

Holmes Halls Tanners Limited

Directors' report and financial statements

1 March 1997

Registered number 1429556



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 1 March 1997.

Principal activities

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

Business review

The trading profit for the year, after taxation, amounted to £573,614 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 profit for the year retained in the company was £573,614.

Significant changes in fixed assets

Movements in tangible fixed assets are shown in note 9 to the financial statements.

Employee involvement

Regular meetings are held between management and employees to allow a free flow of ideas 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 the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development whenever appropriate.

Directors and directors' interests

The directors who held office during the year were:

ESM Stanners (chairman)
TW Ulliott

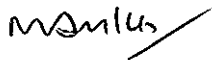
None of the directors had any disclosable interests in the shares of the company. Their interests in the share capital of the parent company are disclosed in the financial statements of that company.

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

Secretary

Sculcoates Tannery
Sculcoates Lane
HULL
Humberside
HU5 1RL

10 December 1997

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.



Peat House
1 Commercial Street
Forster Square
Bradford
BD1 4AS

Report of the auditors to the members of Holmes Halls Tanners Limited

We have audited the financial statements on pages 5 to 18.

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 1 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to be 'KPMG' or a similar stylized signature.

KPMG

10 December 1997

*Chartered Accountants
Registered Auditors*

Profit and loss account

for the year ended 1 March 1997

	Note	1997 £	1996 £
Turnover	2	31,306,222	29,972,833
Cost of sales		(23,444,782)	(23,834,917)
Gross profit		7,861,440	6,137,916
Distribution costs		(1,193,181)	(1,392,711)
Administrative expenses		(5,464,848)	(3,821,844)
Operating profit		1,203,411	923,361
Other interest receivable and similar income	6	9,924	3,912
Interest payable and similar charges	7	(371,434)	(367,859)
Profit on ordinary activities before taxation	3-5	841,901	559,414
Tax on profit on ordinary activities	8	(268,287)	(70,662)
Profit for the financial year		573,614	488,752

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 profit for the year.

Reconciliation of movements in shareholders' funds

for the year ended 1 March 1997

	1997 £	1996 £
Profit for the financial year	573,614	488,752
Opening Shareholders' funds	5,950,900	5,462,148
Closing shareholders' funds	6,524,514	5,950,900

Note of historical cost profits and losses

for the year ended 1 March 1997

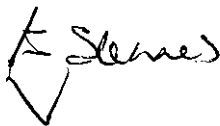
	1997 £	1996 £
Reported profit on ordinary activities before taxation	841,901	559,414
Difference between a historical cost depreciation charge and the actual depreciation calculated on the revalued amount	57,424	40,396
Historical cost profit on ordinary activities before taxation	899,325	599,810

Balance sheet

at 1 March 1997

	Not	1997		1996	
		£	£	£	£
Fixed assets					
Tangible assets	9	4,173,638		3,842,911	
Current assets					
Stocks	10	7,232,332		5,164,266	
Debtors	11	5,016,895		5,085,743	
Investments	12	65,389		65,392	
Cash at bank and in hand		16,360		49,217	
		<u>12,330,976</u>		<u>10,364,618</u>	
Creditors: amounts falling due within one year	13	<u>(9,436,080)</u>		<u>(7,410,663)</u>	
Net current assets		<u>2,894,896</u>		<u>2,953,955</u>	
Total assets less current liabilities		<u>7,068,534</u>		<u>6,796,866</u>	
Creditors: amounts falling due after more than one year	14	(463,775)		(763,180)	
Provisions for liabilities and charges	15	(15,000)		-	
Accruals and deferred income	16	(65,245)		(82,786)	
		<u>6,524,514</u>		<u>5,950,900</u>	
Net assets		<u>6,524,514</u>		<u>5,950,900</u>	
Capital and reserves					
Called up equity share capital	17	4,110,100		4,110,100	
Revaluation reserve	18	775,857		833,281	
Profit and loss account	18	1,638,557		1,007,519	
		<u>6,524,514</u>		<u>5,950,900</u>	
Shareholders' funds - equity		<u>6,524,514</u>		<u>5,950,900</u>	

These financial statements were approved by the board of directors on 10 December 1997 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	-	3, 4 & 5 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:

	1997 £	1996 £
United Kingdom	18,716,831	19,196,894
Rest of Europe	3,983,701	4,445,277
Far East	5,988,202	3,325,290
Other	2,617,488	3,005,372
	<hr/> 31,306,222 <hr/>	<hr/> 29,972,833 <hr/>

3 Profit on ordinary activities before taxation

	1997 £	1996 £
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration	13,500	11,750
Depreciation of tangible fixed assets:		
Owned	279,135	266,960
Leased	72,925	79,311
Loss on disposal of fixed assets	49,058	7,874
Operating lease rentals on plant and machinery	80,557	91,867
Government grants released	(17,541)	(18,746)
Exchange losses/(gains)	23,144	(14,080)
	<hr/>	<hr/>

Notes (continued)

4 Remuneration of directors

	1997	1996
	£	£
Directors' emoluments:		
As directors	132,503	117,970
	<hr/>	<hr/>

The emoluments, excluding pension contributions, of the chairman were £39,828 (1996 : £39,145) and those of the highest paid director were £79,408 (1996 : £65,992).

The emoluments, excluding pension contributions, of the directors (including the chairman and highest paid director) were within the following ranges:

			Number of directors	
			1997	1996
£35,001	-	£40,000	1	1
£65,001	-	£70,000	-	1
£75,001	-	£80,000	1	-
			<hr/>	<hr/>

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	
			1997	1996
Production			264	225
Sales and distribution			6	6
Administration			13	13
			<hr/>	<hr/>
			283	244
			<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	3,689,817	3,614,045
Social security costs	377,546	323,461
Other pension costs	151,486	164,132
	<hr/>	<hr/>
	4,218,849	4,101,638
	<hr/>	<hr/>

Notes (continued)

6 Other interest receivable and similar income

	1997 £	1996 £
Interest receivable	4,744	182
Income from investments	5,180	3,730
	<hr/> 9,924	<hr/> 3,912

7 Interest payable and similar charges

	1997 £	1996 £
Bank overdraft	284,521	259,371
Medium term loan (see note 14)	49,665	76,639
Finance charges payable under finance leases	35,869	31,401
Other	1,379	448
	<hr/> 371,434	<hr/> 367,859

8 Taxation

	1997 £	1996 £
UK corporation tax at 33% on the profit on ordinary activities	255,000	178,000
Deferred taxation	15,000	-
	<hr/> 270,000	<hr/> 178,000
Adjustments relating to earlier years		
Corporation tax	(1,713)	(20,338)
Deferred tax	-	(87,000)
	<hr/> 268,287	<hr/> 70,662

Notes (continued)

9 Tangible fixed assets

	Freehold property	Plant, equipment and vehicles	Assets in the course of construction	Total
	£	£	£	£
Cost or valuation				
At beginning of year	1,162,204	4,450,316	-	5,612,520
Additions	69,382	731,174	13,500	814,056
Disposals	-	(195,688)	-	(195,688)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,231,586	4,985,802	13,500	6,230,888
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of year	46,872	1,722,737	-	1,769,609
Charge for year	15,125	382,196	-	397,321
On disposals	-	(109,680)	-	(109,680)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	61,997	1,995,253	-	2,057,250
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 1 March 1997	1,169,589	2,990,549	13,500	4,173,638
	<hr/>	<hr/>	<hr/>	<hr/>
At 2 March 1996	1,115,332	2,727,579	-	3,842,911
	<hr/>	<hr/>	<hr/>	<hr/>

Included in freehold property is land valued at £550,000 (1996 : £550,000) which is not depreciated.

Notes (continued)

Tangible fixed assets (continued)

Particulars relating to revalued assets are given below:

	1997 £	1996 £
Freehold property		
At 1992 open market value	1,069,000	1,069,000
At cost	162,586	93,204
	<hr/>	<hr/>
Aggregate depreciation thereon	1,231,586 (61,997)	1,162,204 (46,872)
	<hr/>	<hr/>
Net book value	1,169,589	1,115,332
	<hr/>	<hr/>
Plant, equipment and vehicles		
At 1987 open market value	1,641,630	1,819,930
At cost	3,344,172	2,630,386
	<hr/>	<hr/>
Aggregate depreciation thereon	4,985,802 (1,995,253)	4,450,316 (1,722,737)
	<hr/>	<hr/>
	2,990,549	2,727,579
	<hr/>	<hr/>

10 Stocks

	1997 £	1996 £
Raw materials and consumables	3,558,442	933,844
Work in progress	2,548,016	2,637,524
Finished goods and goods for resale	1,125,874	1,592,898
	<hr/>	<hr/>
	7,232,332	5,164,266
	<hr/>	<hr/>

Notes (continued)

11 Debtors

	1997 £	1996 £
Trade debtors		
Amounts owed by fellow subsidiary undertaking	4,855,835	4,877,353
Other debtors	71,079	137,745
Corporation tax recoverable	57,964	34,569
Prepayments and accrued income	-	9,448
	32,017	26,628
	<hr/> 5,016,895	<hr/> 5,085,743

Trade debtors includes a gross amount of approximately £3,308,000 (1996 : £2,388,000) which is subject to a discounting agreement.

12 Investments

	1997 £	1996 £
Listed UK investments	65,389	65,392
	<hr/>	<hr/>

The market value of listed investments at 1 March 1997 was £ 123,189 (1996 : £93,941).

13 Creditors: amounts falling due within one year

	1997 £	1996 £
Bank loans and overdrafts - secured		
Medium term loan	4,419,058	2,045,359
Trade creditors	222,000	222,000
Bills of exchange	3,925,446	3,919,394
Amounts owed to parent company	-	391,260
Obligations under finance lease	285,517	26,501
Other taxation and social security	193,359	204,607
Other creditors	113,522	412,319
Corporation tax	22,178	11,223
	255,000	178,000
	<hr/> 9,436,080	<hr/> 7,410,663

Bank loans and overdraft includes £1,228,354 (1996 : £1,910,338) due under a discounting agreement.

Notes (continued)

14 Creditors: amounts falling due after more than one year

	1997 £	1996 £
Medium term loan	334,000	556,000
Obligations under finance lease	129,775	207,180
	<hr/> 463,775	<hr/> 763,180

The medium term loan bears interest at the rate of LIBOR plus 1.37% and associated costs. The loan is repayable in annual instalments as follows:

	£	£
Within one year (see note 13)	222,000	222,000
Between one and two years	334,000	222,000
Between two and five years	-	334,000
	<hr/> 556,000	<hr/> 778,000

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.

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

	£	£
Within one year	221,942	235,053
In second to fifth years	148,021	237,900
	<hr/> 369,963	<hr/> 472,953
Less: future finance charges	(46,829)	(61,166)
	<hr/> 323,134	<hr/> 411,787
Falling due within one year	193,359	204,607
Falling due after more than one year	129,775	207,180
	<hr/> 323,134	<hr/> 411,787

Notes (continued)

15 Deferred taxation

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

	1997		1996
	Provided £	Not provided £	Provided £
Capital allowances in advance of depreciation	-	695,000	-
Held over capital gain	-	-	678,722
Other timing differences	15,000	-	12,210
	<hr/>	<hr/>	<hr/>

16 Accruals and deferred income

	1997 £	1996 £
<i>Government grants</i>		
At beginning of year	82,786	101,532
Credited to trading profit	(17,541)	(18,746)
	<hr/>	<hr/>
At end of year	65,245	82,786
	<hr/>	<hr/>

17 Called up equity share capital

	1997 £	1996 £
<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/>

Notes (continued)

18 Reserves

	Revaluation reserve £	Profit and loss account £
At beginning of year	833,281	1,007,519
Profit for the year	-	573,614
Transfer to profit and loss account	(57,424)	57,424
At end of year	775,857	1,638,557

19 Contingent liabilities

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

20 Commitments

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

	1997 £	1996 £
Contracted	-	113,000
Authorised but not contracted	21,327	-

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

	1997 £	1996 £
Operating leases which expire:		
Within one year	-	19,461
In the second to fifth years inclusive	58,170	51,087
	58,170	70,548

Notes (continued)

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 1995 were as follows:

Main assumptions:

Valuation rate of interest 9% per annum

Rate of pensionable salary increases 7% per annum

Pensions will be increased in line with the scheme rules

The actuarial valuation states that the scheme's assets fully cover its liabilities at 1 October 1995 and the resources of the scheme are likely in the normal course of events to meet in full the liabilities of the scheme as they fall due.

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.