

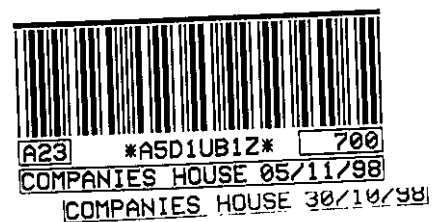
Co House

CREIGHTONS plc

Reports and Financial Statements

31 March 1998

Registered Number 1227964



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CREIGHTONS plc

Directors, advisers and bankers

Directors

Barry Dale
Michael Gubbins
Peter Somers
Roger Lane-Smith

Chairman
Managing Director
Finance Director
Non Executive Director

Registered Office

Water Lane
Storrington
West Sussex RH20 3DP
Registered in England No 1227964

Company Secretary

Nicholas O'Shea BSc, ACMA

Auditors

KPMG Audit Plc
1 Forest Gate
Crawley
West Sussex RH11 9PT

Stockbrokers

Peel, Hunt & Co Ltd
62 Threadneedle Street
London EC2R 8HP

Registrars

Northern Registrars Ltd
Penistone Road
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA

Solicitors

Dibb Lupton Alsop
Bridgewater House
101 Barbirolli Square
Manchester
M2 3DL

Bankers

Barclays Bank PLC
1 Chapel Road
Worthing
West Sussex BN11 1EX

Financial Advisers

Singer & Friedlander Limited
21 New Street
Bishopsgate
London EC2M 4HR

Notice of meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at the offices of Dibb Lupton Alsop, 125 London Wall, London EC2Y 5AE on Tuesday 27 October 1998 at 10am in order to consider and, if thought fit, pass the following resolutions:-

1. To receive and consider the Company's financial statements and reports of the directors and auditors for the year ended 31 March 1998
2. To reappoint Barry Dale as director, retiring under the provisions of Article 101 of the Articles of Association of the Company as director of the Company.
3. To reappoint Peter Somers as director, retiring under the provisions of Article 101 of the Articles of Association of the Company as director of the Company.
4. To reappoint Roger Lane-Smith as director, retiring under the provisions of Article 101 of the Articles of Association of the Company as director of the Company.
5. To reappoint Michael Gubbins as a director retiring by rotation under the provisions of Article 103 of the Articles of Association as a director of the Company.
6. To reappoint KPMG Audit Plc as auditors and to authorise the directors to determine their remuneration.
7. As an ordinary resolution:-

"That, in terms of Article 20 of the Company's Articles of Association, the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section 80) of the Company up to an aggregate nominal value of £1,024,695.40 provided that this authority shall expire on the date of the next annual general meeting of the Company after the passing of this resolution or, if earlier, 15 months after the passing of this resolution unless previously renewed, varied or revoked by the Company in general meeting and provided that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired, this authority to replace any existing like authority given prior to the date hereof which is hereby revoked with immediate effect."

8. As a special resolution:-

"That, without prejudice to any existing powers, in terms of Article 21 of the Company's Articles of Association the directors of the Company be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred upon them by Section 80 of the said Act by resolution 7 above as if Section 89(I) of the said Act did not apply to any such allotment provided that this power shall be limited:-

- (a) to the allotment of equity securities in connection with an offer or issue to or in favour of ordinary shareholders on the register on a date fixed by the directors where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on that date but the directors may make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, and/or legal or practical problems under the Laws in any territory or the requirements of any relevant regulatory body or stock exchange and
- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £198,765;

and shall expire on the earlier of the date which is fifteen months after the date of the passing of this resolution and the date of the next annual general meeting of the Company after the passing of this

Notice of meeting (continued)

resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired and so that all previous authorities of the directors pursuant to Section 95 of the said Act be and are hereby revoked."

9. As a special resolution

That the Company be and is hereby generally and unconditionally authorised pursuant to Section 166 of the Companies Act 1985 to make market purchases (as defined in Section 163 (3) of the said Act) of its own Ordinary Shares of 20p each ("Ordinary Shares") in such manner and on such terms as the directors may from time to time determine provided that:

- (a) the authority hereby conferred shall expire on the earlier of the date which is fifteen months after the date of the passing of this resolution and the conclusion of the next Annual General Meeting of the Company after the passing of this resolution unless renewed or extended prior to or at such meeting, except that the Company may before the expiry of such authority make any contract of purchase of Ordinary Shares which will or might be completed wholly or partly after such expiry and to purchase Ordinary Shares in pursuance of such contract as if the authority conferred hereby had not expired;
- (b) the maximum number of Ordinary Shares hereby authorised to be purchased shall not exceed 993,826 Ordinary Shares (representing 5% of the Company's issued share capital as at 28 September 1998); and
- (c) the maximum price which may be paid for each Ordinary Share pursuant to the authority hereby conferred is an amount equal to 105% of the average of the middle market quotations for any Ordinary Share (derived from The London Stock Exchange Daily Official List) for the five business days prior to the date of purchase and the minimum price is 20p, such price being exclusive of advance corporation tax, if any, payable by the Company.

By order of the board

Nicholas O'Shea
Company Secretary

Water Lane
Storrington
West Sussex
RH20 3DP
28 September 1998

Notes

- 1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company. Instruments appointing proxies must be lodged with the Company's Registrars, Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield, HD8 0LA no later than 48 hours prior to the commencement of the meeting (along with any power of attorney or other authority under which the proxy is executed, or a notorially certified copy thereof). The completion and return of a form of proxy will not prevent a member who wishes to do so from attending and voting in person.
- 2. In order to attend and vote at this meeting (and for the purpose of enabling the Company to determine the number of votes they may cast), members must be entered on the Company's Register of Members at 7am on Monday 26 October 1998 ("the Specified Time"). Should the meeting be adjourned to a time not more than 48 hours after the Specified Time applicable to the original meeting, that time will also apply for the purpose for determining the entitlement of the members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. Should the meeting be adjourned for a longer period, then to be so entitled members must be entered on the Company's Register of Members at a time which is not more than 48 hours before the time fixed for the adjourned meeting, or if the Company gives notice of the adjourned meeting at the time specified in that notice.
- 3. The Register of Directors' Share Interests required under Section 325 of the Companies Act 1985 will be available for inspection at the Company's registered office address during normal working hours from the date of this Notice to 27 October 1998 inclusive and for at least 15 minutes prior to and during the Annual General Meeting.

Chairman's statement

Introduction

The period since 1 April 1997 has been one of substantial change for Creightons. There have been significant changes to the Board of your Company which have included my appointment as Chairman and the appointment of Roger Lane-Smith as non-executive director, Michael Gubbins having been promoted to Managing Director in September 1997.

It was stated at the time of my appointment that the prospects for the Company would be driven by the identification and completion of acquisition opportunities and that I would focus on achieving this aim.

Your Board identified two priorities. Firstly to address the continuing disappointing profitability of the existing business. Secondly, your Board has sought to identify a substantial acquisition for the Company in order to provide a business to form the base for substantial future growth.

Financial performance

The results for the year ended 31 March 1998 are set out on page 15 and show a loss before taxation of £1.5 million, the previous year having shown a loss before taxation of £3.3 million, both figures being stated after exceptional costs. Whilst your Board has concluded that scope remains for further improvements to the financial performance of the existing business, such improvements have required considerable restructuring of the operations. This is reflected in exceptional restructuring costs of £1.0 million in the year to 31 March 1998 (1997 - £2.9 million).

Having disposed of non-core activities, including its investment in Fine Fragrances and the Company's soap manufacturing and blow-moulding operations, the Company has restructured its continuing manufacturing operations and rationalised its customer base through the closure of smaller unprofitable accounts. It is important to note, therefore, that the financial performance of the Company in the two years to 31 March 1998 has been adversely affected by the cost of this restructuring and the run-out of unprofitable contracts.

Prospects

Since the year end trading conditions have remained highly competitive, reflecting current sentiment in the retail sector. Whilst your Board remains confident of its continuing ability to implement operational improvements, in the absence of a substantial acquisition the Company would remain a small player in its sector with a level of profitability and future growth prospects not in keeping with its status as a publicly listed company. The Directors consider that the Company will continue to operate within the facility currently agreed with its bankers and within that which they expect will be agreed in March 1999, the next scheduled review date.

In reviewing acquisition opportunities your Directors have sought to identify businesses possessing some or all of the following key attributes:

- substantial in relation to the Company's existing activities
- capable of delivering sustained growth in earnings per share
- having strong management with ongoing commitment
- operating in complementary sectors to the existing business

Chairman's statement (continued)

Post Balance Sheet Events

It was announced on 19 June 1998 that the Company had conditionally agreed to acquire the entire issued share capital of Potter & Moore Group Limited ("Potter & Moore"). The acquisition was conditional, *inter alia*, upon the raising of finance on satisfactory terms.

On 11 September 1998 the Company announced that it had not proved possible to raise finance on satisfactory terms and the acquisition of Potter & Moore therefore lapsed. The Board believes that the fundraising was adversely affected by current investor sentiment towards small public companies in general and the consumer goods and retail sector in particular. The costs associated with the aborted acquisition amounted to approximately £0.4 million. These costs will be reflected in the financial statements of the Company in the year ending 31 March 1999.

The Board, in conjunction with its advisers, is now examining its strategic options and shareholders will be informed of future developments. The Board will be greatly assisted in its appraisal of future options by the appointment of Peter Somers as Finance Director. He previously held the position of Finance Director of MSB International PLC where he was a key member of the management team which guided MSB through its successful flotation in April 1996. He previously worked as a Senior Manager in practice with Coopers & Lybrand.

Barry Dale
Chairman

24 September 1998

Directors' report

The directors present their report and financial statements for the year ended 31 March 1998.

Principal activities

The principal activity of the Group is the creation and manufacture of toiletries and fragrances. A review of the operations of the Group during the year, events since the end of the year and future developments, are referred to in the Chairman's statement on pages 5 and 6.

Financial

The loss for the year and the appropriations are shown in the profit and loss account on page 15. The directors do not recommend the payment of a dividend (1997: nil).

Research and development

The Group has a policy of continual product development, the costs of which are written off to the profit and loss account as they are incurred.

Directors

The directors who held office during the year are as follows:

Barry Dale	(appointed 19 December 1997)
Roger Lane-Smith (non-executive)	(appointed 19 December 1997)
Michael Gubbins	(appointed 8 July 1997)
John Carr	(resigned 19 December 1997)
Jim Lewis	(appointed 7 July 1997, resigned 29 September 1997)
Angela Nicholls	(resigned 30 September 1997)
Simon Pickford	(resigned 2 July 1997)
Michael Sutton (non-executive)	(resigned 5 June 1997)
Keith Smith (non-executive)	(appointed 30 September 1997, resigned 19 December 1997)
Peter Somers	(appointed 21 September 1998)

The director retiring by rotation is Michael Gubbins.

Roger Lane-Smith is both the Senior Partner and Chairman of the Board of Dibb Lupton Alsop, a national firm of solicitors. He is also a director of MS International Plc and a number of private companies.

Directors' report (continued)

Directors' interests

The interests of the directors and their families in the shares of the Company at the beginning, or date of appointment if later, and end of the year were as follows:

	31 March 1998			31 March 1997 or date of appointment		
	Beneficial	Ordinary shares	Trustee	Beneficial	Ordinary shares	Trustee
		Options			Options	
B Dale	608,696	—	—	608,696	—	—
M Gubbins	50,000	220,000	—	—	—	—

The directors' options comprise:

Date granted		At 31 March 1998	Exercise price	Exercise dates
M Gubbins	October 97	120,000	25p	10/00 - 10/07
	October 97	80,000	25p	10/00 - 10/04
	December 97	20,000	20p	12/00 - 12/04

The market price of the shares at 31 March 1998 was 27.5p and the range during the year was 20.0p to 35.5p. The options were granted for nil consideration and the key conditions attached are set out in note 22 to the financial statements. Details of directors' contracts are set out in the Remuneration Committee report on pages 10 and 11.

There have been no changes in the directors' shareholdings between 31 March 1998 and 24 September 1998.

Substantial shareholdings

At 11 September 1998 in addition to the directors' interests, the following substantial interests being 3 per cent or more of the ordinary shares in issue, had been notified to the Company.

	Number	%
Jupiter Asset Management	2,323,699	11.7
Mercury Asset Management	1,990,000	10.0
Wolverhampton Metro Boro Council	1,398,458	7.0
FP Unit Trust Managers	1,309,135	6.6
Jupiter Unit Trust Managers	1,180,000	5.9
Abbey Ethical Trust	1,010,807	5.1
Morgan Stanley Trust Company	975,572	4.9
Ivory and Sime Plc	799,196	4.0
Singer and Friedlander Talent Fund	741,976	3.7
F.P. Ethical Investment Trust Plc	714,074	3.6

Directors' report (continued)

Corporate governance

Your Board is committed to the principles of openness, integrity and accountability set out in the Code of Best Practice contained in the Cadbury Report on the Financial Aspects of Corporate Governance and operates within the spirit of the code. However it is the Board's opinion that certain parts of the code are inappropriate for a company of our size. In particular, the Board has only one non-executive director which for the time being is considered adequate in view of the size and requirements of the Company. However, the Board is committed to appointing an additional non-executive director at an appropriate time in the future. In addition, with the substantial changes to the Board, there was a period during the year where the Company had no non-executives.

It follows that the Company is unable to comply with the strict requirements of the code in relation to the composition of its Remuneration Committee and Audit Committee which both comprise Roger Lane-Smith, the non-executive director.

The auditors, KPMG Audit Plc, have confirmed that in their opinion: with respect to the director's statements on internal financial control and going concern set out below, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' statement set out above appropriately reflects the Company's compliance with the other aspects of the Cadbury Code of Best Practice specified by the Listing rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Internal financial controls

Overall responsibility for the Group's system of internal financial control lies with the Board of directors, who have reviewed the effectiveness of that system. Whilst recognising that any system of internal financial control provides reasonable and not absolute assurance against any material misstatement or loss, the following key procedures have been established and are designed to provide effective internal financial control:

Control environment – the Company has an organisational structure with lines of responsibility and delegation of authority. In addition, given the size of the Company, the executive directors are involved in the day to day operations of the business.

Risk management – the consideration of major business risks is carried out as part of the preparation of the annual budget, through day to day management by the executive directors, and through regular discussion at Board meetings.

Information systems – the Company's system of financial reporting includes preparation of an annual budget which is approved by the Board, preparation of monthly management accounts which are compared to the budget and discussed at the Board meetings and through day to day monitoring of key areas such as production levels, orders and cash.

Control procedures – the Board has set policies for areas such as authorisation of payments, capital expenditure and acquisitions. Other control procedures are covered by the day to day involvement of the executive directors.

Directors' report (continued)

Internal financial controls (continued)

Monitoring system – a report on the systems of internal financial control has been prepared and approved by the Board.

The Board has reviewed the effectiveness of the Group's internal financial control systems for the period from 1 January 1998 to 24 September 1998. Although financial controls were in place throughout the year, in view of the Board changes, the directors only feel able to comment from 1 January 1998.

Year 2000

The Board has approved an action plan addressing Year 2000 compliance of internal systems and will shortly consider a replacement proposal. A capital expenditure budget has been set for the replacement system, but not yet committed. The Board has not formally assessed the potential cost of Year 2000 risks from all possible sources but do not consider the impact on business processes as likely to be significant.

Going concern

After making enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. However, attention is drawn to the disclosures made in Note 1 of the financial statements concerning the uncertainty as to the continuation and adequacy of the Group's bank overdraft facility.

Remuneration Committee report

Policy

The Company's remuneration policy is designed to motivate and retain the executive directors by rewarding them with a competitive salary, benefits and bonus package linked to the performance of the Company. The Company introduced a new share option scheme following the expiry of the previous scheme. There are no long term incentive schemes.

The remuneration of the Chairman was approved by the Board prior to his appointment. The remuneration of the other executive directors is set by the Chairman and the non-executive director. The fees paid for the non-executive director's services were paid to Dibb Lupton Alsop.

The Chairman, Barry Dale, provides his services to the Company under the terms of a contract between the Company and Marketfund Limited dated 19 December 1997. Under this contract, a fee of £120,000 per annum (excluding VAT) is to be paid by the Company in respect of his services. The fee is reviewable on 1 April 1999 and annually thereafter. The contract is for an initial term of 1 year and is terminable upon 12 months notice given at any time from 19 December 1998.

Barry Dale will also be entitled to participate (on terms approved by the Company's Remuneration Committee) in any bonus or incentive scheme for employees and/or directors paid to Marketfund Limited.

Directors' report (continued)

Michael Gubbins, who was first appointed to the Board in July 1997 and appointed Managing Director in October 1997, has a contract dated 22 September 1998 for an initial term of 12 months and terminable upon 12 months notice given by either side thereafter. It provides for a salary of £70,000 per annum reviewable in or around April 1999 and annually thereafter, and a Director's fee of £15,000 per annum.

Peter Somers, who was appointed to the Board in September 1998, has a contract dated 22 September 1998 for an initial term of 12 months and terminable upon 12 months notice given by either side thereafter. It provides for a salary of £100,000 per annum reviewable in or around April 1999 and annually thereafter.

The executive directors are also entitled to certain other benefits in kind, and excluding Barry Dale, to a contribution to their Personal Pension Plan based on their basic annual salary.

Roger Lane-Smith does not have a contract with the Company. His services are billed by Dibb Lupton Alsop, to whom they are payable, on a time spent basis.

Emoluments paid to directors in the year comprised:

	Salaries/ fees	Compen- sation for loss of office	Bonus	Benefits	Total 1998	1997	Pension costs 1998	1997
	£000	£000	£000	£000	£000	£000	£000	£000
B Dale	34	-	-	2	36	-	-	-
J Carr	147	267	15	7	436	116	-	8
AM Nicholls	34	50	5	3	92	131	5	5
S Pickford	10	-	-	1	11	6	-	-
MP Sutton	8	10	-	-	18	15	-	-
J Lewis	23	-	-	2	25	-	2	-
M Gubbins	52	-	4	2	58	-	5	-
R Lane-Smith	3	-	-	-	3	-	-	-
K Smith	2	10	-	-	12	-	-	-
Total	<u>313</u>	<u>337</u>	<u>24</u>	<u>17</u>	<u>691</u>	<u>268</u>	<u>12</u>	<u>13</u>

In the opinion of the Committee, the Company has complied with Section A of the best practice provisions annexed to the Listing Rules other than the composition of the Committee which due to the size and composition of the board of directors comprises the non-executive director. In framing its remuneration policy, the Committee has given full consideration to Section B of the best practice provisions annexed to the Listing Rules.

Share capital

The movements in share capital during the year are set out in note 16 to the financial statements.

The balance of the special reserve may be used for writing off goodwill on future acquisitions. To the extent that there remains any sum to the credit of the reserve, the directors may distribute that sum to shareholders, should the creditors existing at 19 March 1997 have been satisfied or consent to its distribution.

Directors' report (continued)

Charitable donations

During the year donations made for charitable purposes, by the Group, in the United Kingdom amounted to £nil (1997: £500).

Creditor payment policy

The Group does not follow any code or standard on payment practice as it is the Group's policy to settle creditors on mutually agreed terms. The terms will vary from supplier to supplier and suppliers will be aware of the terms of payment. For smaller suppliers where no terms are agreed, payment will normally be made in the month following receipt of goods or services. The number of days billings from suppliers outstanding at 31 March 1998 was 65 days (1997: 84 days).

Annual General Meeting

Notice of the annual general meeting is set out on page 3. Resolution 7 provides the Directors with general authority to allot shares. Following the passing of this resolution, the Directors will have authority to allot 5,123,477 ordinary shares of 20 pence each representing 26% of the issued ordinary share capital as at 24 September 1998. The authority proposed to be granted by this resolution will expire on the date of the next annual general meeting of the Company or 15 months from the date of passing of the resolution (whichever is the earlier). The Directors have no present intention of exercising this authority.

Resolution 8 will empower the Directors until the conclusion of the next annual general meeting of the Company or 15 months from the passing of this resolution (whichever is the earlier), to issue shares for cash, other than proportionately to existing shareholders, provided such issues do not exceed an aggregate nominal value of £198,765 (representing 993,825 ordinary shares which is 5% of the Company's issued ordinary share capital as at 24 September 1998). This resolution will also contain provisions to enable the Directors to deal with fractional entitlements or other practical difficulties which could arise in the event of a rights issue.

Your Board is also seeking by Resolution 9 a renewal of its authority to make market purchases of the Company's own shares in line with current investor protection guidelines and in accordance with the Companies Act 1985 and the Listing Rules of the London Stock Exchange. This authority will replace that granted by shareholders at last year's annual general meeting.

Your Board considers that it is in the best interests of shareholders for the Company to have flexibility and power to make such purchases under the appropriate circumstances but has no present intention of exercising this authority. Furthermore, the authority would only be exercised if to do so would result in an increase in earnings per share and was considered by the Board to be in the best interests of shareholders generally at the time. The maximum price to be paid is an amount equal to 105% of the average of the middle market quotations for Ordinary Shares (as derived from the London Stock Exchange Daily Official List) for the five business days prior to the purchase and the minimum price is 20 pence (in each case exclusive of ACT (if any) payable by the Company).

Auditors

A resolution for the re-appointment of KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

Directors' report (continued)

Post balance sheet event

On 18 June 1998 the Company entered into a conditional agreement to purchase the share capital of Potter & Moore Group Limited for a consideration of up to £16.9 million. This agreement lapsed on 11 September 1998.

By order of the Board



Nicholas O'Shea
Company Secretary

24 September 1998

Water Lane
Storrington
West Sussex
RH20 3DP

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and to detect fraud and other irregularities.

Report of the auditors to the members of CREIGHTONS plc

We have audited the financial statements on pages 15 to 34. We have also examined the amounts disclosed relating to emoluments, share options, long term incentive scheme interests and directors' pension entitlements which form part of the Remuneration Committee report on pages 10 and 11 and the directors' report on page 8.

Respective responsibilities of directors and auditors

As described on page 13 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 Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 of the financial statements concerning the uncertainty as to the continuation and adequacy of the Group's bank overdraft facility. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 March 1998 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

24 September 1998

Crawley

Consolidated profit and loss account
for the year ended 31 March 1998

	Note	1998 £000	1997 £000
Turnover	2	9,646	10,069
Cost of sales		(9,013)	(9,257)
Exceptional cost of sales	6	(97)	(1,112)
		<u>(9,110)</u>	<u>(10,369)</u>
Total cost of sales			
Gross profit/(loss)		536	(300)
Distribution costs		(259)	(166)
Administrative expenses		(1,172)	(1,143)
Exceptional administrative expenses		(861)	(1,386)
		<u>(2,033)</u>	<u>(2,529)</u>
Total administrative expenses			
Operating loss	3	(1,756)	(2,995)
Income from interest in associated undertaking		276	289
Profit on disposal of fixed asset investment	11	7	-
Exceptional write down in investment		-	(389)
Net interest payable	7	(16)	(172)
		<u>(1,489)</u>	<u>(3,267)</u>
Loss on ordinary activities before taxation			
Tax on loss on ordinary activities	8	(122)	609
		<u>(1,611)</u>	<u>(2,658)</u>
Loss on ordinary activities after taxation and retained loss for the financial year	17		
Earnings/(loss) per share	9	<u>(8.1)p</u>	<u>(33.9)p</u>
Earnings/(loss) per share before exceptional items		<u>(3.3)p</u>	<u>(3.1)p</u>
Earnings/(loss) per share on exceptional items		<u>(4.8)p</u>	<u>(30.8)p</u>

The turnover and operating loss arose from continuing operations.

Note on historical cost profits

for the year ended 31 March 1998

	1998 £000	1997 £000
Reported loss on ordinary activities before taxation	(1,489)	(3,267)
Difference between the historical cost depreciation charge and the actual depreciation charge on the revalued amount	—	1
Historical cost loss on ordinary activities before taxation	(1,489)	(3,266)
Historical cost loss retained for the year	(1,611)	(2,657)

Statement of total recognised gains and losses

for the year ended 31 March 1998

	1998 £000	1997 £000
Loss for the financial year	(1,611)	(2,658)
Unrealised deficit on revaluation of fixed assets	—	(419)
Total recognised gains and losses relating to the year	(1,611)	(3,077)

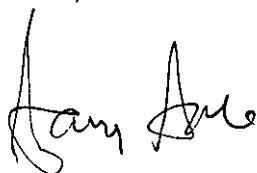
Consolidated balance sheet

at 31 March 1998

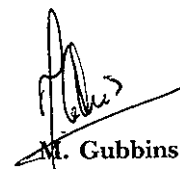
	Note	1998 £000	1997 £000	1997 £000
Fixed assets				
Tangible assets	10		3,738	3,984
Investments	11		—	950
			<u>3,738</u>	<u>4,934</u>
Current assets				
Stocks	12	1,193		1,627
Debtors	13	1,447		2,382
Cash at bank and in hand		551		541
		<u>3,191</u>		<u>4,550</u>
Creditors: amounts falling due within one year	14	(2,177)		(2,487)
Net current assets			<u>1,014</u>	<u>2,063</u>
Total assets less current liabilities			<u>4,752</u>	<u>6,997</u>
Creditors: amounts falling due after more than one year	14		(629)	(639)
Provisions for liabilities and charges	15		—	(624)
Net assets			<u>4,123</u>	<u>5,734</u>
Capital and reserves				
Called up share capital	16		3,975	3,975
Share premium account	17		196	196
Capital redemption reserve	17		18	18
Capital reserve	17		7	7
Special reserve	17		13	13
Profit and loss account	17		(86)	1,525
Equity shareholders' funds			<u>4,123</u>	<u>5,734</u>

These financial statements were approved by the Board of Directors on 24 September 1998 and were signed on its behalf by:

B. Dale Director



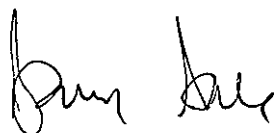
M. Gubbins Director



Balance sheet at 31 March 1998

	Note	1998 £000	1997 £000	1997 £000
Fixed assets				
Tangible assets	10		3,738	3,984
Investments	11		—	1,072
			<u>3,738</u>	<u>5,056</u>
Current assets				
Stocks	12	1,193	1,627	
Debtors	13	1,447	2,382	
Cash at bank and in hand		551	541	
		<u>3,191</u>	<u>4,550</u>	
Creditors: amounts falling due within one year	14	(2,177)	(2,713)	
Net current assets			<u>1,014</u>	<u>1,837</u>
Total assets less current liabilities			<u>4,752</u>	<u>6,893</u>
Creditors: amounts falling due after more than one year	14		(629)	(639)
Provisions for liabilities and charges	15		—	(624)
Net assets			<u>4,123</u>	<u>5,630</u>
Capital and reserves				
Called up share capital	16		3,975	3,975
Share premium account	17		196	196
Capital redemption reserve	17		18	18
Special reserve	17		1,441	1,441
Profit and loss account	17		(1,507)	—
Equity shareholders' funds			<u>4,123</u>	<u>5,630</u>

These financial statements were approved by the Board of Directors on 24 September 1998 and were signed on its behalf by:



B. Dale Director



M. Gubbins Director

Statement of cash flows
for the year ended 31 March 1998

	Note	1998 £'000	1997 £'000
Cash flow from operating activities	23	(1,679)	(172)
Returns on investments and servicing of finance	24	184	(172)
Taxation	24	502	(8)
Capital expenditure and financial investments	24	10	(292)
Acquisitions and disposals	24	909	-
Equity dividends paid		-	(47)
		<hr/>	<hr/>
Cash outflow before management of liquid resources and financing		(74)	(691)
Financing	24	(90)	2,555
		<hr/>	<hr/>
(Decrease)/increase in cash in the period	25	(164)	1,864
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period	25	(164)	1,864
Cash outflow from repayment of debt	25	90	684
		<hr/>	<hr/>
		(74)	2,548
New finance leases	25	(99)	(111)
Movement in net debt in the period		(173)	2,437
		<hr/>	<hr/>
Net debt at the start of the period	25	(394)	(2,831)
		<hr/>	<hr/>
Net debt at the end of the period	25	(567)	(394)
		<hr/>	<hr/>

Notes (forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items considered material to the financial statements.

Basis of preparation

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

Going concern

The financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons. The Group meets its day to day working capital requirements through an overdraft facility which is repayable on demand. The nature of the Group's business is such that there can be considerable unpredictable variation in the timing of cash inflows. The Directors have prepared projected cash flow information for the period ending nine months from the date of their approval of these financial statements. On the basis of this cash flow information, the Directors consider that the Group will continue to operate within the facility currently agreed with its bankers and within that which they expect will be agreed in March 1999, when the Group's bankers are due to consider renewing the facility for a further year. However, the margin of facilities over requirements is not large and, inherently, there can be no certainty in relation to these matters. The financial statements do not include any adjustments that would result from a withdrawal of the overdraft facility by the Group's bankers.

Basis of consolidation

The Group financial statements consolidate the financial statements of CREIGHTONS plc and its subsidiary undertakings. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against reserves on acquisition. For associated undertakings the Group includes its share of profits and losses in the consolidated balance sheet. The premium arising on acquisition of associated undertakings (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is amortised through the profit and loss account over the directors' estimate of its useful life, such period not exceeding 20 years.

In the Company's financial statements, investments in subsidiary and associated undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

In accordance with Section 230(4) of the Companies Act 1985, CREIGHTONS plc is exempt from the requirement to present its own profit and loss account.

The amount of the loss for the financial year dealt with in the financial statements of CREIGHTONS plc is disclosed in note 17 to these financial statements.

Goodwill

Goodwill relating to a business purchased by the Company is written off immediately against reserves.

Fixed assets

Fixed assets are stated at cost to the Group with the exception that freehold property is stated at an open market valuation made on 30 September 1996.

Notes (continued)

1 Accounting policies (continued)

Depreciation, calculated on the cost or valuation of fixed assets, less estimated residual value, is provided on a straight line basis over their expected useful lives at the following rates:

	% per annum
Freehold land	Nil
Freehold buildings	2
Leasehold properties	over the lease period
Plant and equipment	10
Fixtures and fittings	10
Computers	25
Motor vehicles	20

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes an appropriate proportion of manufacturing overheads.

Taxation

The charge for taxation is based upon the profits for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision for deferred taxation is only made to the extent that it is probable that such deferred taxation will become payable in the foreseeable future.

Research and development

Research and development expenditure is written off as incurred.

Leases

Assets acquired under hire purchase contracts are capitalised and depreciated over their estimated useful lives in accordance with the relevant depreciation policy. Future instalments under such contracts, net of finance charges, are included within creditors. The interest element of the obligation is allocated to accounting periods during the contract term on a straight line basis.

Rental income and charges arising from operating leases are taken to the profit and loss account on a straight line basis over the life of the lease.

Pensions

The Company contributes to money purchase personal pension plans for senior employees. Charges in respect of the plans are made to the profit and loss account in the year in which they fall due.

Currency translation

Assets and liabilities expressed in currencies other than sterling are translated at the rates of exchange ruling at the balance sheet date. Gains or losses arising from exchange differences are taken to the profit and loss account.

Notes (continued)

2 Turnover

The turnover and pre-tax loss are wholly attributable to the Group's principal activity, the creation and manufacture of toiletries and fragrances and arose within the UK.

The geographical analysis of turnover by destination is as follows:

	1998 £000	1997 £000
United Kingdom	7,862	8,304
Europe	197	329
North America	1,387	1,160
Asia	177	231
Australasia	23	45
	<u>9,646</u>	<u>10,069</u>

3 Operating loss

Operating loss is stated after charging:

	1998 £000	1997 £000
Auditors' remuneration — audit	24	24
— non audit	37	251
Depreciation	448	514
Operating lease rentals — plant and machinery	16	3
Operating lease rentals — other: (including land and buildings)	139	140
Hire of plant and machinery	—	11
Amortisation of premium on acquisition of associated undertaking	41	27
	<u>645</u>	<u>950</u>

The auditors received £24,000 in respect of the statutory audit of the Company and the Group. In addition, in 1997, KPMG Audit Plc received £12,000 in relation to services provided in connection with the share placing which were deducted from the proceeds of the shares issued.

4 Staff costs (including directors' remuneration)

Average number of employees:

	1998 £000	1997 £000
Management	15	16
Administration	28	20
Production	128	135
	<u>171</u>	<u>171</u>

	1998 £000	1997 £000
Wages and salaries	2,533	2,360
Social security costs	205	184
Pension contribution	12	40
	<u>2,750</u>	<u>2,584</u>

Notes (continued)

5 Directors' remuneration

	1998 £000	1997 £000
Fees	20	15
For management	334	284
Pension contributions	12	33
Compensation for loss of office	337	189
	<u>703</u>	<u>521</u>

Details of directors' emoluments, options issued and outstanding options are set out in the Directors' report.

6 Exceptional costs

	1998 Exceptional cost of sales £000	Exceptional administrative expenses £000	1997 £000
Compensation for loss of office/redundancy costs	—	479	142
Revaluation of land and buildings	—	—	245
Closure of operation	—	119	—
Discontinuance of part of customer base	97	263	—
Stock adjustments	—	—	977
Reorganisation costs	—	—	1,134
	<u>97</u>	<u>861</u>	<u>2,498</u>

As noted in the Directors' report a number of directors have resigned during the year resulting in payments for compensation for loss of office of £337,000. In addition, provision has been made for the termination of certain other contracts.

As noted in the Chairman's statement, the Company is withdrawing from smaller production runs for smaller customers which has resulted in an exceptional charge of £360,000. The Company is also planning to close part of its operations which has necessitated an exceptional provision of £119,000.

7 Interest payable

	1998 £000	1997 £000
On bank loans, overdrafts and other loans wholly repayable within five years	35	182
On hire purchase contracts	24	2
	<u>59</u>	<u>184</u>
Interest receivable	(43)	(12)
	<u>16</u>	<u>172</u>

Notes (continued)

8 Tax on profit/(loss) on ordinary activities

The taxation charge/(credit) based on the profit/(loss) for the year comprises:

	1998 £000	1997 £000
Corporation tax at 31% (1997: 33%)	—	(596)
Adjustment in respect of previous year	39	—
Deferred tax credit	—	(114)
	<u>39</u>	<u>(710)</u>
Share of tax of associated undertaking	83	101
	<u>122</u>	<u>(609)</u>

The Group has trading losses which subject to agreement with the Inland Revenue can be carried forward and relieved against future profits of the same trade.

9 Earnings/(loss) per share

The earnings per share figure has been based on the loss after taxation of £1,611,000 (1997: £2,658,000) and 19,876,523 (1997: 7,829,422) ordinary shares of 20p, the weighted average of the number of shares in issue. Fully diluted earnings/(loss) per share are not shown as they are not materially different.

10 Tangible fixed assets

Group and Company

	Freehold land and buildings £000	Short leasehold land and buildings £000	Plant equipment fixtures and motor vehicles £000	Total £000
<i>Cost or valuation</i>				
At 31 March 1997	2,217	64	5,751	8,032
Additions	—	—	473	473
Disposals	—	—	(1,444)	(1,444)
At 31 March 1998	<u>2,217</u>	<u>64</u>	<u>4,780</u>	<u>7,061</u>
<i>Depreciation</i>				
At 31 March 1997	12	53	3,983	4,048
Charge for year	13	1	434	448
Disposals	—	—	(1,173)	(1,173)
At 31 March 1998	<u>25</u>	<u>54</u>	<u>3,244</u>	<u>3,323</u>
<i>Net book value</i>				
At 31 March 1998	<u>2,192</u>	<u>10</u>	<u>1,536</u>	<u>3,738</u>
At 31 March 1997	<u>2,205</u>	<u>11</u>	<u>1,768</u>	<u>3,984</u>

Freehold land and buildings were valued at open market value with vacant possession on 30 September 1996 by Stiles Harold Williams, a firm of independent consultant surveyors and valuers in accordance with the RICS Statements of Asset Valuation Practice and Guidance Notes.

Notes (continued)

10 Tangible fixed assets (continued)

Included within plant, equipment, fixtures and motor vehicles are assets held under hire purchase contracts with a net book value of £229,000 (1997: £139,000) on which £28,600 depreciation has been charged during the year (1997: £5,900).

Historical cost

The freehold land and buildings held by a subsidiary on 1 April 1986 were transferred to the holding company at that date.

If the freehold land and buildings had not been revalued, their amounts would have been:

	Group £000	Company £000
<i>Cost</i>		
At 31 March 1997	3,050	3,284
At 31 March 1998	<u>3,050</u>	<u>3,284</u>
<i>Depreciation based on cost</i>		
At 31 March 1997	(598)	(652)
Charge for year	(13)	(13)
At 31 March 1998	<u>(611)</u>	<u>(665)</u>
<i>Net historical book value</i>		
At 31 March 1998	<u>2,439</u>	<u>2,619</u>
At 31 March 1997	<u>2,452</u>	<u>2,632</u>

Freehold land which is included above and amounts to £1,254,000 (1997: £1,254,000) has not been depreciated in the period.

CREIGHTONS plc

Notes (continued)

11 Fixed asset investments

The Group's interests in its associated undertaking comprises:

	£000
<i>Cost</i>	
At 31 March 1997	846
Disposal	(846)
	<hr/>
At 31 March 1998	<hr/>
<i>Share of post acquisition reserves</i>	
At 31 March 1997	607
Profit for the period	193
Dividend paid	(200)
Disposal	(600)
	<hr/>
At 31 March 1998	<hr/>
<i>Amortisation of premium on acquisition</i>	
At 31 March 1997	(503)
Charge for the period	(41)
Disposal	544
	<hr/>
At 31 March 1998	<hr/>
<i>Net book value</i>	
At 31 March 1998	<hr/>
	<hr/>
At 31 March 1997	950
	<hr/>

The investment in Fine Fragrances and Cosmetics Limited was sold in September 1997 for £950,000. After expenses of £41,000 the Group made a profit on disposal of £7,000.

The Company's interests in its associated undertaking was stated at cost of £846,000. This represented 50% of the ordinary share capital of £200,000 of Fine Fragrances and Cosmetics Limited, a company registered in England and Wales, which operates principally in the UK.

The Company's interest in associated and subsidiary undertakings comprises:

	£000
<i>Cost and net book value at 31 March 1998</i>	<hr/>
	<hr/>
Cost and net book value at 31 March 1997	1,072
	<hr/>

The Company owns the entire issued ordinary share capital of Dalton Young Products Ltd, Crestol Ltd, St James Perfumery Co Ltd, Creightons Corporate Services Ltd and Creightons Naturally Ltd. As at 31 March 1998 these were dormant subsidiary undertakings which are registered in England and Wales.

Notes (continued)

12 Stocks

Group and Company

	1998 £000	1997 £000
Raw materials and containers	573	717
Bulk preparations	181	195
Finished goods	439	715
	<u>1,193</u>	<u>1,627</u>

13 Debtors

Group and Company

	1998 £000	1997 £000
Trade debtors	1,347	1,479
Amounts owed by associated undertakings	—	217
Corporation tax recoverable	46	587
Prepayments and accrued income	54	99
	<u>1,447</u>	<u>2,382</u>

14 Creditors

Group

	1998 Due within one year £000	Due after one year £000	1997 Due within one year £000	Due after one year £000
Bank overdraft	269	—	95	—
Other loans	120	480	130	520
Bank loans	35	60	38	50
Trade creditors	1,124	—	1,628	—
Other creditors	26	—	40	—
HP contracts	65	89	33	69
Other creditors including tax and social security	123	—	57	—
Accruals and deferred income	415	—	466	—
	<u>2,177</u>	<u>629</u>	<u>2,487</u>	<u>639</u>

Notes (continued)

14 Creditors *continued*

Company

	1998		1997	
	Due within	Due after	Due within	Due after
	one year	one year	one year	one year
	£000	£000	£000	£000
Bank overdraft	269	—	95	—
Other loans	120	480	130	520
Bank loans	35	60	38	50
Trade creditors	1,124	—	1,628	—
Amounts owed to group undertakings	—	—	226	—
Other creditors	26	—	40	—
HP contracts	65	89	33	69
Other creditors including tax and social security	123	—	57	—
Accruals and deferred income	415	—	466	—
	<u>2,177</u>	<u>629</u>	<u>2,713</u>	<u>639</u>

Bank and other loans

1998	1997
£000	£000

Analysis of borrowings

Repayment due: within 1 year	155	168
in 1 - 2 years	155	180
in 2 - 5 years	385	390
	<u>695</u>	<u>738</u>

The bank loans and overdraft are secured by mortgages on the freehold property. £50,000 of the bank loans are repayable in bi-annual instalments of £12,500 bearing interest at 1.875% above the higher of the three month LIBOR or 7%. The remaining bank loan is repayable in quarterly instalments of £2,500 bearing interest at 1.75% above the bank's base rate.

Other loans represent loan notes given to the vendors of Crestol Ltd which have been guaranteed by Barclays Bank plc and are to be refinanced by a 5 year bank loan bearing interest at 1.75% above the bank's base rate as the loans are redeemed. Having regard to the fact that both the guaranteed loan notes and 5 year bank loan were arranged as part of the same course of dealing with the same bank, the repayment profile of the loan notes is shown as being in line with the term loan repayment profile.

Obligations under HP contracts full due as follows:

	1998	1997
	£000	£000
Amounts payable within one year	65	33
Amounts payable in two to five years	89	69
	<u>154</u>	<u>102</u>

Notes (continued)

15 Provision for liabilities and charges

Group and Company

	Taxation including deferred taxation £000	Reorganisation provision £000	Total £000
At 31 March 1997	—	624	624
Utilised during the year	—	(624)	(624)
At 31 March 1998	—	—	—

The amounts provided for deferred taxation and the amounts not provided are set out below.

	1998 Provided £000	Unprovided £000	1997 Provided £000	Unprovided £000
Accelerated capital allowances	123	—	129	—
ACT recoverable	—	—	—	—
Losses carried forward	(123)	—	(129)	—
	—	—	—	—

16 Called up share capital

	1998 £	Authorised No	1997 £	No
Ordinary shares 20p each	5,000,000	25,000,000	4,200,000	21,000,000

	1998 £	Alloted, called-up and fully paid No	1997 £	No
Ordinary shares 20p each	3,975,305	19,876,523	3,975,305	19,876,523

By ordinary resolution of the Company passed on 30 September 1997, the authorised share capital of the Company was increased from £4,200,000 divided into 21,000,000 ordinary shares of 20p each to £5,000,000 divided into 25,000,000 ordinary shares of 20p each by the creation of an additional 4,000,000 Ordinary Shares of 20p each, to rank *pari passu* in all respects with the existing Ordinary Shares of 20p each.

Details of the share options outstanding are given in note 22.

Notes (continued)

17 Reserves

Group

	Share premium account £000	Capital redemption reserve £000	Capital reserve £000	Special reserve £000	Profit and loss account £000
At 31 March 1997	196	18	7	13	1,525
Retained loss for the year	—	—	—	—	(1,611)
At 31 March 1998	196	18	7	13	(86)

Company

	Share premium account £000	Capital redemption reserve £000	Capital reserve £000	Special reserve £000	Profit and loss account £000
At 31 March 1997	196	18	—	1,441	—
Retained loss for the year	—	—	—	—	(1,507)
At 31 March 1998	196	18	—	1,441	(1,507)

The cumulative amount of goodwill written off amounts to £2,575,000 (1997: £2,534,000).

The Company obtained a court ruling dated 19 March 1997 under which the reduction in share premium was credited to a special reserve. The special reserve was first used to write off the deficit on the Company profit and loss account and then to write off the goodwill arising on the acquisition of Crestol Limited on the Group profit and loss account.

Under the court ruling, the special reserve may be used to write-off goodwill on any further acquisitions. To the extent that there shall remain any sum standing to the credit of the reserve, it shall be treated as unrealised profit and as a non-distributable reserve, until such time as the creditors existing at the date of the ruling have been satisfied or consent to its distribution.

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Loss for the financial year	(1,611)	(2,658)	(1,507)	(2,615)
New share capital and premium subscribed (net of expenses)	—	3,239	—	3,239
Deficit on revaluation	—	(419)	—	(234)
Net (reductions in)/additions to shareholders' funds	(1,611)	162	(1,507)	390
Opening shareholders' funds	5,734	5,572	5,630	5,240
Closing shareholders' funds	4,123	5,734	4,123	5,630

Notes (continued)

19 Capital commitments

Group and Company

	1998 £000	1997 £000
Capital expenditure approved by the directors but not provided for in the financial statements		
Contracted	<u>16</u>	<u>—</u>

20 Operating lease commitments

At 31 March 1998 there were annual commitments under operating leases as follows:

	1998		1997	
Group and Company	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Payments due within one year for leases which expire:				
Within one year	88	—	—	3
From two to five years	—	8	88	5
Over five years	—	8	48	—
	<u>88</u>	<u>16</u>	<u>136</u>	<u>8</u>

21 Pension scheme

The Company contributes to money purchase personal pension plans for senior employees. The pension cost charge represents contributions payable by the Company to the fund and amounted to £12,000 (1997: £40,000). There were no contributions prepaid or outstanding at the year end (1997: £nil).

22 Share option scheme

The Company's previous share option scheme lapsed on 31 March 1996. Participation in the scheme was open to full-time employees, including executive directors, except for persons holding more than 10% of the issued ordinary share capital. The options were granted for £1 and there were no performance criteria conditional upon which the options were exercisable. Not more than 5% of the issued ordinary share capital could be placed under option over any 10 year period, subject to an overall maximum of 375,000 shares.

On 30 September 1997 shareholder approval was obtained to introduce two new share option plans. These are the Approved Share Option Plan and the Supplementary Share Option Plan. Participation in the schemes is open to employees who are directors and who work for the Group for not less than 25 hours per week and other employees of the Group. The options granted will normally be exercisable only if performance conditions are met and they were granted for nil consideration. There are various limits set over the number of options granted in any one year.

Notes (continued)

22 Share option scheme (continued)

At 31 March 1998 the following options were outstanding:

<i>Date of grant of option</i>	<i>Number of ordinary shares</i>	<i>Period of exercise</i>	<i>Price</i>
1986 approved scheme			
December 1989	2,500	December 1992 to December 1999	150p
July 1990	20,000	July 1993 to July 2000	123p
May 1992	35,000	May 1995 to May 2002	235p
1997 approved share option plan			
October 1997	120,000	October 2000 to October 2007	25p
October 1997	75,000	October 2000 to October 2007	25p
December 1997	140,000	December 2000 to December 2007	20p
1997 supplementary share option plan			
October 1997	80,000	October 2000 to October 2004	25p
December 1997	20,000	December 2000 to December 2004	20p
	<u>492,500</u>		

No further options have been granted between 31 March and 24 September 1998.

23 Reconciliation of operating loss to operating cash flows

	1998	1997
	£'000	£'000
Operating loss	(1,756)	(2,995)
Depreciation charges	448	514
Revaluation of fixed assets	—	245
Amounts written off intangible fixed assets	—	38
Amortisation of premium on acquisition	41	27
(Loss)/profit on disposal of fixed assets	(113)	7
Decrease in stocks	434	874
Decrease in debtors	394	383
(Decrease)/increase in creditors	(503)	111
(Decrease)/increase in provisions	(624)	624
Net cash outflow from operating activities	(1,679)	(172)

Notes (continued)

24 Gross cash flows

	1998		1997	
	£000	£000	£000	£000
Returns on investments and servicing of finance				
Interest received	43		12	
Interest paid	(35)		(182)	
Interest element of HP payments	(24)		(2)	
Equity dividends received	200		—	
	<u> </u>		<u> </u>	
Net cash inflow/(outflow) for returns and servicing of finance		184		(172)
		<u> </u>		<u> </u>
Taxation				
Corporation tax paid	—		(8)	
Corporation tax refund	502		—	
	<u> </u>		<u> </u>	
Net cash inflow/(outflow) for taxation		502		(8)
		<u> </u>		<u> </u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(374)		(340)	
Sale of tangible fixed assets	384		48	
	<u> </u>		<u> </u>	
Net cash inflow/(outflow) for capital expenditure and financial investments		10		(292)
		<u> </u>		<u> </u>
Acquisitions and disposals				
Proceeds from sale of investment in associate	950		—	
Expenses paid in connection with sale of investment	(41)		—	
	<u> </u>		<u> </u>	
Net cash inflow for acquisitions and disposals		909		—
		<u> </u>		<u> </u>
Financing				
Issue of ordinary share capital	—		3,500	
Expenses paid in connection with share issue	—		(261)	
Repayment of amounts borrowed	(43)		(675)	
Capital element of HP rental payments	(47)		(9)	
	<u> </u>		<u> </u>	
Net cash (outflow)/inflow from financing		(90)		2,555
		<u> </u>		<u> </u>

Notes (continued)

25 Analysis of changes in net debt

	At 31 March 1997 £000	Cash flow £000	Other Movements £000	At 31 March 1998 £000
Cash at bank and in hand	541	10	—	551
Overdrafts	(95)	(174)	—	(269)
	<u>446</u>	<u>(164)</u>	<u>—</u>	<u>282</u>
Debt due after one year	(570)	—	30	(540)
Debt due within one year	(168)	43	(30)	(155)
HP contracts	(102)	47	(99)	(154)
	<u>(840)</u>	<u>90</u>	<u>(99)</u>	<u>(849)</u>
	<u>(394)</u>	<u>(74)</u>	<u>(99)</u>	<u>(567)</u>

26 Post balance sheet event

On 18 June 1998 the Company entered into a conditional agreement to purchase the share capital of Potter and Moore Group Limited for a consideration of up to £16.9 million. This lapsed on 11 September 1998.

Five year financial summary

	1994 £000	1995 £000	1996 £000	1997 £000	1998 £000
Turnover	<u>9,049</u>	<u>8,530</u>	<u>10,069</u>	<u>10,069</u>	<u>9,646</u>
Profit/(loss) on ordinary activities before exceptional items	1,241	1,002	560	(380)	(531)
Exceptional items	<u>(149)</u>	<u>—</u>	<u>(90)</u>	<u>(2,887)</u>	<u>(958)</u>
Profit/(loss) on ordinary activities before taxation	1,092	1,002	470	(3,267)	(1,489)
Taxation on profit/(loss) on ordinary activities	<u>(438)</u>	<u>(360)</u>	<u>(224)</u>	<u>609</u>	<u>(122)</u>
Profit/(loss) on ordinary activities after taxation	654	642	246	(2,658)	(1,611)
Ordinary dividends paid/proposed	<u>(356)</u>	<u>(355)</u>	<u>(151)</u>	<u>—</u>	<u>—</u>
Earnings per 20p ordinary share					
Before exceptional items	17.3p	13.9p	7.0p	(3.1)p	(3.3)p
After exceptional items	<u>14.2p</u>	<u>13.9p</u>	<u>5.3p</u>	<u>(33.9)p</u>	<u>(8.1)p</u>
Net assets	<u>6,546</u>	<u>6,837</u>	<u>5,572</u>	<u>5,734</u>	<u>4,123</u>