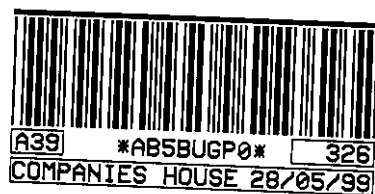


RINGTONS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1998

Registered number 572008



RINGTONS LIMITED

REPORT OF THE DIRECTORS OF RINGTONS LIMITED

DIRECTORS

PNH Smith (Chairman)
SM Smith
CJ Smith
P Dowson

REGISTERED OFFICE

Algernon Road
Newcastle upon Tyne
NE6 2YN

The directors present their report and audited accounts for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activities of the company comprise tea blending and packing, and tea and coffee retailing.

REVIEW OF AFFAIRS AND BUSINESS DEVELOPMENT

The company's affairs are considered to be satisfactory and progress in the development of the business continues.

RESULTS

	<u>1998</u>	<u>1997</u>
Profit available for distribution		
Ordinary dividend:	1,889,528	1,836,979
- paid during the year	(1,541,000)	(1,023,482)
	<hr/>	<hr/>
Transfer to reserves	£348,528	£813,497
	<hr/>	<hr/>

RINGTONS LIMITED

REPORT OF THE DIRECTORS OF RINGTONS LIMITED (continued)

EMPLOYEES

The company continues to give consideration to applications for employment made by disabled persons, depending upon the nature of vacancies arising. Company policy provides where practicable for the continued employment of persons disabled in the normal course of their employment. Training facilities are available to all employees.

The directors have maintained their practice of formally publicising important developments and of promoting the common interests of the group and the staff by means of regular meetings and continuous individual contact.

CHARITABLE AND POLITICAL DONATIONS DURING THE YEAR

The company made donations for charitable purposes amounting to £Nil (1997 - £Nil).

TANGIBLE FIXED ASSETS

Changes in tangible fixed assets during the year are set out in note 8.

DIRECTORS

The directors shown at the head of this report served throughout the year except where stated. None of the directors held shares in the company at 31 December 1998. Their shares in the parent company are shown in that company's accounts.

AUDITORS

The directors are to propose a resolution that PricewaterhouseCoopers be reappointed auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Price Waterhouse), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

RINGTONS LIMITED

REPORT OF THE DIRECTORS OF RINGTONS LIMITED (continued)

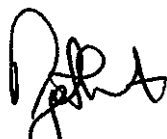
DIRECTORS' RESPONSIBILITIES

In respect of the preparation of the financial statements:

The directors are required by UK company law to present financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for the financial period.

The directors confirm that appropriate accounting policies, as described in the notes to the accounts, have been applied consistently and that reasonable and prudent judgements and estimates have been used in the preparation of the financial statements, which have been prepared under the going concern basis.

The directors are also responsible for ensuring that adequate accounting records have been kept and that appropriate procedures have been followed for safeguarding the assets of the company and preventing and detecting fraud and other irregularities.



PNE SMITH
Chairman

13 April 1999

PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne NE99 1PL
Telephone +44 (0) 191 232 8493
Facsimile +44 (0) 191 261 9490

AUDITORS' REPORT TO THE MEMBERS OF RINGTONS LIMITED

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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

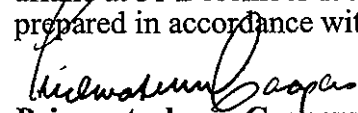
Basis of opinion

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

13 April 1999

RINGTONS LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998**

	<u>1998</u>	<u>1997</u>
TURNOVER (Note 2)	29,226,663	27,003,910
Cost of sales	<u>(16,479,395)</u>	<u>(15,274,813)</u>
GROSS PROFIT	12,747,268	11,729,097
Distribution costs	(7,378,542)	(7,095,931)
Administrative expenses	(3,118,309)	(2,701,517)
Other operating income	<u>220,532</u>	<u>293,502</u>
OPERATING PROFIT	2,470,949	2,225,151
Profit on sale of fixed assets	68,972	111,229
Profit on sale of subsidiary	-	180,122
Interest receivable and similar income	234,027	162,698
Interest payable and similar charges	(41,420)	(42,061)
Amounts written off investments	<u>(31,419)</u>	<u>(95,715)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)	2,701,109	2,541,424
Taxation on profit on ordinary activities (Note 6)	<u>(811,581)</u>	<u>(704,445)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION (Note 16)	1,889,528	1,836,979
DIVIDENDS (Notes 7 and 16)	<u>(1,541,000)</u>	<u>(1,023,482)</u>
AMOUNT TRANSFERRED TO RESERVES (Note 16)	<u>£348,528</u>	<u>£813,497</u>

STATEMENT OF RECOGNISED GAINS & LOSSES

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

RECONCILIATION OF HISTORICAL COST PROFITS

There is no material difference between reported profits and historical cost profits for 1998 or 1997.

RINGTONS LIMITED**BALANCE SHEET - 31 DECEMBER 1998**

	<u>1998</u>	<u>1997</u>
FIXED ASSETS		
Tangible assets (Note 8)	8,316,875	8,637,096
Investments (Note 9)	<u>1,739,401</u>	<u>1,679,900</u>
	10,056,276	10,316,996
CURRENT ASSETS		
Stocks (Note 10)	2,943,274	3,398,068
Debtors (Note 11)	1,744,620	1,770,697
Short-term deposits and cash at bank and in hand	<u>4,359,044</u>	<u>1,522,587</u>
	9,046,938	6,691,352
CREDITORS (amounts falling due within one year (Note 12))	<u>(8,130,077)</u>	<u>(6,365,989)</u>
NET CURRENT ASSETS	<u>916,861</u>	<u>325,363</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	10,973,137	10,642,359
PROVISIONS FOR LIABILITIES AND CHARGES (Note 13)	<u>(140,000)</u>	<u>(157,750)</u>
	<u>£10,833,137</u>	<u>£10,484,609</u>
CAPITAL AND RESERVES		
Called up share capital (Note 14)	438,290	438,290
Profit and loss account (Note 15)	<u>10,394,847</u>	<u>10,046,319</u>
EQUITY SHAREHOLDERS' FUNDS	<u>£10,833,137</u>	<u>£10,484,609</u>

The financial statements on pages 5 to 14 were approved by the Board of Directors on 13 April 1999 and are signed on their behalf by:-

PNH SMITH) DIRECTORS

SM SMITH)

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

1 ACCOUNTING POLICIES

(a) Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Turnover

Turnover represents the value of sales and services invoiced to customers net of value added tax.

(c) Deferred taxation

Provision is made using the liability method for tax deferred by accelerated capital allowances and other timing differences to the extent that a liability is expected to arise in the foreseeable future.

(d) Depreciation

The annual rates of depreciation applied to write off tangible fixed assets in equal annual instalments over their estimated useful lives are:

Freehold and long leasehold land and buildings	2%
Plant and machinery	10% - 25%
Motor vehicles	20%
Furniture and fittings and computer equipment	10% - 25%

(e) Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value where cost comprises the price paid for raw materials.

(f) Pensions

The cost of pensions in respect of the Ringtons Limited Discretionary Retirement Plan is charged to the profit and loss account so as to spread the cost over the service life of the employees in the scheme. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of qualified actuaries.

The cost of pensions in respect of the money purchase schemes are charged to the profit and loss account in the period in which the contributions are payable.

(g) Cash Flow Statement

The company is exempt from the requirement of Financial Reporting Standard No. 1 (revised) to prepare cash flow statement as it is a wholly owned subsidiary undertaking of Ringtons Holdings Limited, and its cash flows are included within the consolidated cash flow statement of that company.

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

1 ACCOUNTING POLICIES (continued)

(h) Group accounts

Group accounts have not been prepared as the company is a wholly owned subsidiary of Ringtons Holdings Limited, a company incorporated in the UK.

(i) Foreign currencies

Assets purchased in foreign currencies are expressed in sterling at the rates of exchange ruling at the dates of transaction. Exchange gains or losses are taken to the profit and loss account immediately.

(j) Goodwill

Up to and including 31 December 1997, purchased goodwill representing the excess of the purchase price over the fair value of net assets acquired has been written-off against reserves in the year of acquisition. This goodwill had been eliminated as a result of accounting policies in force at that time and will be charged or credited to the profit and loss account upon the subsequent disposal of the businesses to which it relates.

2 TURNOVER

All of the company's turnover was in the United Kingdom.

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is after charging:

	<u>1998</u>	<u>1997</u>
	£	£
Depreciation (Note 8)	908,380	920,385
Auditors' remuneration -statutory audit of the company	20,000	20,000
Interest payable on bank and other borrowings repayable within five years	41,420	42,061
	=====	=====

4 DIRECTORS' EMOLUMENTS

	<u>1998</u>	<u>1997</u>
	£	£
Directors' emoluments including pension	£232,443	£222,078
	=====	=====
Highest paid director	£139,504	£101,449
	=====	=====

3 directors have benefits accruing under the Ringtons Limited Discretionary Retirement Plan (1997:3).

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

5 STAFF COSTS

	<u>1998</u>	<u>1997</u>
Staff costs comprise:		
Wages and salaries	7,019,286	6,757,660
Social security costs	548,983	513,932
Other pension costs	<u>450,235</u>	<u>365,632</u>
	<u>£8,018,504</u>	<u>£7,637,224</u>

The average number of persons employed by the company was 577 (1997 - 588).

The company participates in the Ringtons Limited Discretionary Retirement Plan, the Company Money Purchase Scheme and the Ringtons Limited 1998 Pension Plan. The Ringtons Limited Discretionary Retirement Plan is of the defined benefit type providing benefits to certain employees within the company and the assets are held separately from the Group's assets. The Company Money Purchase Schemes are of the defined contribution type.

The latest actuarial valuation of the Ringtons Limited Discretionary Retirement Plan was carried out as at 1 December 1996. Details of this valuation are contained in the financial statements of Ringtons Holdings Limited.

6 TAXATION

The taxation charge based on the profit for the year comprises:

	<u>1998</u>	<u>1997</u>
Current year corporation tax payable at 31% (1997 - 31.5%) on the profit for the year	841,999	726,100
Tax attributable to franked investment income	15,476	-
Group relief	-	11,468
Prior year corporation tax	<u>(45,894)</u>	<u>(33,123)</u>
	<u>£811,581</u>	<u>£704,445</u>

7 DIVIDENDS

	<u>1998</u>	<u>1997</u>
On equity shares:		
Paid in year	<u>£1,541,000</u>	<u>£1,023,482</u>

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

8 TANGIBLE FIXED ASSETS

	Freehold land & buildings	Long leasehold land & buildings	Plant & machinery	Motor vehicles	Fixtures and fittings	Computer equipment	Total
<u>Cost</u>							
At 1 January 1998	5,247,572	335,253	3,313,675	2,387,793	604,490	248,849	12,137,632
Additions	82,833	-	29,680	902,598	53,200	82,950	1,151,261
Disposals	(12,500)	(8,589)	(1,590)	(990,114)	(2,920)	(4,355)	(1,020,068)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1998	5,317,905	326,664	3,341,765	2,300,277	654,770	327,444	12,268,825
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Accumulated Depreciation</u>							
At 1 January 1998	828,990	68,800	1,389,873	722,691	307,464	182,718	3,500,536
Charge for the year	104,329	6,534	317,977	445,335	53,790	40,415	968,380
Disposals	(292)	(5,787)	(1,325)	(506,307)	(2,410)	(845)	(516,966)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1998	933,027	69,547	1,706,525	661,719	358,844	222,288	3,951,950
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Net book amount</u>							
At 31 December 1998	£4,384,878	£257,117	£1,635,240	£1,638,558	£295,926	£105,156	£8,316,875
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1997	£4,418,582	£266,453	£1,923,802	£1,665,102	£297,026	£66,131	£8,637,096
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At 31 December 1998 there were no contractual commitments of the company for expenditure.
(1997 - £Nil).

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

9 INVESTMENTS

	Shares in group companies £	Listed investments £	Total £
At 1 January 1998	53,774	1,626,126	1,679,900
Transferred from parent company	-	-	-
Additions	-	282,177	282,177
Disposals	-	(222,526)	(222,526)
Amounts written off	(150)	-	(150)
	<hr/>	<hr/>	<hr/>
	£53,624	£1,685,777	£1,739,401
	<hr/>	<hr/>	<hr/>

Shares in Group Companies

Details of subsidiary undertakings, all of which are registered in England and are wholly owned, are as follows:

Non-trading companies

John Lee & Sons (Newcastle) Limited
Poundworth Limited
Samuel Kaye & Sons Limited

10 STOCKS

	<u>1998</u>	<u>1997</u>
Raw materials	1,842,401	2,256,232
Finished goods	<u>1,100,873</u>	<u>1,141,836</u>
	£2,943,274	£3,398,068
	<hr/>	<hr/>

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

11 DEBTORS

	<u>1998</u>	<u>1997</u>
Amounts falling due within one year		
Trade debtors	1,359,250	1,379,714
Amounts owed by associated undertaking	-	15,511
Other debtors	4,768	4,768
Mortgage debt falling due within one year	102,428	104,269
Prepayments and accrued income	<u>72,399</u>	<u>55,892</u>
	1,538,845	1,560,154
Amounts falling due after more than one year		
Amounts owed by associated undertaking	156,923	156,923
Mortgage debt	<u>48,852</u>	<u>53,620</u>
	<u>205,775</u>	<u>210,543</u>
	<u>£1,744,620</u>	<u>£1,770,697</u>

12 CREDITORS (amounts falling due within one year)

	<u>1998</u>	<u>1997</u>
Trade creditors	2,015,810	1,681,817
Amount owed to parent undertaking	4,442,643	3,289,361
Corporation tax	839,997	710,000
Other taxation and social security	255,007	257,448
Other creditors	244,209	251,800
Accruals and deferred income	<u>332,411</u>	<u>175,563</u>
	<u>£8,130,077</u>	<u>£6,365,989</u>

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

13 PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	<u>1998</u>	<u>1997</u>
Taxation deferred by capital allowances and other timing differences at 30% (1997: 31%)	140,000	140,000
Restructuring provision	-	17,750
	<u>140,000</u>	<u>157,750</u>

The full potential deferred tax liability not provided for amounts to:

	<u>1998</u>	<u>1997</u>
Taxation deferred by capital allowances and other timing differences at 30% (1997: 31%)	£579,000	£471,653

14 SHARE CAPITAL

	<u>1998</u>		<u>1997</u>	
	<u>Authorised</u>	<u>Allotted and Fully Paid</u>	<u>Authorised</u>	<u>Allotted and Fully Paid</u>
Shares of £1				
<u>Non equity</u>				
4.55% (formerly 6.5%) Cumulative 'A' First Preference	78,300	-	78,300	-
4.20% (formerly 6%) Cumulative 'B' First Preference	32,490	-	32,490	-
4.55% (formerly 6.5%) Cumulative 'C' Second Preference	47,500	-	47,500	-
<u>Equity</u>				
Ordinary	<u>2,341,710</u>	<u>438,290</u>	<u>2,341,710</u>	<u>438,290</u>
	<u>£2,500,000</u>	<u>£438,290</u>	<u>£2,500,000</u>	<u>£438,290</u>

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

15 RESERVES

	<u>Profit and loss reserve</u>
At 1 January 1998	10,046,319
Retained profit for the year	1,889,528
Dividends	(1,541,000)
	<hr/>
At 31 December 1998	£10,394,847
	<hr/> <hr/>

16 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<u>1998</u>	<u>1997</u>
Profit on ordinary activities after taxation	1,889,528	1,836,979
Dividends	(1,541,000)	(1,023,482)
Goodwill on acquisition written off	<u>-</u>	<u>(248,252)</u>
Net addition to shareholders' funds	348,528	565,245
Shareholders' funds at 1 January	<u>10,484,609</u>	<u>9,919,364</u>
Shareholders' funds at 31 December	<u>£10,833,137</u>	<u>£10,484,609</u>

17 CONTINGENT LIABILITIES

The company has no contingent liabilities (1997: £Nil).

18 ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

The ultimate parent undertaking, and the ultimate controlling party is Ringtons Holdings Limited, a company registered in England. The group accounts of that company are available from Algernon Road, Newcastle Upon Tyne, NE6 2YN.

Transactions with other companies within the Ringtons Group are not disclosed as the company has taken advantage of the exemption available under Financial Reporting Standard No 8 "Related Party Disclosures".