

RINGTONS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1997

(Amended)

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

The directors present their report and audited accounts for the year ended 31 December 1997.

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.

On 11 April 1997 the company disposed of its shareholding in its subsidiary undertaking, Smith's Electric Vehicles Limited to Motionobject Limited in exchange for consideration comprising cash and a 45% interest in the ordinary share capital of Motionobject Limited.

RESEARCH AND DEVELOPMENT

The company has not incurred significant expenditure in respect of research and development.

RESULTS

	<u>1997</u>	<u>1996</u>
Profit available for distribution	1,836,979	1,864,707
Ordinary dividend: - paid during the year	(1,023,482)	(1,500,000)
	<hr/>	<hr/>
Transfer to reserves	£813,497	£364,707
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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 (1996 - £7,413).

TANGIBLE FIXED ASSETS

Changes in tangible fixed assets during the year are set out in note 8 on page 10.

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 1997. Their shares in the parent company are shown in that company's accounts.

AUDITORS

The auditors, Price Waterhouse, are willing to continue in office and a resolution as to their re-appointment and their remuneration will be proposed at the Annual General Meeting.

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.



P.N. SMITH
Chairman

1 June 1998

Price Waterhouse



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

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

1 June 1998

RINGTONS LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997**

	<u>1997</u>	<u>1996</u>
TURNOVER (Note 2)	27,003,910	26,211,532
Cost of sales	<u>(15,274,813)</u>	<u>(14,565,022)</u>
GROSS PROFIT	11,729,097	11,646,510
Distribution costs	(7,095,931)	(6,676,655)
Administrative expenses	(2,701,517)	(2,673,692)
Other operating income	<u>293,502</u>	<u>158,840</u>
OPERATING PROFIT	2,225,151	2,455,003
Profit on sale of fixed assets	111,229	68,380
Profit on sale of subsidiary (Note 9)	180,122	-
Interest from shares in group undertakings	-	55,000
Other interest receivable and similar income	162,698	130,386
Interest payable and similar charges	(42,061)	(45,895)
Amounts written off investments	<u>(95,715)</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)	2,541,424	2,662,874
Tax on profit on ordinary activities (Note 6)	<u>(704,445)</u>	<u>(798,167)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION (Note 16)	1,836,979	1,864,707
DIVIDENDS (Equity) (Notes 7 and 16)	<u>(1,023,482)</u>	<u>(1,500,000)</u>
AMOUNT TRANSFERRED TO RESERVES (Note 15)	<u>£813,497</u>	<u>£364,707</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 1997 or 1996.

RINGTONS LIMITED

BALANCE SHEET - 31 DECEMBER 1997

	<u>1997</u>	<u>1996</u>
FIXED ASSETS		
Tangible assets (Note 8)	8,637,096	7,900,464
Investments (Note 9)	<u>1,679,900</u>	<u>153,995</u>
	10,316,996	8,054,459
CURRENT ASSETS		
Stocks (Note 10)	3,398,068	2,705,533
Debtors (Note 11)	1,770,697	1,849,133
Short-term deposits and cash at bank and in hand	<u>1,522,587</u>	<u>2,306,190</u>
	6,691,352	6,860,856
CREDITORS (amounts falling due within one year) (Note 12)	<u>(6,365,989)</u>	<u>(4,735,951)</u>
NET CURRENT ASSETS	<u>325,363</u>	<u>2,124,905</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	10,642,359	10,179,364
PROVISIONS FOR LIABILITIES AND CHARGES (Note 13)	<u>(157,750)</u>	<u>(260,000)</u>
	<u>£10,484,609</u>	<u>£9,919,364</u>
CAPITAL AND RESERVES		
Called up share capital (Note 14)	438,290	438,290
Profit and loss account (Note 15)	<u>10,046,319</u>	<u>9,481,074</u>
SHAREHOLDERS' FUNDS	<u>£10,484,609</u>	<u>£9,919,364</u>

The financial statements on pages 5 to 14 were approved by the Board of Directors on 25 June 1998 and are signed on their behalf by:-

PNH SMITH) DIRECTORS

SM SMITH ()

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997

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 Company Money Purchase scheme is 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.

(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.

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (continued)

1 ACCOUNTING POLICIES (continued)

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

Purchased goodwill represents the excess of acquisition cost over the fair value of the underlying assets acquired and is written off directly to other reserves in the year of acquisition.

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>1997</u> £	<u>1996</u> £
Depreciation (Note 8)	920,385	841,745
Auditors' remuneration		
- statutory audit of the company	20,000	18,500
- other services	-	1,050
Interest payable on bank and other borrowings repayable within five years	42,061	45,895
	<u> </u>	<u> </u>

Other services exclude £42,381 relating to work on disposals and acquisitions.

4 DIRECTORS' EMOLUMENTS

	<u>1997</u>	<u>1996</u>
Directors' emoluments including pension contributions	£222,078	£230,810
	<u> </u>	<u> </u>
Highest paid director	£101,449	£99,980
	<u> </u>	<u> </u>

3 directors have benefits accruing under the Ringtons Limited Discretionary Retirement Plan.

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (continued)

5 STAFF COSTS

Staff costs comprise:	<u>1997</u>	<u>1996</u>
Wages and salaries	6,757,660	6,452,513
Social security costs	513,932	452,814
Other pension costs	<u>365,632</u>	<u>361,285</u>
	<u>£7,637,224</u>	<u>£7,266,612</u>

The average number of persons employed by the company was 588 (1996 - 576).

The company participates in the Ringtons Limited Discretionary Retirement Plan and Company Money Purchase Scheme. 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 Scheme is 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>1997</u>	<u>1996</u>
Current year Corporation tax payable at 31% (1996 - 33%) on the profit for the year	726,100	723,000
Group relief	11,468	67,000
Prior year corporation tax	<u>(33,123)</u>	<u>8,167</u>
	<u>£704,445</u>	<u>£798,167</u>

7 DIVIDENDS

On equity shares:	<u>1997</u>	<u>1996</u>
Paid in year	<u>£1,023,482</u>	<u>£1,500,000</u>

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (continued)

8 TANGIBLE FIXED ASSETS

	Capital work <u>in progress</u>	Freehold land & <u>buildings</u>	Long leasehold land & <u>buildings</u>	Plant & <u>machinery</u>	Motor <u>vehicles</u>	Fixtures fittings & computer <u>equipment</u>	<u>Total</u>
<u>Cost</u>							
At 1 January 1997	146,598	5,085,013	340,253	2,604,190	2,376,266	782,353	11,334,673
Additions	-	164,091	-	977,486	912,434	102,959	2,156,970
Disposals	-	(1,532)	(5,000)	(414,599)	(900,907)	(31,973)	(1,354,011)
Transfer	(146,598)	-	-	146,598	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1997	-	5,247,572	335,253	3,313,675	2,387,793	853,339	12,137,632
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Accumulated Depreciation</u>							
At 1 January 1997	-	727,183	64,888	1,537,525	677,402	427,211	3,434,209
Charge for the year	-	102,879	6,739	260,244	461,458	89,065	920,385
Disposals	-	(1,072)	(2,827)	(407,896)	(416,169)	(26,094)	(854,058)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1997	-	828,990	68,800	1,389,873	722,691	490,182	3,500,536
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Net book amount</u>							
At 31 December 1997	£-	£4,418,582	£266,453	£1,923,802	£1,665,102	£363,157	£8,637,096
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1996	£146,598	£4,357,830	£275,365	£1,066,665	£1,698,864	£355,142	£7,900,464
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At 31 December 1997 contractual commitments of the company for capital expenditure were £nil (1996 - £599,493)

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (continued)

9 INVESTMENTS

	Shares in group companies £	Listed investments £	Total £
At 1 January 1997	153,995	-	153,995
Transferred from parent company	-	1,626,126	1,626,126
Additions	149,489	-	149,489
Disposals	(153,995)	-	(153,995)
Amounts written off	(95,715)	-	(95,715)
	<hr/>	<hr/>	<hr/>
	53,774	1,626,126	1,679,900
	<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

On 11 April 1997 the company disposed of its interest in the shares of SEV Group Limited to Motionobject Limited in exchange for cash and a 45% interest in the ordinary share capital of Motionobject Limited. Motionobject Limited is the parent company of SEV Group Limited.

Motionobject Limited and SEV Group Limited are both registered in England and details are as follows:

Activity

SEV Group Limited	Manufacture and sale of electric vehicles
Motionobject Limited	Holding company

Profit on sale of investment in subsidiary undertaking comprised:

	£
Proceeds	334,117
Carrying value of investment	153,995
	<hr/>
Profit on disposal	180,122
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RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (continued)

10 STOCKS

	<u>1997</u>	<u>1996</u>
Raw materials	2,256,232	1,713,138
Finished goods	<u>1,141,836</u>	<u>992,395</u>
	£3,398,068	£2,705,533

11 DEBTORS

	<u>1997</u>	<u>1996</u>
Amounts falling due within one year		
Trade debtors	1,379,714	1,155,105
Amounts owed by associated undertaking	15,511	187,522
Other debtors	104,269	77,210
Mortgage debt falling due within one year	4,768	4,768
Prepayments and accrued income	<u>55,892</u>	<u>66,140</u>
	1,560,154	1,490,745
Amounts falling due after more than one year		
Amounts owed by other subsidiary undertakings	-	300,000
Amounts owed by associated undertaking	156,923	-
Mortgage debt	<u>53,620</u>	<u>58,388</u>
	<u>210,543</u>	<u>358,388</u>
	£1,770,697	£1,849,133

12 CREDITORS (amounts falling due within one year)

	<u>1997</u>	<u>1996</u>
Trade creditors	1,681,817	1,747,144
Amount owed to parent undertaking	3,289,361	1,485,023
Amounts owed to other subsidiary undertakings	-	34,680
Corporation tax	710,000	732,931
Other taxation and social security	257,448	268,983
Other creditors	251,800	267,270
Accruals and deferred income	<u>175,563</u>	<u>199,920</u>
	£6,365,989	£4,735,951

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (continued)

13 PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	<u>1997</u>	<u>1996</u>
Taxation deferred by capital allowances and other timing differences at 31%	140,000	140,000
Restructuring provision	17,750	120,000
	<u>£157,750</u>	<u>£260,000</u>

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

	<u>1997</u>	<u>1996</u>
Taxation deferred by capital allowance and other timing differences at 31%	£471,653	£547,000

14 SHARE CAPITAL

	<u>1997</u>		<u>1996</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>

15 RESERVES

	<u>Profit and loss reserve</u>
At 1 January 1997	9,481,074
Retained profit for the year	1,836,979
Dividends	(1,023,482)
Goodwill on acquisition (see note 17)	(248,252)
	<u>£10,046,319</u>
At 31 December 1997	<u>£10,046,319</u>

RINGTONS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (continued)

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1997</u>	<u>1996</u>
Profit on ordinary activities after taxation	1,836,979	1,864,707
Dividends	(1,023,482)	(1,500,000)
Goodwill on acquisition written off	<u>(248,252)</u>	<u>-</u>
Net additions to shareholders' funds	565,245	364,707
Shareholders' funds at 1 January	<u>9,919,364</u>	<u>9,554,657</u>
Shareholders' funds at 31 December	<u>£10,484,609</u>	<u>£9,919,364</u>

17 ACQUISITION OF BUSINESS

On 15 September 1997, Ringtons Limited completed the acquisition of the stocks and benefit of contracts of the NAAFI Tea Company. The impact of the acquisition on the balance sheet at that date is as follows:

	<u>Fair Value to the company</u>
Stocks	567,579
Consideration (including costs)	<u>815,831</u>
Goodwill on acquisition	£248,252

18 CONTINGENT LIABILITIES

The company has £Nil (1996 - £Nil) contingent liabilities.

19 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".