

Holmes Halls Tanners Limited

**Directors' report and financial
statements**

Registered number 1429556

26 February 2000



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 26 February 2000.

Principal activities

The company has continued to trade as a manufacturer of leather.

Business review

The trading loss for the year, after taxation, amounted to £726,418 and is dealt with as shown in the profit and loss account on page 5. This result is consistent with the expectations of the directors.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend. The loss for the year retained in the company was £726,418.

Employee involvement

Regular meetings are held between management and employees to allow a free flow of idea and information. Employees are encouraged to participate in the success of the business through the profit related pay scheme.

Disabled employees

The company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career developments whenever appropriate.

Year 2000

As at 5 June 2000 the company has not experienced any year 2000 problems with their computer systems.

Directors and directors' interests

The directors who held office during the year were:

ESM Stanners (chairman)
TW Ulliott

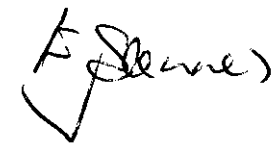
None of the directors had any disclosable interests in the shares of the company. Their interests in the share capital of the parent company are disclosed in the financial statements of that company.

Directors' report

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company, is to be proposed at the forthcoming Annual General Meeting.

By order of the board



~~M Sykes~~ E S M Sykes
Secretary Director

Sculcoates Tannery
Sculcoates Lane
HULL
HU5 1RL

5 June 2000

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 of the profit or loss for that year. 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the 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 company and to prevent and detect fraud and other irregularities.



1 The Embankment
Neville Street
Leeds
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Report of the auditors to the members of Holmes Halls Tanners Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 with the company is not disclosed.

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 26 February 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

*Chartered Accountants
Registered Auditors*

5 June 2000

Profit and loss account

for the year ended 26 February 2000

	Note	2000 £	1999 £
Turnover	2	19,848,738	22,588,236
Cost of sales		(15,475,131)	(18,757,924)
Gross profit		4,373,607	3,830,312
Distribution costs		(1,253,050)	(959,726)
Administrative expenses		(3,238,514)	(3,906,124)
Operating loss		(117,957)	(1,035,538)
Other interest receivable and similar income	6	39,055	21,122
Interest payable and similar charges	7	(429,307)	(442,173)
Exceptional items: Reorganisation costs		(218,209)	(160,385)
Loss on ordinary activities before taxation	3-5	(726,418)	(1,616,974)
Tax on loss on ordinary activities	8	-	5,881
Loss for the financial year		(726,418)	(1,611,093)

Movement on reserves are set out in note 18.

There were no recognised gains or losses in the current or previous year other than the loss for the year.

The results for the year all relate to continued operations.

Reconciliation of movements in shareholders' funds

for the year ended 26 February 2000

	2000 £	1999 £
Loss for the financial year	(726,418)	(1,611,093)
Opening Shareholders' funds	5,094,585	6,705,678
Closing shareholders' funds	4,368,167	5,094,585

Note of historical cost profits and losses

for the year ended 26 February 2000


	2000 £	1999 £
Reported loss on ordinary activities before taxation	(726,418)	(1,616,974)
Difference between a historical cost depreciation charge and the actual depreciation calculated on the revalued amount	34,016	33,991
Historical cost loss on ordinary activities before taxation	(692,402)	(1,582,983)

Balance sheet

at 26 February 2000

	Note	2000		1999	
		£	£	£	£
Fixed assets					
Tangible assets	9		3,996,016		4,079,139
Current assets					
Stocks	10	3,750,772		4,515,831	
Debtors	11	4,144,254		4,101,932	
Investments	12	29,294		35,830	
Cash at bank and in hand		783,401		162,288	
			8,707,721		8,815,881
Creditors: amounts falling due within one year	13	(7,838,331)		(7,684,199)	
Net current assets			869,390		1,131,682
Total assets less current liabilities			4,865,406		5,210,821
Creditors: amounts falling due after more than one year	14	(453,746)		(64,534)	
Provisions for liabilities and charges	15	(15,000)		(15,000)	
Accruals and deferred income	16	(28,493)		(36,702)	
Net assets			4,368,167		5,094,585
Capital and reserves					
Called up equity share capital	17	4,110,100		4,110,100	
Revaluation reserve	18	670,339		704,355	
Profit and loss account	18	(412,272)		280,130	
Shareholders' funds - equity			4,368,167		5,094,585

These financial statements were approved by the board of directors on 5 June 2000 and were signed on its behalf by:


ESM Stanners

Directors


TW Ulliott

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of certain fixed assets.

Cash flow statement

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

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	Up to 50 years
Motor vehicles	-	4 years
Plant and machinery	-	15 years
Office equipment	-	5 years

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to trading profit over the estimated useful economic lives of the assets to which they relate.

Notes (continued)

Accounting policies (continued)

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The company operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions to the company's pension scheme are charged against income so as to spend the cost of the pensions over the employees' working lives within the company. The regular cost is attributed to individual years using the projected unit credit method. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost is calculated as follows:

Raw materials and consumables	-	Actual cost of purchase
Work in progress and finished goods	-	Average direct cost of production plus attributable overheads according to location and condition

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future, calculated at the rate at which it is anticipated the timing difference will reverse.

Notes (continued)

Accounting policies (continued)

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year, less returns and allowances

2 Analysis of turnover

The geographical distribution of turnover, is as follows:

	2000 £	1999 £
United Kingdom	10,323,098	14,516,858
Rest of Europe	4,457,608	3,234,989
Far East	3,892,686	3,270,903
Other	1,175,346	1,565,486
	<u>19,848,738</u>	<u>22,588,236</u>

3 Loss on ordinary activities before taxation

	2000 £	1999 £
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration - Audit	12,800	11,500
Other services	6,300	2,000
Depreciation of tangible fixed assets:		
Owned	392,913	415,112
Leased	33,656	29,037
Loss/(profit) on disposal of fixed assets	69,622	(10,568)
Operating lease rentals on plant and machinery	58,350	76,474
Government grants released	(8,209)	(11,960)
Exchange (gains)/losses	(8,989)	11,353
	<u></u>	<u></u>

Notes (continued)

4 Remuneration of directors

	2000 £	1999 £
Directors' emoluments:		
As directors	122,329	127,084

Retirement benefits are accruing to the following number of directors under:

	Number of directors	
	2000	1999
Defined benefit scheme	2	2

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2000	1999
Production	139	214
Sales and distribution	4	5
Administration	9	11
	152	230

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	2,553,526	3,517,640
Social security costs	201,347	307,889
Other pension costs	149,347	174,903
	2,904,220	4,000,432

Notes (continued)

6 Other interest receivable and similar income

	2000	1999
	£	£
Interest receivable	38,744	21,086
Income from investments	311	36
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	39,055	21,122
	<hr/>	<hr/>

7 Interest payable and similar charges

	2000	1999
	£	£
Amounts payable on bank loans and overdrafts	418,001	413,568
Amounts payable on other loans	11,306	28,605
	<hr/>	<hr/>
	429,307	442,173
	<hr/>	<hr/>

8 Taxation

	2000	1999
	£	£
UK corporation tax at 21% in the (loss)/ profit on ordinary activities	-	(7,752)
Deferred taxation	-	(7,000)
	<hr/>	<hr/>
	-	(14,752)
Adjustments relating to earlier years	-	8,871
Corporation tax	-	
	<hr/>	<hr/>
	-	(5,881)
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Notes (continued)

9 Tangible fixed assets

	Freehold property	Plant, equipment and vehicles	Assets in construction	Total
	£	£	£	£
Cost or valuation				
At beginning of year	1,351,769	5,524,243	-	6,876,012
Additions	3,200	168,588	313,352	485,140
Disposals	-	(320,190)	-	(320,190)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,354,969	5,372,641	313,352	7,040,962
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of year	98,134	2,698,739	-	2,796,873
Charge for year	18,657	407,912	-	426,569
On disposals	-	(178,496)	-	(178,496)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	116,791	2,928,155	-	3,044,946
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 26 February 2000	1,238,178	2,444,486	313,352	3,996,016
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At 27 February 1999	1,253,635	2,825,504	-	4,079,139
	<hr/>	<hr/>	<hr/>	<hr/>

Included in freehold property is land valued at £546,000 (1999 : £546,000) which is not depreciated.

Included in the total net book value is £229,962 (1999 : £313,471) in respect of assets held under finance leases and similar hire purchase agreements. Depreciation on these assets amount to £33,656 (1999 : £29,037) in the year.

Notes (continued)

Tangible fixed assets (continued)

Particulars relating to revalued assets are given below:

	2000 £	1999 £
Freehold property		
At 1992 open market value	1,065,000	1,065,000
At cost	289,969	286,769
	<hr/>	<hr/>
Aggregate depreciation thereon	1,354,969 (116,791)	1,315,769 (98,134)
	<hr/>	<hr/>
Net book value	1,238,178	1,253,635
	<hr/>	<hr/>
Plant, equipment and vehicles		
At 1987 open market value	1,565,880	1,592,880
At cost	3,912,321	3,931,363
	<hr/>	<hr/>
Aggregate depreciation thereon	5,478,201 (2,977,933)	5,524,243 (2,698,739)
	<hr/>	<hr/>
	2,500,268	2,825,504
	<hr/>	<hr/>

10 Stocks

	2000 £	1999 £
Raw materials and consumables	777,740	795,107
Work in progress	1,133,272	1,665,641
Finished goods and goods for resale	1,839,760	2,055,083
	<hr/>	<hr/>
	3,750,772	4,515,831
	<hr/>	<hr/>

11 Debtors

	2000 £	1999 £
Trade debtors	4,084,127	4,048,738
Amounts owed by fellow subsidiary undertaking	-	5,000
Other debtors	30,625	1,381
Prepayments and accrued income	29,502	46,813
	<hr/>	<hr/>
	4,144,254	4,101,932
	<hr/>	<hr/>

Trade debtors includes a gross amount of approximately £4,126,000 (1999 : £3,263,000) which is subject to a discounting agreement.

Notes (continued)

12 Investments

	2000 £	1999 £
Listed UK investments	29,294	35,830

The market value of listed investments at 26 February 2000 was £29,294 (1999 : £35,830).

13 Creditors: amounts falling due within one year

	2000 £	1999 £
Bank loans and overdrafts - secured	3,875,145	3,706,193
Medium term loan	100,000	112,000
Trade creditors	2,807,984	2,767,456
Amounts owed to parent and fellow subsidiary undertaking	876,028	745,115
Obligations under finance lease	88,989	78,117
Other taxation and social security	74,605	252,276
Other creditors	15,580	23,042
	7,838,331	7,684,199

Bank loans and overdraft includes £3,415,414 (1999 : £2,703,545) due under a discounting agreement.

14 Creditors: amounts falling due after more than one year

	2000 £	1999 £
Medium term loan	400,000	-
Obligations under finance lease	53,746	64,534
	453,746	64,534

The medium term loan bears interest at the rate of Base plus 1.75%. The loan is repayable in annual instalments as follows:

	£	£
Within one year (see note 13)	100,000	112,000
Between one and four years	400,000	-
	500,000	112,000

Both the medium term loan and the bank overdraft are secured by a fixed charge over the freehold property and a debenture giving a fixed and floating charge over the other assets of the company.

Notes (continued)

Creditors: amounts falling due after more than one year (continued)

The maturity of obligation under hire purchase contracts is as follows:

	£	£
Within one year	99,974	88,076
In second to fifth years	60,629	72,444
	<hr/>	<hr/>
	160,603	160,520
Less: future finance charges	(17,868)	(17,869)
	<hr/>	<hr/>
	142,735	142,651
	<hr/>	<hr/>
Falling due within one year	88,989	78,117
Falling due after more than one year	53,746	64,534
	<hr/>	<hr/>
	142,735	142,651
	<hr/>	<hr/>

15 Deferred taxation

	£
At beginning of year	15,000
Credit during year	-
	<hr/>
At end of year	15,000
	<hr/>

	2000		1999	
	Provided £	Not provided £	Provided £	Not provided £
Capital allowances in advance of depreciation	-	18,000	-	148,000
Held over capital gain	-	-	-	-
Other timing differences	15,000	-	15,000	-
	<hr/>	<hr/>	<hr/>	<hr/>

16 Accruals and deferred income

	2000 £	1999 £
Government grants		
At beginning of year	36,702	48,662
Credited to trading profit	(8,209)	(11,960)
	<hr/>	<hr/>
At end of year	28,493	36,702
	<hr/>	<hr/>

Notes (continued)

17 Called up equity share capital

	2000 £	1999 £
<i>Authorised</i>		
Ordinary shares of £1 each	5,000,000	5,000,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	4,110,100	4,110,100
	<hr/>	<hr/>

18 Reserves

	Revaluation reserve £	Profit and loss account £
At beginning of year	704,355	280,130
Loss for the year	-	(726,418)
Transfer to profit and loss account	(34,016)	34,016
	<hr/>	<hr/>
At end of year	670,339	(412,272)
	<hr/>	<hr/>

19 Contingent liabilities

The company has given an unlimited multilateral guarantee between its parent company, itself and its fellow subsidiary undertaking.

Notes (continued)

20 Commitments

- (i) Capital commitments at the end of the financial year for which no provision has been made:

	2000 £	1999 £
Contracted	-	2,000

- (ii) Annual commitments under non-cancellable operating leases are as follows:

	2000 £	1999 £
Operating leases which expire:		
Within one year	-	21,656
In the second to fifth years inclusive	38,593	28,193
	<u>38,593</u>	<u>49,849</u>

21 Pension scheme

The company operates a defined benefit pension scheme which is funded by the payment of contributions to a separately administered fund. The contributions to this scheme are determined with the advice of independent qualified actuaries on the basis of a triennial valuation using the projected unit credit method. The results of the most recent valuation, which was conducted as at 1 October 1999 were as follows:

Main assumptions:

Valuation rate of interest 9% per annum

Rate of pensionable salary increases 7% per annum

For post April 1997 service the assumption for Limited Price Indexation Pension is an increase at 4.5% per annum.

At 1 October 1999, there is a shortfall in the scheme's assets to cover its liabilities of £54,000. However the actuarial valuation concludes that while the scheme is slightly under funded on a ongoing basis, it is well funded on the Minimum Funding Requirement basis.

22 Ultimate parent company

The parent company of the company of undertakings for which group financial statements are drawn up and of which the company is a member is Profitwell Limited, a company registered in England and Wales. Copies of the financial statements can be obtained from Sculcoates Tannery, Sculcoates Lane, Hull, HU5 1RL.