May 1993 and was appointed to his present position of Managing Director of Bamber Carpets Limited in August 1996. Prior to joining the Group he had held management roles at GEC, STC and Union Carbide.

**Alan Chamberlain,**  
Non-Executive Director

Aged 56, he was appointed to the Board as a Non-Executive Director in 1995. He is also a Non-Executive Director of Chime Communications Plc and was formerly Managing Director of Tollemache and Cobbold Breweries Limited, The European Newspaper Limited and other companies owned by David and Frederick Barclay.

**Geoffrey Davenport,**  
Non-Executive Director

Aged 59, he was appointed to the Board as a Non-Executive Director in 1996. He is also Non-Executive Chairman of Boulting Group Plc and Archer Woodnut Limited and was previously a Main Board Director of Scapa Group Plc.

## Directors and advisers

### Directors

E D Andrew BSc Chairman  
G Cahill  
J J E Daw BA  
R Hopkin MA FCA  
P Livesey BA  
G Wheeler BSc  
A J Chamberlain FCA (non-executive)  
G Davenport (non-executive)

### Secretary

R Hopkin MA FCA

### Registered Office

Walton House  
Syke Side Drive  
Altham  
Accrington  
Lancashire BB5 5YE

### Auditors

PricewaterhouseCoopers  
101 Barbirolli Square  
Lower Mosley Street  
Manchester M2 3PW

### Bankers

Barclays Bank PLC  
City Office Business Centre  
PO Box No. 357  
51 Mosley Street  
Manchester M60 2AU

### Merchant Bankers

N M Rothschild & Sons Limited  
Trinity Court  
16 John Dalton Street  
Manchester M2 6HY

### Solicitors

Eversheds  
London Scottish House  
24 Mount Street  
Manchester M2 3DB

### Stockbrokers

Charterhouse Tilney Securities Limited  
1 Paternoster Row  
St Paul's  
London EC4M 7DH

### Registrars

I R G plc  
Bourne House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### Financial Public Relations

Citigate Dewe Rogerson Limited  
No1 Waterloo Street  
Birmingham B2 5PG

# Report of the directors

The Directors present their report, together with the accounts, for the year ended 31st December 1998.

## Principal activities

The Company is a holding company co-ordinating the management and administration of its subsidiaries. The principal activities of the Group are the manufacture, marketing and distribution of carpets, carpet tiles, underlays and other non-woven textiles.

## Business review

A review of the Group's business activities during the year is included in the Chairman's Statement, the Chief Executive's Review and the Financial Review which accompany this report.

The financial position is dealt with in the accounts on pages 16 to 29.

## Results and dividends

The profit after taxation attributable to shareholders is £3,475,000 and is dealt with as shown in the consolidated profit and loss account on page 17 of the accounts.

The Directors propose a final dividend of 3.1p per ordinary share which, together with the interim dividend of 1.2p per ordinary share paid on 23rd October 1998, makes a total dividend of 4.3p per ordinary share for the year.

Dividends paid during the year on the cumulative preference shares amounted to £6,125.

The final dividend, if approved, will be paid on 2nd July 1999 to shareholders registered at the close of business on 11th June 1999.

## Tangible fixed assets

The freehold land and buildings were professionally valued on the basis of open market value for the existing use as at 31st December 1997.

In the opinion of the Directors, the market value of the Group's land and buildings does not differ significantly from the value shown in the accounts.

## Directors

The present Board of the Company is set out on pages 9 and 10. Mr P Livesey and Mr G Wheeler were appointed to the Board on 5th October 1998.

Mr E D Andrew and Mr G Davenport retire from the Board by rotation and offer themselves for re-election.

The interests in the share capital of the Company of the persons who were Directors at the year end were as follows:

	31st December 1998			31st December 1997 or date of appointment if later		
	Ordinary shares of 5p		Preference shares of £1	Ordinary shares of 5p		Preference shares of £1
	Beneficial	Other	Beneficial	Beneficial	Other	Beneficial
E D Andrew	1,188,600	3,302,600	31,081	1,196,600	3,302,600	31,081
G Cahill	83,000	-	-	59,000	-	-
A J Chamberlain	-	-	-	-	-	-
G Davenport	20,000	-	-	20,000	-	-
J J E Daw	32,800	-	-	-	-	-
R Hopkin	49,200	-	-	16,000	-	-
P Livesey	14,490	-	-	13,400	-	-
G Wheeler	18,000	-	-	18,000	-	-

Details of share options granted to the Directors are set out on page 14.

The above interests remain unchanged at 29th March 1999.

## Substantial interests in the issued share capital

On 29th March 1999 the following substantial interests in the issued share capital had been notified to the Company:

Shareholder	Number of shares	Percentage of ordinary shares in issue
Eaglet Investment Trust PLC	3,799,448	19.05
Edinburgh Fund Managers Group Plc	2,122,000	10.64
Curzon Secretaries and Trustees Limited A/C P296*	1,368,600	6.86
Mr I F L Kenyon as trustee**	1,050,000	5.27
Curzon Secretaries and Trustees Limited A/C P297*	760,000	3.81

\* Included in other interests of Mr E D Andrew.

\*\* Included in beneficial interests of Mr E D Andrew.

# Report of the directors | *continued*

## Corporate governance

### *Compliance with the Combined Code*

The Board maintains that its stewardship of the Group must be of the highest standard and has reviewed the Principles of Good Governance and Code of Best Practice as set out in The Combined Code issued by the Committee on Corporate Governance in June 1998 and subsequently incorporated in the Listing Rules of the London Stock Exchange.

The Group is headed by a Board comprising eight members - a non-executive Chairman, the Chief Executive, four other executive Directors and two independent non-executive Directors. Mr A. J. Chamberlain has been nominated as the senior independent non-executive Director. The Board, therefore, has a reasonable balance between executive and non-executive members and there is a clear division of responsibilities between Chairman and Chief Executive such that no individual has unfettered powers of decision. The Board meets formally on a monthly basis and is supplied with information in a timely manner and in a form and quality to enable it to properly discharge its duties. A Nomination Committee has been established, comprising the three non-executive Directors, to handle all new appointments to the Board. All Directors will in future be required to submit themselves for re-election on a regular basis although, at the current time, the Company's Articles of Association stipulate that the Chief Executive is not subject to retirement by rotation.

The application of the Principles of Good Governance relating to Directors' Remuneration are covered in the Remuneration Committee Report set out on page 13.

The Company enters into a regular dialogue with its major institutional investors and encourages private investors to communicate with the Board through the Annual General Meeting.

The Board always aims to present a balanced and understandable assessment of the Company's position and prospects in its Annual and Interim Reports as well as all other communications with its shareholders. Details of the Board's approach to Internal Financial Controls, including the composition and role of the Audit Committee, are set out below.

The Group complies with the Code of Best Practice except that the Company's executive Directors hold two year rolling service contracts in line with many other smaller UK listed companies (B.I.7).

The Group did not comply with the following aspects of the Code throughout the year ended 31st December 1998 -

- a formal Nomination Committee was not established until 1st October 1998. Prior to this date new appointments were handled by the full Board (A.5.1).
- the Company's Articles of Association are to be revised in order to ensure that the Chief Executive is required to retire by rotation (A.6.2)
- the Remuneration Committee (B.2.1) and Audit Committee (D.3.1) did not comprise entirely of non-executive Directors until 1st October 1998 when certain executive Directors stood down from the respective committees. Whilst only two of the non-executive Directors are independent, the Board believes that this constitution is adequate for the Group.
- at the Annual General Meeting held in April 1998 (prior to publishing of the Code) the Board did not consider seeking shareholder approval of the Group's remuneration policy (B.3.5) nor were the level and result of proxy votes disclosed to the meeting (C.2.1).

### *Internal Financial Control*

The Board of Directors has overall responsibility for the Group's systems of internal financial control and has reviewed the effectiveness of these systems during the year. An Audit Committee has been appointed to, inter alia, examine these systems on behalf of the Board. The Committee is comprised of Mr A J Chamberlain as Chairman, Mr G Davenport and Mr E D Andrew. The Committee liaises closely with our auditors, PricewaterhouseCoopers.

The systems of internal financial control are designed to provide reasonable but not absolute assurance against material mis-statement or loss. The Group has an established framework of internal financial controls which includes:

- Monthly Board Meetings with a formal schedule of matters reserved for the Board to decide upon.
- Comprehensive budgeting systems with an annual budget approved by both the Subsidiary and Main Boards.
- Detailed monthly reporting by each subsidiary for consideration by the Board including the comparison of actual results with budget and the previous year and other key performance indicators.
- Quarterly updates of full year forecasts for consideration by the Board.
- Clearly defined capital expenditure, fixed asset disposal and new product launch guidelines and procedures.
- Regular Risk Management Committee Meetings to assess financial and other risks arising from, inter alia, developments within the Group and legislative changes.

### *Going Concern*

In accordance with the Combined Code, the Directors have considered the appropriateness of adopting the 'going concern' basis in preparing the accounts. 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 these annual accounts.

# Report of the directors | *continued*

## *Remuneration Committee*

The Remuneration Committee comprises Mr G Davenport (Chairman), Mr A J Chamberlain, and Mr E D Andrew. The Committee is responsible for determining the overall remuneration policy of the Group together with the specific remuneration packages for each of the Main and Subsidiary Board members. In framing their policy, the Committee has given full consideration to the Combined Code as incorporated in the Stock Exchange Listing Rules. The remuneration of the non-executive Directors is determined by the full Board.

## *Salaries*

It is the aim of the Committee to reward Directors competitively, working on the broad principle that these should be in line with the remuneration paid to senior management of comparable companies. The Committee has been aware for some time that levels of remuneration for certain senior executives have been below market levels and, therefore, in late 1997 it undertook a detailed exercise to evaluate existing executive remuneration packages. This review was performed by reference to, inter alia, the results of a well established UK wide survey of executive salaries and benefits and the latest published remuneration details of other public companies in the textiles and household goods sectors. As a result of this exercise, and in light of the Group's improved trading position, it was decided that executive salaries should be increased by amounts significantly above inflation from 1st January 1998 to bring them more into line with comparable companies. At the same time, the executives' profit related bonuses (see below) have been reduced in order to align the variable element of total pay, particularly in periods of higher profitability, with the levels indicated by the survey data.

## *Bonus Scheme*

The Group operates bonus schemes for Main and Subsidiary Board Executive Directors which relate to:

- Group and Subsidiary pre-tax profits
- Group and Subsidiary working capital performance

In 1998, these bonuses represented an average of 13% (1997-29%) of salary for the Company's executive Directors and are pensionable as in prior years. Similar criteria will apply for bonus payments in 1999.

## *Pension Scheme*

The Directors, management and staff all participate on the same basis in the Group's Pension Scheme, with the exception of lump sum death in service benefits. The scheme is contributory with the employer and employee contributions comprising 10.5% and 5% respectively of salary. The scheme enables members to achieve the maximum pension of two-thirds of salary after 40 years' service at the normal retirement age of 65. Lump sum benefits and dependants' pensions are also payable where death occurs in service. For Directors and certain other executives lump sum benefits equate to four times pensionable salary whereas other staff qualify for benefits equivalent to three times salary.

## *Long Term Benefits*

The Group currently operates an Inland Revenue Approved Executive Share Option Scheme for Main and Subsidiary Board Directors. Subject to the Scheme rules, the options cannot be exercised until three years after they are granted. Details of options granted under the Scheme are set out on pages 14 and 27.

Details of options exercised by Directors during the year are set out under Emoluments on page 14.

The Board is proposing to introduce a long term incentive plan ('the Plan') for all executive Directors and certain other Group executives. The Plan comprises the payment of cash bonuses linked to the achievement of inflation-linked earnings per share targets over the three years ending 31st December 2001. Full details of the plan are set out in a separate circular to shareholders.

## *Service Contracts*

The Chairman and the Company's executive Directors hold two year rolling service contracts with Group companies. The independent non-executive Directors have one year service contracts with the Company which expire on 8th January 2000.

## *Emoluments*

Details of Directors' emoluments for the year ended 31st December 1998 are shown below:

(£000's)	Salary/Fees	Bonuses	Other Benefits	Total	1997
E D Andrew	63	10	1	74	59
G Cahill	101	13	7	121	91
A J Chamberlain	12	-	-	12	10
G Davenport	12	-	-	12	11
J J E Daw	78	8	5	91	76
R Hopkin	88	11	10	109	88
P Livesey	18	2	2	22	-
G Wheeler	17	2	2	21	-

# Report of the directors *continued*

Directors' executive share options are shown below:

	Options exercised during the year				Options held at 31st December 1998		
	Date	Number	Exercise price p/share	Market price at exercise date p/share	Number	Option price p/share	Dates options exercisable
E D Andrew	26th May 1998	50,000	33	108	-	-	
G Cahill	5th May 1998	50,000	33	106	-	-	
					20,000	42	8th April 2000 to 7th April 2007
R Hopkin	5th May 1998	50,000	33	106	-	-	
					20,000	42	8th April 2000 to 7th April 2007
J J E Daw	5th May 1998	50,000	33	106	-	-	
					20,000	42	8th April 2000 to 7th April 2007
P Livesey	-	-	-	-	61,000	42	8th April 2000 to 7th April 2007
G Wheeler	-	-	-	-	29,000	42	8th April 2000 to 7th April 2007

The market price of the shares at 31st December 1998 was £0.98p (1997 restated - £1.05p) and the highest and lowest prices during the year were £1.24p and £0.77p respectively. No executive share options were granted to Directors and no share options lapsed during the year.

Details of the pensions earned by the executive Directors are shown below:

(£000's)	Accrued pension entitlement at 31st December 1998	Increase in accrued pension entitlement during the year	Increase in transfer value during the year
E D Andrew	32	4	58
G Cahill	45	10	88
J J E Daw	11	3	17
R Hopkin	5	2	5
P Livesey	3	-	1
G Wheeler	6	-	-

## Employees

The Group's activities are geographically spread and local managers are responsible for employee relations and development on a day to day basis. This is supported by regular visits by senior executives who are available to explain and provide employees with information on matters of concern to them as employees and to enable their views to be taken into account.

The Group's commitment to personnel development and training was demonstrated in 1998 by the achievement of the Investors in People standard by Gaskell Textiles Limited. Other Group companies are making similar investments in this area.

It is the policy and practice of the Group to give equal consideration to applications for employment from disabled persons having regard to the particular aptitudes and abilities of the applicants concerned, and to give equal opportunities for training, career development and promotion to those disabled persons currently employed within the Group. Every practical effort is made to continue the employment of, or arrange appropriate training for, any existing employees who become disabled.

## Charitable and political contributions.

Charitable contributions made by the Group in the United Kingdom were £1,813. There were no political contributions during the year.

## Supplier payment policy

It is the policy of the Group that each subsidiary company should agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard written terms to individually negotiated contracts. Payments should then be made in accordance with those terms and conditions, provided that the supplier has also complied with them. The policy developed is specific to the Group's business and, consequently, the adoption of an external code of payment of suppliers is considered unnecessary. At the year end, the Group had an average of 63 days (1997-68 days) purchases outstanding in trade creditors. The Company has no significant trade creditors.

## Close company provisions

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

## Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand from 1st July 1998, Price Waterhouse resigned as auditors. The Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation.

PricewaterhouseCoopers have indicated their willingness to be re-appointed as auditors and a resolution will be proposed at the forthcoming Annual General Meeting to that effect.

By order of the Board

R HOPKIN  
Secretary



29th March 1999



# 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 Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that period. The Directors are responsible for ensuring that applicable accounting standards have been followed, and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts. It is also the responsibility of the Directors to prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The Directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities.

## Report of the auditors

### Auditors' Report to the Members of Gaskell PLC

We have audited the accounts on pages 16 to 29, together with the additional disclosures relating to the remuneration and share options of the Directors specified for our review by the London Stock Exchange included on pages 13 and 14, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 16.

#### Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual report, including as described above the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on pages 12 to 14 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

#### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 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 affairs of the Company and the Group at 31st December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*  
PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Manchester

29th March 1999

# Statement of accounting policies

## Basis of accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of land and buildings and are prepared in accordance with applicable accounting standards.

## Consolidation of Group undertakings

The accounts are prepared in compliance with the Companies Act 1985. The Group accounts consolidate the accounts of the holding company and its subsidiaries made up to 31st December 1998. The net assets of companies acquired are included in the consolidated accounts at their fair value to the Group. In addition, adjustments are made where the accounting policies of acquired companies would otherwise be inconsistent with those of the Group. Where the total costs of acquisition differ from the fair value attributable to the net assets acquired, the goodwill or capital reserve on acquisition has in previous years been taken directly to reserves in the year of acquisition. In 1998 the Group has adopted FRS 10 such that goodwill acquired during the year is capitalised and amortised over 20 years, a period which is estimated to be the useful life of the asset. As allowed by the transitional provisions of FRS 10, the Group has not applied the new accounting policy to goodwill already written off against reserves in previous years.

## Tangible fixed assets and depreciation

Tangible fixed assets are stated at original cost or professional valuation. Depreciation is provided in equal annual instalments at rates designed to write off the net cost or revalued amount over the estimated useful life of the asset. The principal annual rates in use are:

Land and buildings	2 1/2%
Motor vehicles	20-25%
Computer equipment	20%
Plant and machinery	10%

## Investments

Investments are included at cost.

## Stocks

Stocks are stated at the lower of cost and net realisable value. Cost in the case of work in progress and finished goods includes appropriate manufacturing overheads.

## Taxation

Corporation tax is provided on the assessable profits of the Group at the appropriate rates in force. Provision is made for deferred taxation where it is considered that a liability is likely to arise in the foreseeable future, including full recognition of the deferred tax asset relating to pension cost accruals.

## Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year end. Profits and losses on exchange arising in the normal course of trading are dealt with in the profit and loss account.

## Leasing and hire purchase commitments

Assets obtained under finance leases or hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the obligations is charged to the profit and loss account over the period of the lease or contract and represents a constant proportion of the balance of capital repayments outstanding.

Operating lease rentals are charged to the profit and loss account as incurred.

## Pensions

Pension contributions to The Gaskell Pension Scheme are based upon independent actuarial advice. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. Contributions to The Gaskell Money Purchase Pension Scheme are based on the National Insurance contracted-out rebate only.

## Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

## Consolidated profit and loss account

for the year ended 31st December 1998

		1998	1997
	Note	£000	£000
Turnover - Continuing operations	1	52,629	48,783
Cost of sales		(34,019)	(32,420)
<b>Gross profit</b>		<b>18,610</b>	<b>16,363</b>
Net operating expenses	2	(13,339)	(12,341)
<b>Operating profit - Continuing operations</b>	2	<b>5,271</b>	<b>4,022</b>
Interest payable	3	(220)	(367)
<b>Profit on ordinary activities before taxation</b>		<b>5,051</b>	<b>3,655</b>
Taxation on profit on ordinary activities	4	(1,576)	(1,144)
<b>Profit for the financial year</b>	5	<b>3,475</b>	<b>2,511</b>
Dividends (including non-equity interests)	8	(881)	(419)
<b>Amount set aside to reserves</b>	21	<b>2,594</b>	<b>2,092</b>
Basic earnings per ordinary share	10	17.6p	12.9p
Diluted earnings per ordinary share	10	17.3p	12.4p

## Statement of total recognised gains and losses

for the year ended 31st December 1998

	1998	1997
	£000	£000
Profit for the financial year	3,475	2,511
Unrealised surplus on revaluation of properties	-	1,135
<b>Total gains recognised since last annual report</b>	<b>3,475</b>	<b>3,646</b>

## Note of historical cost profits and losses

for the year ended 31st December 1998

	1998	1997
	£000	£000
Profit on ordinary activities before taxation	5,051	3,655
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	19	30
<b>Historical cost profit on ordinary activities before taxation</b>	<b>5,070</b>	<b>3,685</b>
<b>Historical cost profit for the year retained after taxation and dividends</b>	<b>2,613</b>	<b>2,122</b>

The notes on pages 20 to 29 and the accounting policies on page 16 form part of these accounts.

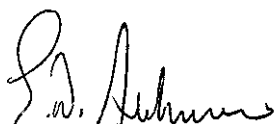
# Balance sheets

at 31st December 1998

		Group		Company	
	Note	1998 £000	1997 £000	1998 £000	1997 £000
<b>Fixed assets</b>					
Intangible assets	11	229	-	-	-
Tangible assets	12	13,665	11,804	642	-
Investments	13	-	-	7,962	7,962
		<b>13,894</b>	<b>11,804</b>	<b>8,604</b>	<b>7,962</b>
<b>Current assets</b>					
Stocks	14	11,668	10,023	-	-
Debtors (amounts falling due within one year)	15	8,804	8,574	3,888	4,043
Debtors (amounts falling due after more than one year)	15	-	-	226	226
Cash at bank and in hand	17	23	80	-	-
		<b>20,495</b>	<b>18,677</b>	<b>4,114</b>	<b>4,269</b>
Creditors (amounts falling due within one year)	16	13,452	13,560	3,228	3,427
Net current assets		<b>7,043</b>	<b>5,117</b>	<b>886</b>	<b>842</b>
Total assets less current liabilities		<b>20,937</b>	<b>16,921</b>	<b>9,490</b>	<b>8,804</b>
Creditors (amounts falling due after more than one year)	16	2,517	1,362	1,451	-
Provisions for liabilities and charges	19	683	583	49	-
		<b>17,737</b>	<b>14,976</b>	<b>7,990</b>	<b>8,804</b>
<b>Capital and reserves</b>					
Called up share capital	20	1,172	1,147	1,172	1,147
Share premium account	21	203	61	203	61
Revaluation reserve	21	2,765	2,784	-	-
Profit and loss account	21	13,597	10,984	6,615	7,596
Shareholders' funds (including non-equity interests)	22	<b>17,737</b>	<b>14,976</b>	<b>7,990</b>	<b>8,804</b>

Approved by the Board of Directors on 29th March 1999

On behalf of the Board  
E D ANDREW  
(Director)



R HOPKIN  
(Director)



The notes on pages 20 to 29 and the accounting policies on page 16 form part of these accounts.

# Cash flow statement

for the year ended 31st December 1998

	Note	1998 £000	1997 £000
Net cash inflow from operating activities	2c	5,198	4,266
Returns on investments and servicing of finance			
Interest paid		(121)	(221)
Interest element of finance leases and hire purchase contracts		(107)	(142)
Dividends paid on non-equity shares		(6)	(6)
		(234)	(369)
Taxation		(1,304)	(336)
Capital expenditure			
Purchases of tangible fixed assets (excluding finance lease and hire purchase assets)		(2,391)	(1,589)
Sale of tangible fixed assets and assets held for sale		75	59
		(2,316)	(1,530)
Acquisitions			
Purchase of trade and assets	11	(275)	-
Equity dividends paid		(553)	(272)
Financing			
Issue of ordinary share capital		167	-
Repayment of capital element of finance leases and hire purchase rentals	17	(650)	(532)
New medium term loan		1,000	-
		517	(532)
Increase in cash	17	1,033	1,227

The notes on pages 20 to 29 and the accounting policies on page 16 form part of these accounts.

# Notes to the accounts

## 1. Turnover

Turnover, which originates entirely in the United Kingdom, represents the amount receivable (excluding value added tax) for goods sold to third parties.

The geographical analysis of turnover by destination is:

	1998 £000	1997 £000
United Kingdom	50,106	45,954
Eire	511	603
Germany	275	171
France	235	261
Scandinavia	180	181
Italy	163	483
Rest of Europe	525	455
North America	361	323
Middle East and Other	230	278
Far East and Australia	43	74
	<b>52,629</b>	<b>48,783</b>

In the opinion of the Directors the Group is engaged in only one class of business and no analysis of turnover, profits and net assets is appropriate.

## 2. Operating profit

(a) Operating profit comprises:

	1998 £000	1997 £000
Turnover	52,629	48,783
Cost of sales	(34,019)	(32,420)
Gross profit	18,610	16,363
Distribution costs	(8,716)	(7,479)
Administrative expenses	(4,623)	(4,862)
	<b>5,271</b>	<b>4,022</b>

(b) Operating profit is stated after charging:

Staff costs (note 6)	14,106	12,737
Depreciation: owned assets	1,100	1,130
: finance leased assets	413	356
Amortisation of goodwill	1	-
Operating lease rentals: plant and machinery	531	462
: other	313	271
Research and development costs	1,066	1,038
Auditors' remuneration: Group	55	55
: Company	7	5

Fees payable to PricewaterhouseCoopers in the UK for non-audit services were **£69,000** (1997: £31,000).

(c) Reconciliation of operating profit to net cash inflow from operating activities:

Operating profit	5,271	4,022
Depreciation/amortisation and loss/(profit) on sale of fixed assets	1,511	1,479
(Increase) in stock	(1,645)	(1,708)
(Increase) in debtors	(269)	(760)
Increase in creditors	330	1,233
	<b>5,198</b>	<b>4,266</b>

## Notes to the accounts | *continued*

### 3. Interest payable

	1998 £000	1997 £000
Bank loan and overdraft	114	229
Interest payable under finance leases and hire purchase contracts	106	138
	<u>220</u>	<u>367</u>

### 4. Taxation on profit on ordinary activities

	1998 £000	1997 £000
Taxation on the profit for the year:		
UK corporation tax at 31.0% (1997 - 31.5%)		
- current year	1,605	1,442
- prior years	(129)	(46)
Deferred taxation		
- current year	11	(222)
- prior years	89	(30)
	<u>1,576</u>	<u>1,144</u>

### 5. Profit for the financial year

Gaskell PLC has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985. The loss for the financial year dealt with in the accounts of the holding company is **£100,000** (1997 - profit of £461,000). With the exception of the loss for the financial year, there were no other recognised gains and losses in the Company, nor was there a difference between the historical cost profits and losses and those noted above.

### 6. Staff costs

	1998 £000	1997 £000
Employee costs (including Directors)		
Wages and salaries	12,601	11,445
Social security costs	1,061	957
Other pension costs	444	335
	<u>14,106</u>	<u>12,737</u>

The average number of persons employed by the Group during the year was:

Number	Number
<u>741</u>	<u>715</u>

## Notes to the accounts | *continued*

### 7. Directors' remuneration

The aggregate amount of emoluments paid to or receivable by Directors was **£462,000** (1997 - £335,000).

The aggregate gain on the exercise of share options by Directors was **£145,000** (1997 - Nil).

Details of the options are included on page 14 in the Report of the Directors.

No amounts were paid to or receivable by Directors under other long term incentive schemes during the year.

Retirement benefits are accruing to six Directors under a defined benefit scheme.

	1998 £000	1997 £000
Highest paid Director		
Salary	101	65
Benefits in kind	7	6
Profit and working capital related commission	13	20
Gain on exercise of share options	36	-
	<b>157</b>	<b>91</b>

The highest paid Director had an accrued pension entitlement of **£45,000** (1997 - £35,000) at the end of the year.

All of the directors have notified the Company that they have waived all claims, without time limit, to the Directors' remuneration of £300 per annum provided by the Articles of Association.

### 8. Dividends

	1998 £000	1997 £000
Non-equity:		
On cumulative preference shares	6	6
Equity:		
On ordinary shares-		
Interim of <b>1.2p</b> per share (1997 as restated - 0.6p)	257	117
Recommended final of <b>3.1p</b> per share (1997 as restated - 1.5p)	618	296
	<b>881</b>	<b>419</b>



## Notes to the accounts | *continued*

### 9. Obligations under operating leases

The Group has the following commitments to make payments under non-cancellable operating leases in the next year:

	1998 £000		1997 £000	
	Plant, Machinery and Vehicles	Land and Buildings	Plant, Machinery and Vehicles	Land and Buildings
Leases which expire within 1 year	61	-	95	-
Leases which expire within 2 to 5 years	347	-	347	-
Leases which expire in over 5 years	2	340	1	276
	410	340	443	276

### 10. Earnings per ordinary share

	1998 £000	1997 £000
Earnings attributable to parent company shareholders	3,475	2,511
Less preference dividend	(6)	(6)
	3,469	2,505
Basic earnings per ordinary share based on <b>19,747,550</b> average ordinary shares in issue and outstanding (1997 as restated - 19,434,572)	17.6p	12.9p
Diluted earnings per ordinary share based on <b>20,025,550</b> average ordinary shares in issue and outstanding (1997 as restated - 20,218,572)	17.3p	12.4p

The difference between the average numbers of ordinary shares used in the calculations of basic and diluted earnings per share comprises **278,000** share options (1997 - 784,000) outstanding at the year end.

# Notes to the accounts | *continued*

## 11. Intangible fixed assets

	1998 £000	1997 £000
Goodwill		
Additions at cost during year	230	-
Amortisation	(1)	-
Net book value at 31st December 1998	229	-

The goodwill arose on the acquisition of certain assets, mainly plant and machinery, and the trade of the Silentyay Felts underlay business on 19th November 1998. The consideration was £275,000 and the book value of assets was £45,000.

## 12. Tangible fixed assets

	Group Land and Buildings Freehold £000	Long Leasehold £000	Group Plant and Equipment £000	Total Group £000	Company Plant and Equipment £000
Cost or valuation					
At 31st December 1997	5,037	198	15,359	20,594	-
Additions	964	-	2,477	3,441	644
Disposals	-	-	(380)	(380)	-
At 31st December 1998	6,001	198	17,456	23,655	644
Comprising:					
At valuation-1997	4,940	-	-	4,940	-
At cost	1,061	198	17,456	18,715	644
At 31st December 1998	6,001	198	17,456	23,655	644
Depreciation					
At 31st December 1997	13	1	8,776	8,790	-
Charge in year	111	5	1,397	1,513	2
Disposals	-	-	(313)	(313)	-
At 31st December 1998	124	6	9,860	9,990	2
Net book value at 31st December 1998	5,877	192	7,596	13,665	642
Net book value at 31st December 1997	5,024	197	6,583	11,804	-

The freehold land and buildings were professionally valued on the basis of open market value for the existing use as at 31st December 1997.

If stated under historical cost principles the comparable amounts for land and buildings would be:

	1998 £000	1997 £000
Cost	4,513	3,607
Accumulated depreciation	(995)	(948)
	3,518	2,659

The Group has capital commitments contracted for of **£1,840,000** (1997-£217,000) at the year end.

The net book value of plant and equipment includes an amount of **£2,001,000** (1997-£2,297,000) comprising cost of **£2,869,000** (1997-£3,402,000) and accumulated depreciation of **£868,000** (1997-£1,105,000) in respect of assets held under finance leases or hire purchase contracts.

# Notes to the accounts | *continued*

## 13. Fixed asset investments

Shares in subsidiary undertakings:

Company  
£000

At 31st December 1997 and 31st December 1998

7,962

## 14. Stocks

Group

1998      1997  
£000      £000

Raw materials and consumables

1,612      1,325

Work in progress

751      777

Finished goods and goods for resale

9,305      7,921

11,668      10,023

The replacement cost of stocks does not differ materially from the balance sheet valuation.

## 15. Debtors

Group

Company

1998      1997      1998      1997  
£000      £000      £000      £000

Trade debtors

7,902      7,817      -      -

Amounts owed by subsidiary undertakings

-      -      3,830      4,150

Other debtors

96      37      26      9

Assets held for sale

235      246      220      -

Prepayments and accrued income

513      377      5      20

Taxation recoverable

58      97      33      90

8,804      8,574      4,114      4,269

Included in the Company debtors is an amount of **£226,000** (1997 - £226,000) falling due after one year, relating to amounts owed by subsidiary undertakings.

The assets held for sale comprise a property and machinery stated at open market valuations of £220,000 and £15,000 respectively. If stated under historical cost principles the comparable amounts would be £20,000 and £15,000 respectively.

# Notes to the accounts | *continued*

## 16. Creditors

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Amounts falling due within one year:				
Bank loan and overdraft	434	1,399	483	3,003
Obligations under finance leases and hire purchase contracts (note 18)	435	565	-	-
Trade creditors	6,829	6,595	-	-
Amounts owed to subsidiary undertakings	-	-	2,007	-
Corporation tax	1,708	1,575	-	-
Other taxes and social security	1,026	920	-	-
Other creditors	302	308	6	6
Accruals and deferred income	1,965	1,788	114	122
Accrued pension costs	135	114	-	-
Dividend	618	296	618	296
	<b>13,452</b>	<b>13,560</b>	<b>3,228</b>	<b>3,427</b>
Amounts falling due after one year:				
Bank loan	875	-	875	-
Obligations under finance leases and hire purchase contracts (note 18)	1,119	857	576	-
Accrued pension costs	523	505	-	-
	<b>2,517</b>	<b>1,362</b>	<b>1,451</b>	<b>-</b>

The bank overdraft and loan are secured by fixed and floating charges over Group assets.

The bank loan carries interest at 7.48% and is repayable in instalments as follows -

	£000
Within one year	125
Within one to two years	250
Within two to five years	625
	<b>1000</b>

## 17. Reconciliation and analysis of net debt

17. Reconciliation and analysis of net debt		1998	1997	
(a) Reconciliation of net debt:		£000	£000	
Increase in cash in the period		1,033	1,227	
Decrease in lease financing		650	532	
Change in net debt resulting from cash flows		1,683	1,759	
New finance leases and hire purchase contracts		(782)	(538)	
New bank loan		(1000)	-	
Movement in net debt in the period		(99)	1,221	
Net debt at 1st January		(2,741)	(3,962)	
Net debt at 31st December		(2,840)	(2,741)	
(b) Analysis of net debt:				
	1st January 1998	Cash flow	Other non-cash 31st December 1998	
Cash at bank and in hand	80	(57)	-	23
Bank overdraft	(1,399)	1,090	-	(309)
	(1,319)	1,033	-	(286)
Finance leases and hire purchase contracts	(1,422)	650	(782)	(1,554)
Bank loan due within 1 year	-	(125)	-	(125)
Bank loan due after 1 year	-	(875)	-	(875)
	(2,741)	683	(782)	(2,840)

# Notes to the accounts | *continued*

## 18. Obligations under finance leases and hire purchase contracts

Obligations under finance leases and hire purchase contracts are due to be repaid over the following periods:

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Within 1 year	655	641	148	-
Between 1 and 5 years	1,147	967	519	-
	1,802	1,608	667	-
Less finance charges allocated to future periods	(248)	(186)	(91)	-
	1,554	1,422	576	-

## 19. Provisions for liabilities and charges

	Group		Group		Company		Company	
	Provided		Not Provided		Provided		Not Provided	
	1998	1997	1998	1997	1998	1997	1998	1997
	£000	£000	£000	£000	£000	£000	£000	£000
Deferred taxation								
Deferred taxation comprises:								
Accelerated capital allowances	1,047	944	-	-	49	-	-	-
Short term timing differences	(399)	(396)	-	-	-	-	-	-
Capital gains	35	35	220	220	-	-	-	-
	683	583	220	220	49	-	-	-

	Group		Company	
	£000		£000	
At 31st December 1997	583		-	
Provided in the year	100		49	
At 31st December 1998	683		49	

There is no potential liability to capital gains tax in respect of the revalued properties.

## 20. Called up share capital

Authorised:

	Group and Company	
	1998	1997
	£000	£000
250,000 3.5% (4.4% including tax credit) cumulative preference shares of £1 each (non-equity)	250	250
24,000,000 ordinary shares of 5p each (equity)	1,200	1,200
	1,450	1,450

Allotted and fully paid:

	1998	1997
	£000	£000
175,000 3.5% (4.4% including tax credit) cumulative preference shares of £1 each (non-equity)	175	175
19,940,572 ordinary shares of 5p each (equity)	997	972
	1,172	1,147

A subdivision of each of the Company's existing 20p ordinary shares into 4 new ordinary shares of 5p each was approved by shareholders on 1st October 1998 and dealings in the new shares commenced on 5th October 1998.

On 1st May 1995 options to subscribe for up to 620,000 ordinary shares of 5p each were granted to five Directors and eleven senior employees under the Executive Share Option Scheme ('the Scheme'). Subsequently, options over 82,000 of these ordinary shares lapsed and, of the balance, options over 506,000 shares were exercised during 1998 with a nominal value of £25,000 and consideration received of £167,000. The balance of the options is exercisable at £0.33p at any time prior to 1st May 2005. On 7th April 1997 further options to subscribe for up to 246,000 ordinary shares of 5p each were granted to three Directors and five senior employees under the Scheme. The options are exercisable at £0.42p at any time between 8th April 2000 and 7th April 2007.

## 20. Called up share capital (continued)

The preference shares, which comprise the only non-equity interest in shareholders' funds, have the following rights attached thereto:

### *Dividend rights*

Fixed cumulative dividend at the rate of 3.5% per annum (4.4% including tax credit) payable half yearly in arrears on 30th June and 31st December.

### *Redemption of shares*

The shares have no redemption entitlement.

### *Winding-up*

On a winding-up the shares have priority before all other classes of share to receive repayment of capital plus all arrears of dividend.

### *Voting rights*

The holders have no voting rights unless the dividend is in arrears for six months or more or a resolution is proposed which modifies the rights attached to the preference shares or for the winding-up of the Company.

## 21. Reserves (equity)

	Group £000	Company £000
Share premium account:		
At 31st December 1997	61	61
Issue of shares under share option scheme	142	142
At 31st December 1998	203	203
Revaluation reserve:		
At 31st December 1997	2,784	-
Transfer of depreciation on revalued amounts	(19)	-
At 31st December 1998	2,765	-
Profit and loss account:		
At 31st December 1997	10,984	7,596
Transfer from revaluation reserve	19	-
Retained surplus for the financial year	2,594	(981)
At 31st December 1998	13,597	6,615

Cumulative goodwill in respect of acquisitions written off immediately to the profit and loss account amounts to **£1,548,000**

(1997-£1,548,000). Goodwill has been eliminated as a matter of accounting policy and would be charged to the profit and loss account on the subsequent disposal of the businesses to which it relates.

## 22. Reconciliation of movement in shareholders' funds

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Profit/(loss) for the financial year	3,475	2,511	(100)	461
Dividends	(881)	(419)	(881)	(419)
Issue of shares under share option scheme	167	-	167	-
Revaluation in period	-	1,135	-	-
	2,761	3,227	(814)	42
Opening shareholders' funds	14,976	11,749	8,804	8,762
Closing shareholders' funds	17,737	14,976	7,990	8,804

## 23. Pensions

### (i) The Gaskell Pension Scheme

The Group operates a pension scheme providing defined benefits based on final pensionable salary. The assets of the Scheme are held separately from those of the Group, being invested by Legal & General Investment Management Limited and Mercury Asset Management plc. Contributions to the Scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method, across the Group as a whole. The most recent valuation was undertaken with an effective date of 1st January 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. For the purpose of calculating the pension costs it was assumed that the investment returns will, on average, exceed salary increases by 2% per annum and that present and future pensions will increase at the rate provided under the rules of the plan.

The actuarial valuation showed that the market value of the Scheme's assets was £11,322,000 at 1st January 1996 and that the actuarial value of these assets, projected forward to 1st January 1997, adjusted for cash flows, represented 110% of the benefits that had accrued to members, after allowing for expected future increases in earnings. In view of this and based on actuarial advice, the employing companies within the Group ceased making contributions during the year ended 31st December 1997 and then recommenced contributions at the rate of 10.5% of pensionable payroll with effect from 1st January 1998. The contributions of employees remained at 5% of pensionable salaries.

The pension charge for the period was **£433,000** (1997-£307,000). This included an allowance of **£151,000** (1997-£139,000) in respect of amortisation of experience surpluses that are being recognised over 17 years, the average remaining service lives of employees. The balance sheet includes a provision of **£658,000** (1997-£619,000) in respect of accrued pension costs of which **£135,000** (1997-£114,000) is due in less than one year.

### (ii) The Gaskell Money Purchase Pension Scheme

The Group offers a money purchase pension scheme for weekly paid employees. This is a defined contribution pension scheme based on the National Insurance contracted-out rebate. The Group meets certain administration costs of the scheme which in 1998 totalled £4,000. The balance outstanding at the end of the year was £2,000.

## 24. Contingent liabilities

The Company has provided unlimited guarantees over the borrowings of subsidiary undertakings which at 31st December 1998 amounted to **£3,501,000** (1997-£2,361,000).

## 25. Related party transactions

A sum of **£7,021** (1997-£7,492) in respect of the provision of administrative services was paid during the year to Andrew Industries Limited of which the Chairman, Mr E D Andrew, is a shareholder and director. The balance outstanding at the end of the year was **£1,900** (1997-Nil).

## 26. Principal operating subsidiaries

The principal operating subsidiaries included in the Group accounts and their activities are set out below. The Company is entitled to all voting rights in respect of its subsidiaries.

	Activities	Class of Capital/ Percentage held
Gaskell Textiles Limited	Manufacturer and distributor of carpet tiles, carpet underlays, automotive upholstery, sports surfaces and other non-woven products.	Ordinary 100%
Gaskell Carpets Limited	Manufacturer and distributor of tufted and Axminster carpets. Carpet yarn spinner.	Ordinary 100%
Bamber Carpets Limited	Manufacturer of carpet tiles and tufted carpets.	Ordinary 100%
Modulus Flooring Systems Limited	Sale and distribution of carpets and carpet tiles.	Ordinary 100%

The subsidiaries operate in the United Kingdom and are registered in England. A full list of subsidiaries is attached to the annual return of the Company.

## Financial Summary

	1998 £000	1997 £000	1996 £000	1995 £000	1994 £000
<b>Turnover</b>	52,629	48,783	43,716	39,116	38,230
<b>Operating profit</b>	5,271	4,022	1,594	1,194	1,103
Interest payable	(220)	(367)	(387)	(387)	(389)
<b>Profit on ordinary activities before taxation</b>	5,051	3,655	1,207	807	714
Taxation	(1,576)	(1,144)	(404)	(245)	(239)
<b>Profit on ordinary activities after taxation</b>	3,475	2,511	803	562	475
Preference dividends	(6)	(6)	(6)	(6)	(6)
Ordinary dividends	(875)	(413)	(233)	(219)	(206)
<b>Amount set aside to reserves</b>	2,594	2,092	564	337	263
Depreciation	1,513	1,486	1,318	1,262	1,226
<b>Total net assets</b>	17,737	14,976	11,749	11,185	10,848
Comprising:					
Fixed assets	13,894	11,804	9,976	10,007	9,592
Current assets	20,495	18,677	16,182	14,714	14,261
Borrowings (including finance lease and hire purchase liabilities)	(2,863)	(2,821)	(4,015)	(4,148)	(3,857)
Other liabilities	(13,789)	(12,684)	(10,394)	(9,388)	(9,148)
	17,737	14,976	11,749	11,185	10,848
<b>Basic earnings per share (as restated)</b>	17.6p	12.9p	4.1p	2.9p	2.4p
<b>Diluted earnings per share (as restated)</b>	17.3p	12.4p	4.0p	2.8p	2.4p
<b>Ordinary dividends per share (as restated)</b>	4.3p	2.1p	1.2p	1.1p	1.1p

Certain figures above have been restated to reflect the subdivision of ordinary shares in 1998.

## Financial Calendar

For the year ending 31st December 1999

Annual General Meeting	29th April 1999
Payment of preference dividend-first instalment	30th June 1999
Payment of final ordinary dividend for 1998	2nd July 1999
Half yearly results announced	September 1999
Payment of interim ordinary dividend	October 1999
Payment of preference dividend-second instalment	31st December 1999
Preliminary announcement of the 1999 results	March 2000

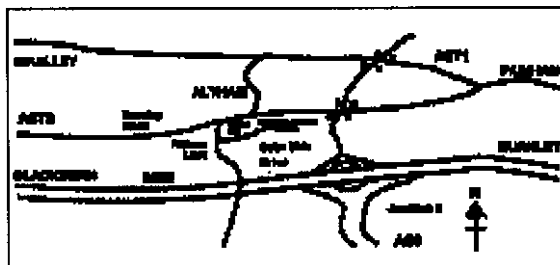


# Notice of Annual General Meeting

Notice is hereby given that the fifty-first Annual General Meeting of the Company will be held at Walton House, Syke Side Drive, Altham, Lancashire on 29th April 1999 at 11.30 am for the purpose of transacting the following business:

## As Ordinary Business

1. To receive the accounts for the year ended 31st December 1998 and the report of the Directors thereon.
2. To declare a final dividend.
3. To re-elect Mr E D Andrew a Director of the Company.
4. To re-elect Mr G Davenport a Director of the Company.
5. To re-elect Mr P Livesey a Director of the Company.
6. To re-elect Mr G Wheeler a Director of the Company.
7. To re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to fix their remuneration.
8. To approve the proposed executive long term incentive plan.



## As Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions.

9. THAT the Directors be and they are hereby generally and unconditionally authorised, pursuant to sub-section (1) of Section 80 of the Companies Act 1985, (referred to in this resolution as 'the Act') to exercise all the powers of the Company to allot relevant securities (as defined in sub-section (2) of that section) up to an aggregate nominal amount of £202,971 during the period expiring on the date of the next Annual General Meeting or 25th July 2000 whichever is the earlier and at any time thereafter in pursuance of any offer or agreement made by the Company before such expiry.
10. THAT, subject to the passing of Resolution 9 above, the Directors be and they are hereby authorised pursuant to Section 95 of the Act until the conclusion of the next Annual General Meeting or 25th July 2000 whichever is the earlier, (and thereafter in pursuance of any offer or agreement made by the Company prior thereto) to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 9 above as if Section 89(1) of the Act did not apply to such allotment. This authority shall be limited to the allotment of equity securities by way of a rights issue and to the allotment (otherwise than by way of a rights issue) of equity securities up to an aggregate nominal value of £49,851. For the purpose of this resolution 'rights issue' means any offer of equity securities to the holders of the Company's ordinary shares on the Company's Register of Members on a date fixed by the Directors in proportion (nearly as may be) to their holdings of ordinary shares. Any such rights issue shall be subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, or directions from any holders of ordinary shares to deal in some other manner with their respective entitlements, or legal or practical problems arising in any overseas territory or by virtue of shares being represented by depositary receipts, or the requirements of any regulatory body or stock exchange.
11. THAT the Company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 5p each in the Company provided that;
  - a) the maximum number of ordinary shares hereby authorised to be acquired is 1,994,057;
  - b) the maximum price which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the share is contracted to be purchased;
  - c) the minimum price which may be paid for any such share is 5p;
  - d) the authority hereby given shall expire at the close of the next Annual General Meeting of the Company to be held after the date hereof unless such authority is renewed prior to such time; but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of shares may be made in pursuance of any such contract.

By order of the Board

R HOPKIN  
Secretary

29th March 1999

# Notice of Annual General Meeting | *continued*

## Explanatory Notes

A member entitled to attend and vote may appoint one or more proxies, who need not be members, to vote instead of him/her. A proxy may vote only on a poll. To be valid the instrument appointing a proxy must be duly executed and deposited at the Registered Office of the Company not later than 48 hours before the time fixed for the meeting.

Copies of contracts of service of Directors of the Company will be available for inspection at the Company's Registered Office during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of meeting for fifteen minutes prior to and until the close of the meeting.

## Ordinary Business

Mr E D Andrew and Mr G Davenport are required to retire by rotation in accordance with the Articles of Association and are therefore, seeking re-election. Mr P Livesey and Mr G Wheeler were appointed as Directors since the last shareholders' meeting and, accordingly, must retire and seek re-election at the Annual General Meeting.

Following the merger of Price Waterhouse and Coopers & Lybrand from 1st July 1998, Price Waterhouse resigned as auditors. The Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation.

The Directors consider it to be in the interests of the Company to introduce a long term incentive plan for all executive Directors of the Company and its subsidiaries together with certain other Group executives. Details of the plan are set out in the separate circular to shareholders.

## Special Business

The position under the Companies Act 1985 with regard to unissued share capital is as follows:

Section 80 limits the powers of Directors to allot shares or convertible securities without express authority which may be given in general meeting or by the Articles of the Company.

Section 89(i) provides that equity securities may not be allotted for cash without first being offered to existing shareholders, pro rata to their holdings. Section 95 enables a company by special resolution to disapply the pre-emption rights of existing shareholders conferred by Section 89(1).

The Directors consider it to be in the interests of the Company that they should be allowed to allot unissued shares in the capital of the Company and also to allot equity securities for cash up to an aggregate nominal amount of £49,851 in addition to any rights issue. Such amount is 5% of the nominal value of the issued ordinary share capital of the Company. Notwithstanding the passing of the resolutions any issue of shares will continue to be subject to the requirements of the London Stock Exchange. No issue of shares will be made which would effectively alter the control of the Company without prior approval of the Company in general meeting.

Under Article 9(b) of the Company's Articles of Association, the Company is empowered to purchase its own shares. The Directors consider that a resolution should be proposed empowering the Company to purchase in the market a maximum of 1,994,057 ordinary shares of 5p each (being 10% of the issued ordinary share capital at 29th March 1999). The Board has no present intention of exercising any power to purchase the Company's ordinary shares in the market.

Since the proposed special resolution empowering the Company to purchase in the market a maximum of 1,994,057 ordinary shares of 5p each may, by returning capital to holders of ordinary shares, be a variation in the rights attached to the cumulative preference shares of £1 each in the capital of the Company, a separate class meeting of the holders of cumulative preference shares is required. At such class meeting a resolution will be proposed to approve the variation to those class rights, conditional upon the special resolution empowering the Company to purchase in the market a maximum of 1,994,057 ordinary shares of 5p each being passed at the Annual General Meeting, to be held immediately after the close of the class meeting.