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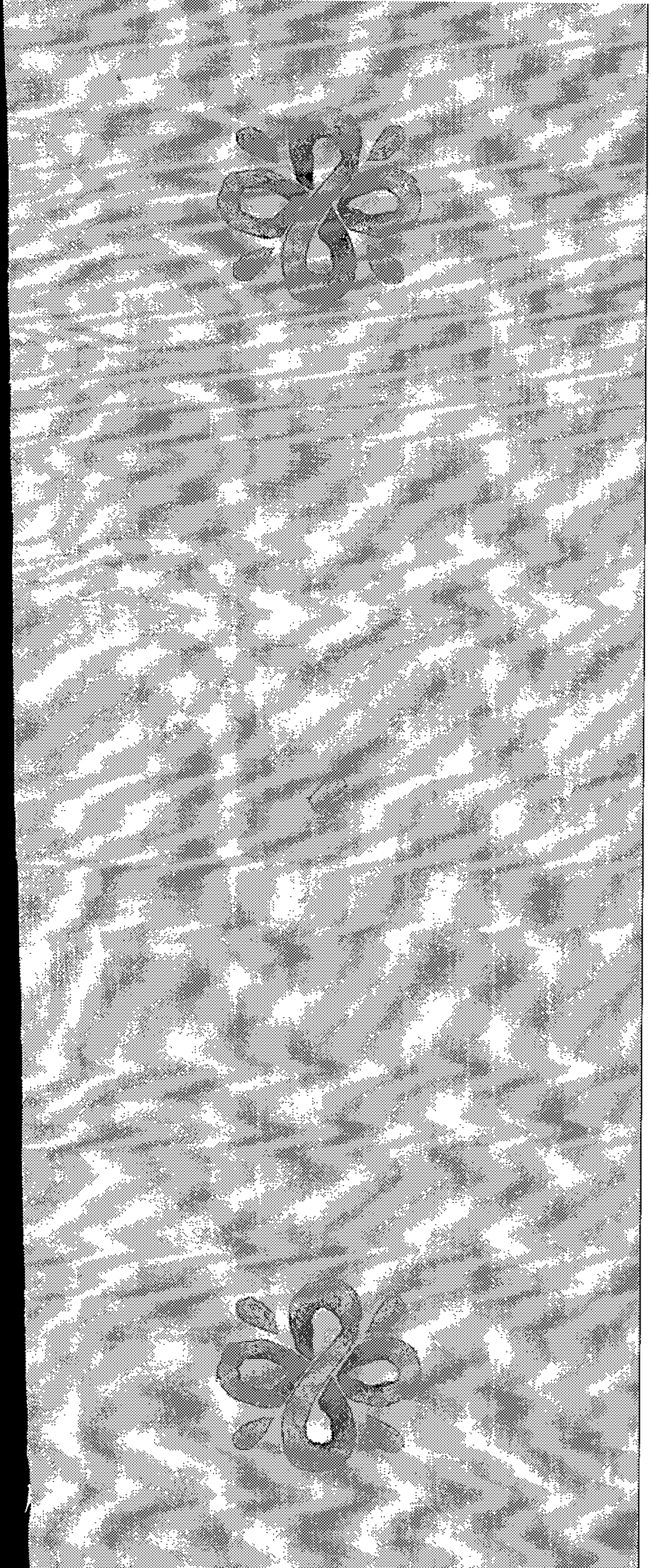
Vymura



annual report and accounts 1998

Contents

Cover: Celtic Knot wallpaper 81-084, launched in 1998, which has proved to be most successful.

Vymura

Vymura plc is a leader in the design, manufacture and distribution of wallcoverings and borders.

Products designed and produced at Hyde in Cheshire, are marketed around the world under the Vymura brand, as own label goods or as licensed characters and designs.

Chairman's statement

During 1998 the industry encountered increasingly difficult market conditions. Trading in the third quarter and the absence of the key seasonal uplift in sales in September and October resulted in the Company issuing a trading statement on 28 October 1998.

The statement announced a number of initiatives being undertaken to address the unfavourable market conditions and that trading profit for the business would be around £3.0m compared with £5.2m in 1997.

I am delighted to report, in the wake of these initiatives, a stronger than anticipated result for the year. Against market expectations of £2.8m, the Company produced profit before tax of £3.2m, after charging £0.2m for restructuring costs, on turnover of £40.6m (1997 – £41.0m). Earnings per share reduced to 9.4p (1997 – 14.2p).

Having taken due account of the above and other relevant factors, the Board is recommending a final dividend of 4.0p per share compared with 3.8p last year. The proposed dividend would give a total for the year of 5.7p which would be an increase of 5.6% on the 5.4p paid in 1997.

Trading In the second half of 1998 we took decisive action to reduce our cost base and focus our efforts on key customers. Raw material prices continued to edge downwards during 1998 and further progress was made in improving manufacturing efficiency.

We responded to the market pressures on our profitability by reviewing both product costs and overhead structures. A wide range of manufacturing cost savings was implemented through the second half of the year although the benefits will largely come through in 1999. Following our decision to focus our new product programme even more closely on the needs of key customers in the major markets, the overheads associated with creating and servicing our product range will be reduced in 1999. Savings of around £1m should be achieved without a significant loss of sales income as our attention to quality in both design and production will be undiminished.

Our position as the leading supplier to the UK's major DIY retailers continues to strengthen. Despite a shrinking UK market, we increased UK sales by 5% to £36m and increased our market share by a further 1% to 20%. Our export performance was, however, below par and export sales fell by 31%, broadly in line with an industry decline of 28%, to £4.6m.

Capital expenditure totalled £3.2m in 1998 as we invested heavily in environmental control equipment, as well as in information technology, and this investment was the single most important element contributing to the net cash outflow before financing during the year of £2.9m. With year end net borrowing of £0.1m, we were, however, virtually ungeared at the end of 1998.

Board and employees Dick Finnis, who had been associated with Vymura for many years and had been a non-executive director since flotation in 1994, retired as a director on 31 December 1998. I would like to record formally the Board's appreciation of his wise counsel and valuable contribution to the Company over a long period. Colin Drummond was appointed to the Board as a non-executive director on 22 September 1998. He brings a wide experience of business which will be of great benefit to the Company.

All our employees are important to the success of Vymura and we are delighted that our commitment to improving their skills has been recognised by our achievement in September of the "Investors in People" accreditation. I would like to thank all our employees for what has been achieved during a difficult year.

Strategy Our strategy is clear. It is to achieve profitable growth by developing further our strong relationships with both UK and overseas national retailers. We will seek to grow organically our UK wallcoverings business in profitable product areas with selected customers and in overseas markets our focus will be on developing relationships with national DIY retailers. In addition, we will seek to build on our strong relationships with UK national retailers by supplying other related products.

Prospects The current year has started well and we were ahead of budget in both sales and profit in January. This, together with our reduced cost base and our leading position as a supplier to the UK national DIY retailers, gives us confidence that we can make considerable progress during 1999.

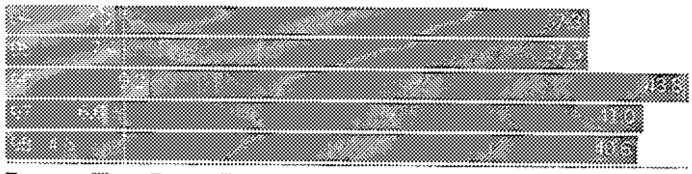
The weak market is causing financial difficulties for some of our UK competitors and we believe that this may provide us with significant opportunities for additional sales growth.

Andrew Garety Chairman

looking forwards

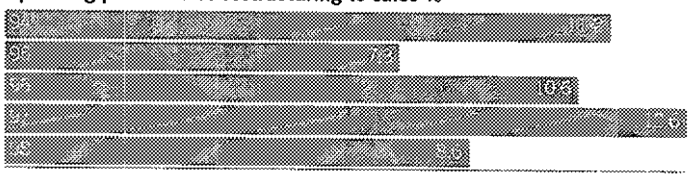
	1998 £'000	1997 £'000
Turnover – continuing operations	**40,635**	40,952
Pre-tax profits	**3,236**	5,116
Capital employed	**20,840**	19,893
Capital expenditure	**3,208**	2,000
Turnover per employee	**103**	104
Earnings per share	**9.4p**	14.2p
Dividend per share	**5.7p**	5.4p
Dividend cover	**1.6x**	2.6x

Turnover £million

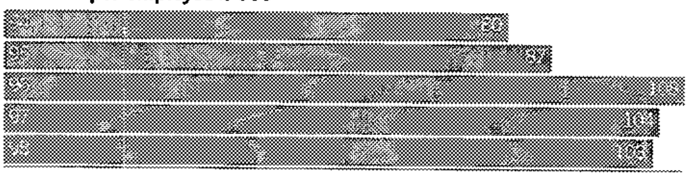


Turnover Export

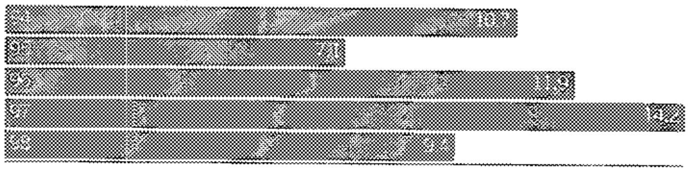
Operating profit before restructuring to sales %



Turnover per employee £'000



Earnings per share pence



Chief executive's review

The wallcoverings industry experienced a particularly challenging business climate in 1998 as the continued gradual weakening of demand in the larger developed markets was exacerbated in August by the abrupt closure of the Russian market, which had become a major wallcoverings customer for manufacturers in the UK and Germany.

The decline over recent years of wallcoverings sales in the North American, UK and French markets is at least partially due to the success with which paint has been marketed as a fashionable wall finish. Home decoration by consumers is not on the decline, but rather wallcoverings have been losing out to paint.

In a number of markets members of the wallcoverings industry have responded to falling sales by initiating long-term industry campaigns to stimulate consumer demand and promote wallcoverings as an attractive alternative to paint. Within the UK, the manufacturers and suppliers to the industry joined together in 1998 to establish the Wallfashion Bureau under the chairmanship of Vymura's Sales and Marketing Director, Terry Langstroth. A North American industry initiative has been underway for several years and a French programme was set up at the end of 1998. Each of these programmes aims to address the underlying consumer issues and they will be sustained over the long term in order to have a lasting impact.

A further consequence of the underlying lack of growth in developed markets has been consolidation within the manufacturing base. Two groupings have been established in North America. Imperial Home Decor Group Inc (IHDG) is the larger with sales of £250m-£300m and is owned by a venture capital fund, Blackstone, with manufacturing plants in the USA, Canada and through Crown Wallcoverings, in the UK. International Wallcoverings Ltd, with a Toronto stock exchange quote and sales of £55m-£60m had operations in Canada and the UK (Fine Décor), but on 11 January 1999 applied for protection under the Companies Creditors Arrangement Act (Canada) and Fine Décor subsequently went into administrative receivership on 12 January 1999. More recently a third European grouping has been put together with manufacturing operations in Germany, Holland and France. It remains to be seen whether either of the remaining two groupings will be successful in creating long term viable businesses.

For the UK-based manufacturers, 1998 presented a very mixed picture. The home market held up quite well, with manufacturer sales down 2% in value at ca £180m compared with a fall of 8% in 1997. Exports which had declined only 2% in 1997 fell sharply in 1998, particularly in the second half as the Russian market closed, and ended the year down £45m at £117m.

In response to this fall-off in demand, the UK industry cut back on productive capacity and around 15% of industry employees were made redundant in the course of the year. Moreover the pressures within the industry, which contributed to the demise of Fine Décor, are likely to continue as exports remain depressed.

Our own performance, whilst disappointing in comparison to 1997, can be seen as a solid achievement against this industry background. Our results were helped by further progress in UK sales and our relatively low exposure to export markets. Through 1998 we have continued to direct our efforts at those markets and customers with long term potential. This focus has enabled us to increase our sales in the home market by 5% to £36m. We have strengthened our position as the leading wallcoverings supplier to the major retailers and in so doing added around 1% of market share. Our positive approach to our customers was emphasised by the achievement of "Supplier of the Year" to B&Q for an innovative approach to product design and merchandising.

Our export performance was disappointing, with full year sales down £2m to £4.6m, a 31% decline against the industry figure of 28%. The USA, Poland and France were the more important markets in 1998 and we continue to seek ways in which to establish a profitable export business with the leading customers in those markets. We have recently successfully progressed

shaping the future

negotiations with a major US DIY retailer and expect to make our first sales in the third quarter of 1999. In mid year we recruited a senior executive to develop and implement an export strategy. This role has now been re-evaluated in the context of the changed market circumstances and our decision to adopt an even more focused approach to home and overseas opportunities. We have recently changed the personnel to reflect the new circumstances.

In response to a deterioration in our sales and profit expectations for the second half of the year, we undertook a thorough review of our commercial operations and in particular the size and shape of our product offer. As a result we have taken steps to reduce further our exposure to sales made through pattern books, enabling our product range to become both smaller and more focused. The range will be reduced over the next two years and costs will be cut by around £1m in 1999 as a result of savings in the creation, manufacturing and servicing of new products. These changes are wholly consistent with our strategy of focusing our efforts on the needs of our major retail customers and will strengthen the business by simplifying many of our operations.

We have continued to make good progress in our manufacturing operations as a result of both capital investment and a culture of continuous improvement. During the first half of 1998 we completed our investment in innovative quality inspection technology which has enabled a significant improvement in the quality of our products and placed us at the forefront of our industry in this area. Through the year we have upgraded the environmental controls on our manufacturing processes including a major project on the gravure printing machines. Consequently the environmental impact of our activities has been greatly reduced and at the same time we have become a better neighbour to the local community.

In summary, although our operating profits fell short of our original expectations we have taken decisive action to position the business for optimum performance in uncertain market conditions. Our historically low level of export sales helped to minimise the damage following from a slump in UK industry exports in 1998. We have in the past struggled to find the right way forward in overseas markets but we are now seeing some gains from our clear strategy of forging relationships with national retailers in key markets and expect to report progress by the end of this year. Through 1998 we have developed our strong position in the UK market and we anticipate making further progress in the course of 1999 as the pressures on many of our competitors intensify.

Tom Smail.

Tom Smail Chief Executive

Left: A selection of our wallcoverings, demonstrating the variety of designs we produce.

focused product range

As mentioned in the review we took the decision in the second half of 1998 to focus our product range even more closely on the needs of our key customers and to reduce our cost base by slimming down our range. A flow of new products is required to grow sales in response to evolving consumer tastes in home decoration but creating, manufacturing and servicing new products is a significant cost burden which has to be balanced against the sales and profit prospects. Our range is already highly targeted by industry norms but our focus on retailers who sell from in-store stock presented an opportunity for further rationalisation against a market background in which demand is broadly static in the UK and exports are likely to remain depressed.

By paying attention to the quality of the range rather than the quantity of items on offer we are confident that we will be able to reduce the range by around one third and yet substantially retain sales. Profits will be improved through cost reductions in manpower, design and roller expenditure together with the benefits of a less complex operation in manufacturing and logistics.

Our range will be managed down over two years and will continue to offer a sufficiently wide spread of styles, colours and product types to enable us to meet the needs of our customers in the UK and overseas for branded, licensed and own-label products.

Licensed products will continue to play an important role and during 1998 we launched a collection under the United Colors of Benetton label which explores new areas of design and colour within the mainstream wallcoverings market. The Benetton range complements our other licensed design concepts, Ports of Call and Country Diary, and all of them will be updated through the next year or so.

Our character licensing programme was enhanced in 1998 with a number of new designs including Thomas the Tank Engine, Winnie the Pooh and Beatrix Potter.

Right: The newly awarded certification mark from the Forest Stewardship Council (FSC).

FSC Trademark© 1996 Forest Stewardship Council SGS-C-0144.

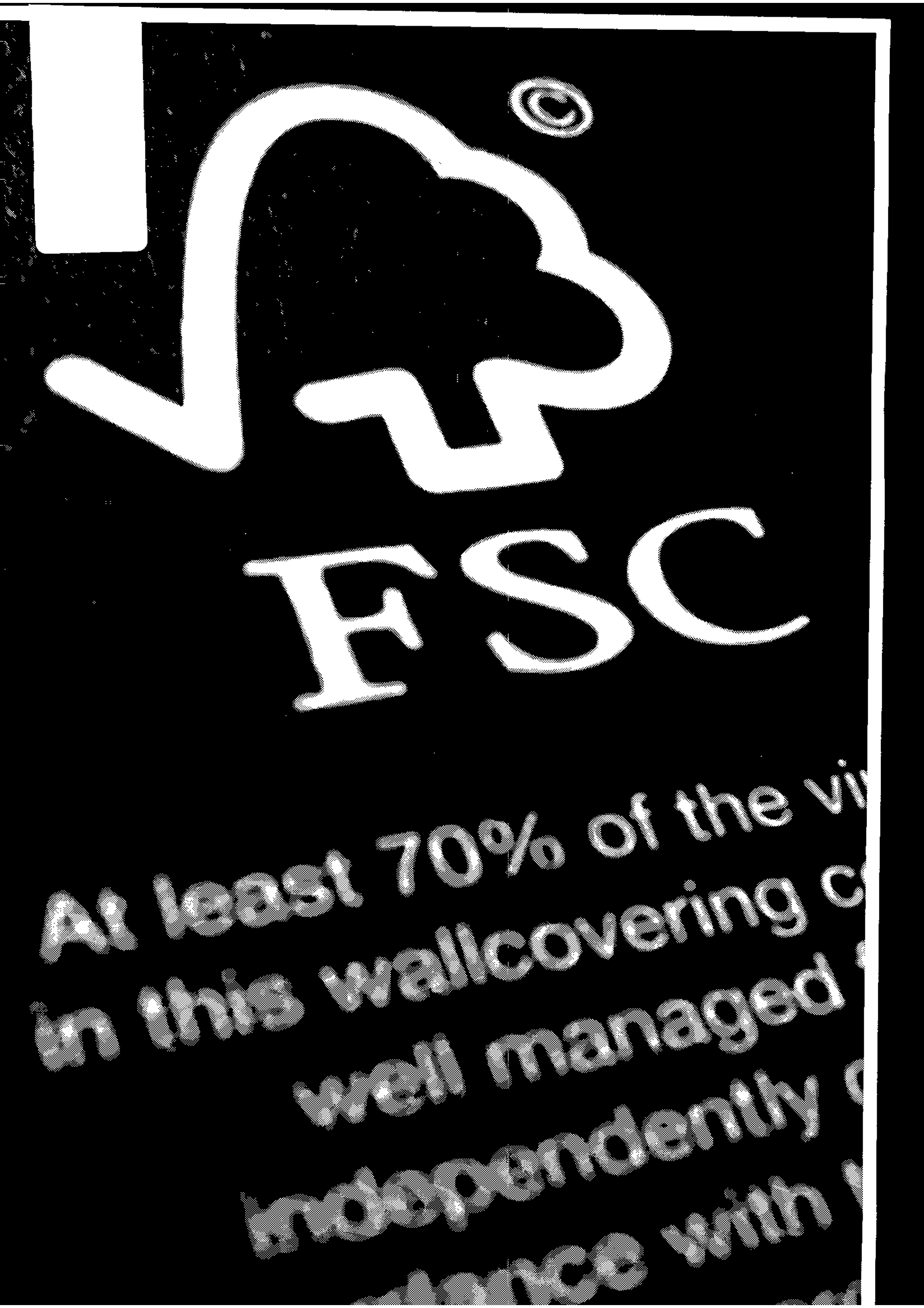
1998 was a year of significant progress over a wide range of environmental issues.

Our biggest capital investment project for many years was completed in September 1998 when environmental control equipment was commissioned for our Gravure printing department. This investment will ensure that we meet the legislative requirements of the Environmental Protection Act. In the course of the year we installed electrostatic precipitators on all our embossing machines to reduce fume and odour emission. Our major environmental project in 1999 will be the move to water-based inks in Flexo printing which will then complete a three year environmental investment programme costing £3m. In line with our ongoing programme to improve our manufacturing processes we will be investigating ways in which to increase our use of recycled materials and reduce the impact of our waste streams.

As well as reducing the environmental impact of our manufacturing processes, we have been working with our paper suppliers and the World Wide Fund for Nature (WWF) to minimise the environmental impact of our products on timber harvesting areas. We introduced our first wallcovering with a Forest Stewardship Council (FSC) label in August 1998. The FSC mark indicates that the wood used in the product comes from well managed forests, independently certified in accordance with the rules of the FSC. Our intention is to extend the use of FSC certified paper across our whole product range.

We have continued to improve our environmental management processes and procedures and in January 1999, we were successfully audited and recommended for registration to the Environmental Standard ISO 14001.

looking at the environment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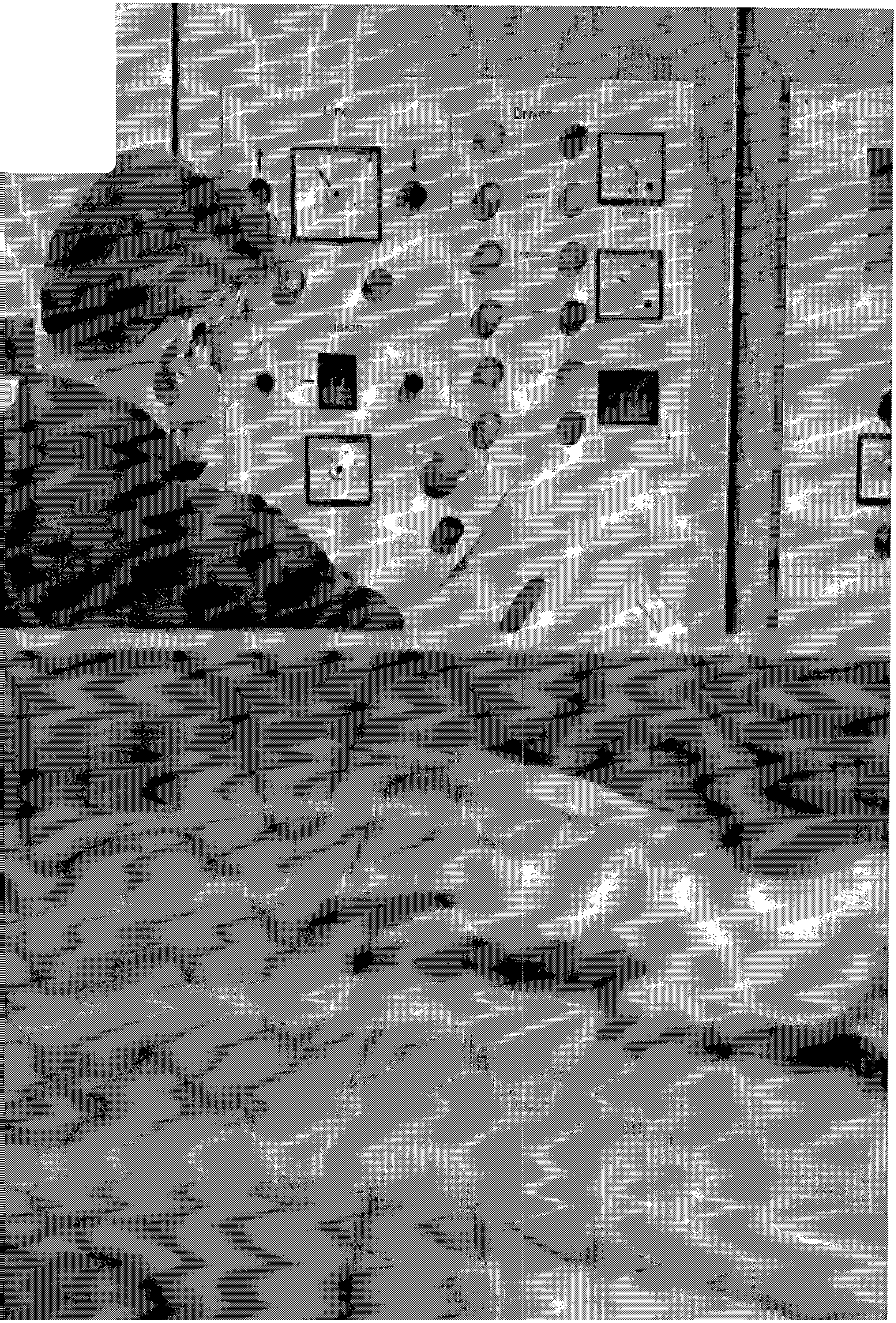


Left: Hot embosser for in register and flat vinyl wallcoverings.

investing in tomorrow

Our policy of investment in improving the skills and abilities of our employees was given formal recognition by our accreditation to the Investors In People standard in September 1998. We continue to record an increase in the number of our employees registered with awarding bodies for National Vocational Qualifications (NVQ's) and currently have 25% of our manufacturing employees registered. We are in line with meeting our target of 50% of employees registered by the end of 2000. The skills of our printing department was recognised by the award of gold and silver medals in the 1998 competition of the European Flexographic Technical Association.

In 1998 we introduced a Total Productive Maintenance (TPM) process into manufacturing, a concept which involves operators and maintenance staff working together to improve the operating effectiveness of machinery. The initial impact has been very positive and we plan to extend TPM across the plant and implement other training plans in support.

We have worked hard to improve product quality over the last 18 months and our improved manufacturing procedures, coupled with our investment in "state of the art" inspection systems, has been reflected in our industry leading quality – a point which has been acknowledged by a number of our customers.

In 1998 we had a high level of capital expenditure, with the combination of environmental controls, refurbishment, new production machinery and a new information system installed at the end of the year. Our operating efficiencies are being steadily improved and the investment planned for 1999 will bring further improvement. We are pleased to report that our factory is now becoming a benchmark against which other wallcoverings manufacturers are comparing themselves.

Finance director's review

Margins and costs The Company's gross profit margin for the year was 38.0% of sales compared with 40.1% last year. As we highlighted at the half year, our improved UK market position has been as a result of our response to opportunities for more keenly priced products which had led to a less profitable product mix. This change in mix was a contributory factor to the reduced profit margins which continued into the second half. Additionally, the greatly reduced level of industry exports led to a surplus of goods in the secondary market and depressed prices in this market for part of the second half. These adverse changes to margin were partially offset by further slight falls in raw material prices.

Before restructuring costs, operating profit margin for the year declined to 8.6% from 12.6% as operating expenses increased to 29.4% from 27.5% of sales, reflecting support costs arising from changes in product and customer mix. Following a strategic review of customer profitability we undertook a restructuring programme in the second half of 1998, the full benefits of which will be seen in 1999 onwards. However, some benefit was achieved in 1998 as other operating expenses, before restructuring costs, were reduced from 30.3% of turnover in the first half to 28.5% of turnover in the second half. Restructuring cost were £213,000 and were all incurred in the second half.

EPS Earnings per share was 9.4p, down from 14.2p in 1997, reflecting the decline in trading profit (4.3p) partially offset by decreases in net interest payable (0.1p) and a lower taxation rate (0.4p). The average number of shares in issue increased marginally from 25.8 million to 25.9 million.

Dividends and shareholders equity The proposed final dividend is 4.0p per share compared with 3.8p last year, giving a total for the year of 5.7p (1997 – 5.4p). The total dividend is covered 1.6 times by earnings compared with 2.6 times in 1997.

At 31 December 1998 shareholders funds stood at £20.8m, up from £19.9m in 1997, with retained earnings for the year of £945,000.

Inventory In line with our policy of seeking to optimise both customer service levels and our investment in working capital, inventory increased by 4% to £7.3m as a result of building stock for a major product launch in January 1999.

Capital expenditure Capital expenditure of £3.2m was significantly higher than 1997 and 2.6 times the depreciation charge of £1.2m. Within this total we invested £2.5m in equipment to comply with environmental legislation. We also invested £0.5m in a new IT system to improve further our operating capabilities and to ensure that we are both Year 2000 and Euro compliant.

The 1999 depreciation charge will increase by around £0.3m to £1.5m whilst capital expenditure levels are expected to be significantly lower at around £2.0m.

Cash flow and capital structure A £4.5m positive cash flow from operations was offset by a £1.1m outflow into working capital and cash outflows for capital investment (£3.2m) and for tax and dividends (£3.0m).

This created a net outflow before financing for the year of £2.9m which reduced the prior year's net cash surplus, but still left the company virtually ungeared at 31 December 1998.

During the course of the past year the requirement to flex stocks to meet seasonal peaks meant that significant funding was needed from time to time. Accordingly, there was a first half pre-financing cash outflow of £3.0m but a positive inflow in the second half of £0.1m.

Where appropriate the Company uses fixed term loans and leasing to fund capital projects.

Tax The effective rate of tax for the Company decreased from 28.5% in 1997 to 25.2% in 1998. The effective rate is less than the 31% standard rate of corporation tax because costs which are not deductible for tax purposes were more than offset by capital allowances in excess of depreciation. We anticipate capital allowances being in excess of depreciation for the foreseeable future.

Treasury policies The Company's treasury policies for investment, borrowing and foreign exchange are periodically reviewed and approved by the Board. There was no material change to these policies in 1998. Exposure to US dollar currency movements are reduced by matching foreign forward contracts to the pattern of customer payments. Interest rate movements are hedged by the use of an interest rate cap. Excess funds are invested in short term deposits only with major UK clearing banks.

All borrowing is at a variable rate based on LIBOR.

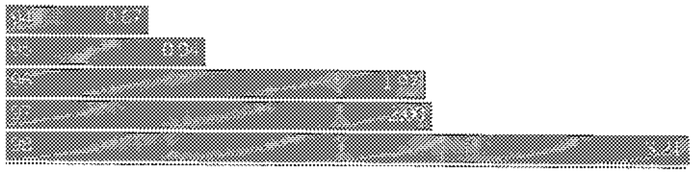
Going concern After making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Specifically, the directors have considered the potential impact of the date change on 1 January 2000, and its possible implications on the business, and believe that sufficient work has been done to ensure minimal consequences for operating after that date. No material costs are expected to be incurred as a consequence of preparing for the date change.

Jim Perrie

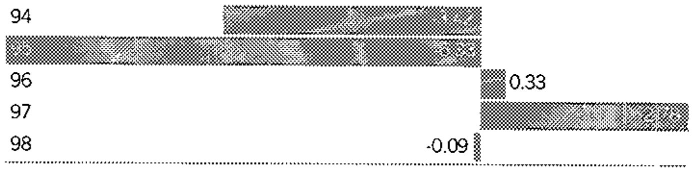
Jim Perrie Finance Director

response to opportunities

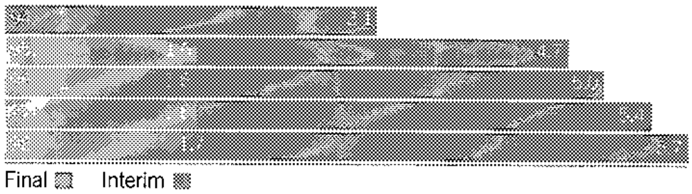
Capital expenditure £million



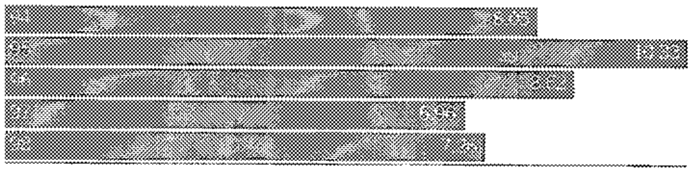
Net cash/borrowings at 31 December £million



Dividend pence per share



Inventory value at 31 December £million

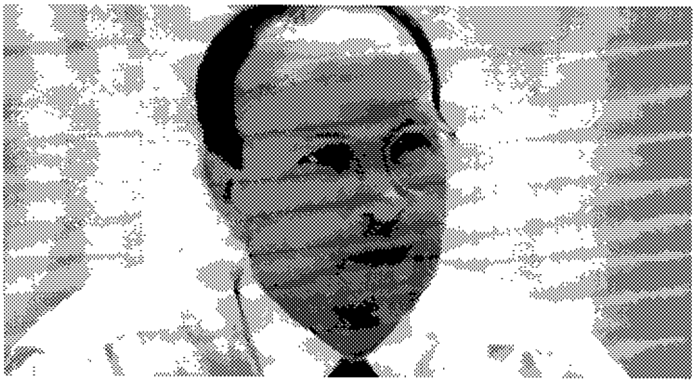


Board of directors

Andrew Garety MA, FCA Chairman
Andrew Garety (50) was appointed to the Board on 1 April 1994 and appointed Chairman on 1 January 1998. He is also Chairman of the Remuneration Committee. He is Finance Director of Morland plc and a non-executive director of Pubco PLC. Prior to that he was Chairman and Group Finance Director of Liberty PLC following on from a period as Group Finance Director of the Boddington Group plc. He qualified as a Chartered Accountant with Price Waterhouse and subsequently worked for Courtaulds plc, ICI and Tootal Group plc.

Tom Smail BSc, PhD Chief Executive
Tom Smail (56) joined Vymura in 1972. He led the management buy-out in 1992 and became Chief Executive at the time of flotation in 1994. He is a past President of the UK Wallcovering Manufacturers Association.

managing change




Terry Langstroth Sales and Marketing Director
Terry Langstroth (44) joined Vymura in 1987. He led the commercial functions through the management buy-out and flotation. He is responsible for the sales and marketing activities, and is currently Chairman of the Wallfashion Bureau.

Jim Perrie B.Acc, CA Finance Director and Company Secretary
Jim Perrie (36) joined the Company and was appointed to the Board on 28 June 1996. After qualifying as a Chartered Accountant with Arthur Andersen he held Finance Director positions with subsidiaries of the Washington Post Company and the Thomson Corporation.

George Blenkinship BSc Operations Director
George Blenkinship (46) became Manufacturing Manager of Philips & Dupont Optical in 1987. He joined Vymura as Operations Manager in 1991 and was appointed Operations Director at the time of the 1992 management buy-out.

Colin Drummond MA, MBA Non-Executive Director
Colin Drummond (48) was appointed to the Board on 22 September 1998 and Chairman of the Audit Committee. He is a Main Board Director of Pennon Group plc and Chief Executive of its subsidiary Viridor Ltd which comprises its non regulated activities in waste management, environmental instrumentation and construction services. Prior to joining Pennon in April 1992, he was a Divisional Chief Executive of Coats Viyella plc, having previously been Corporate Development Director of Renold plc, a Strategy Consultant with The Boston Consulting Group and an Official of the Bank of England.

Company information and advisers

For the year ended 31 December 1998

Company information

Company secretary
James Miller Perrie B.Acc, CA

Registered Number 2630824

Registered office and principal place of business
PO Box 15, Talbot Road
Hyde, Cheshire SK14 4EJ

Advisers

Financial adviser
Credit Swiss First Boston
5 The North Colonnade
Canary Wharf
London E14 4BB

Solicitors
Eversheds
London Scottish House
24 Mount Street
Manchester M2 3DB

Auditors
Arthur Andersen
Chartered Accountants
Bank House, 9 Charlotte Street
Manchester M1 4EU

Stockbrokers
SBC Warburg Dillon Read
1 Finsbury Avenue
London EC2M 2PP

Principal bankers
Midland Bank plc
100 King Street
Manchester M60 2HD

Registrars
Lloyds TSB Registrars
54 Pershore Road South
Kings Norton
Birmingham B22 1AF

Directors' report

For the year ended 31 December 1998

The directors present their annual report on the affairs of the Company, together with the accounts and auditors' reports, for the year ended 31 December 1998.

Principal activity and business review The principal activity of the Company is the design, manufacture and distribution of printed wallcoverings and borders.

A review of business activity is contained within the Operating and Financial review on pages 4 to 13.

Results and dividends The directors recommend a final dividend of 4.0p per Ordinary share which, if approved, will be payable on 6 May 1999 to members whose names are on the register on 19 March 1999.

Results, dividends (paid and proposed) and recommended transfers to reserves are as follows:

	£'000
Retained profit at 1 January 1998	8,140
Profit for the financial year	2,419
Dividends paid and proposed in the year	(1,474)
Transfer from other reserves	17
Retained profit at 31 December 1998	9,102

Directors and their interests The directors who served during the year are as shown below, together with their beneficial interests in the shares of the Company.

Name of director	**1998 Ordinary shares of 5p each**	1997 Ordinary shares of 5p each
A J Garety*† (Chairman)	**2,000**	2,000
T Smail	**1,298,122**	1,298,122
J M Perrie	–	–
G L Blenkinship	**1,303,122**	1,303,122
T Langstroth	**1,288,122**	1,288,122
C I J H Drummond*† (appointed 22 September 1998)	–	–
R A Finnis*† (retired 31 December 1998)	**2,000**	2,000

* Member of Remuneration Committee

† Member of Audit Committee

No changes took place in the interests of directors in the Company's shares between 31 December 1998 and 23 February 1999.

Each executive director has a service agreement with the Company terminable by either party on 12 months notice in writing. The Chairman and the other non-executive director entered into service agreements with the Company from 1 January 1998 and 22 September 1998 respectively for three years.

The directors do not have any other interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Taxation status The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1970.

Creditors payment policy It is the Company's policy to comply with the payment terms agreed with suppliers. Where payment terms are not specifically negotiated, the Company endeavours to adhere to suppliers' standard terms. At 31 December 1998, the creditors outstanding represented approximately 37 days purchases (1997 – 32 days).

Charitable and political contributions The Company contributed £6,394 (1997 – £6,598) to charities during the year. No political contributions were made in either year.

Changes in share capital Information relating to changes in share capital is given in note 17 to the accounts.

Substantial shareholdings On 23 February 1999 the following were registered as being interested in 3% or more of the Company's Ordinary share capital.

	Number	%
Guild Ventures Limited	6,576,573	25.43
The Equitable Life Assurance Society	2,762,920	10.69
Baillie Gifford British Smaller Companies Fund	1,729,198	6.69
Aberforth UK Small Companies Fund	1,456,500	5.63
Aberforth Smaller Companies Trust plc	1,388,100	5.37
Invesco English & International Trust plc	1,155,000	4.47
Invesco UK Smaller Companies Fund	829,166	3.21

Disabled employees Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings and the Company magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Auditors The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Liability insurance for company officers As permitted by the Companies Act 1985 (as amended), the Company has maintained insurance cover for the directors against liabilities in relation to the Company.

Annual general meeting – special business Resolutions 6 and 7 of the notice of annual general meeting on page 39 constitute special business.

Under the provision of Section 80 of the Companies Act 1985 the directors are not able to allot shares except with the general or specific approval of shareholders. Resolution 6 will give the directors the power, until the date falling five years after the date on which Resolution 6 is passed, to allot relevant securities up to an aggregate nominal amount of £457,150 equal to the unissued authorised share capital of the Company.

Resolution 7 is subject to the passing of Resolution 6. A special resolution of shareholders must be obtained to empower the directors to issue equity securities of the Company for cash otherwise than pro rata to ordinary shareholders. Resolution 7 on the agenda of the annual general meeting will extend, until the date falling five years after the date on which Resolution 7 is passed, the existing power to that effect. The extension will permit the directors to make issues of equity securities for cash either by rights offer to ordinary shareholders or, up to a maximum of £64,600 (approximately 5% of the issued ordinary share capital), in any way. This proposal is consistent with the guidelines approved by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds. The guidelines also indicate that issues of equity securities for cash (other than by way of rights) should not, in any rolling three year period, exceed 7½% of the issued share capital.

The directors consider it is appropriate for these resolutions to be approved and recommend shareholders to vote accordingly, as they intend to do in respect of their beneficial holdings.

By order of the Board,

J M Perrie Secretary

23 February 1999

PO Box 15, Talbot Road
Hyde, Cheshire SK14 4EJ

Corporate governance

In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee.

Statement of compliance with the Code of Best Practice The Company has complied throughout the year with the provisions of the Code of Best Practice set out in section 1 of the Combined Code, with one exception.

As a result of changes in the directors during the year the Company did not comply with rule D.3.1 of the Combined Code to maintain three non-executive directors throughout the year. The Company is now seeking to appoint a new non-executive director in order to be fully compliant.

Code Provision D.2.1 requires directors, at least annually, to conduct a review of the effectiveness of the Company's system of internal control. The directors have performed such a review. They limited their review to internal financial controls, as permitted by the London Stock Exchange, pending publication of guidance for directors on the broader aspects of internal control.

Code Provision D.3.1 requires the members of the Audit Committee to be named in the report and accounts. Mr A J Garety and Mr R A Finnis (who retired on 31 December 1998) served on the committee throughout the year, and Mr C I J H Drummond was appointed on 22 September 1998.

Statement about applying the Principles of Good Governance The Company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the principles have been applied is set out below and, in connection with directors' remuneration, in the remuneration report.

Maintenance of the sound system of internal control In applying the principle that the board should maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets, the directors recognise that they have overall responsibility for ensuring that the Company maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute assurance.

The key features of the internal financial control system that operated throughout the period covered by the accounts are described below. The directors have limited their comments to internal financial controls, as permitted by the London Stock Exchange, pending publication of guidance for directors on the broader aspects of internal control.

- **Control environment:** The Board has put in place a documented organisational structure with clearly defined and understood lines of responsibility and delegation of authority from the Board to operational line management. There are established policies and procedures to foster a strong ethical climate.
- **Identification and evaluation of business risks and control objectives:** The Board has the primary responsibility for identifying the major business risks facing the Company and developing appropriate policies to manage those risks. The Company's policies for financial reporting, accounting, information security, capital expenditure and corporate governance are all well documented.
- **Information systems:** The Company operates a comprehensive annual planning and budgeting system with an annual budget approved by the Board. There is a financial reporting system which compares results with plan and the previous year on a monthly basis to identify any significant deviation from approved plans. Reports include a monthly cash flow projection which is used in determining that the Company has adequate funding for its future needs. Revised forecasts for the year are prepared quarterly.
- **Main control procedures:** The Board has adopted a schedule of matters which are required to be brought to it for decision thus ensuring that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues. The Board has identified a number of key areas which are subject to regular reporting to the Board including treasury operations, environmental matters, capital expenditure authorisation and legal matters. Financial controls and procedures including information system controls are detailed in procedures manuals. These controls include defined procedures for seeking and obtaining approval for major transactions and organisation changes as well as organisational controls involving the segregation of incompatible duties and controls relating to the security of assets.
- **Monitoring:** The Board has delegated to executive management implementation of the system of internal financial control. The operation of the system is continually reviewed and revised as necessary. The Audit Committee deals with significant control issues raised by this process and by issues brought to its attention by the external audit.

Directors' responsibilities Company law requires the directors to prepare accounts 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 period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Remuneration report The Company has complied throughout the year with Section A of the best practice provisions on directors' remuneration annexed to the Stock Exchange Listing Rules. In addition, full consideration has been given to recommendations of Section B of the same best practice provisions in the formulation of current policy.

The Company's policy on executive director remuneration is as follows:

Policy The remuneration committee, when setting objectives on pay and benefits, gives careful consideration to the ability of the Company to attract and retain senior executives of the highest quality. It is in the interests of the Company and its shareholders that management at all levels receive incentives which maximise performance and are rewarded for shareholder value created. The Company's policy is to provide broadly-based incentive programmes as an important part of management remuneration packages which are approved by the Remuneration Committee.

Basic salary and benefits The basic salary for each director is determined by the Remuneration Committee taking into account the performance of the individual and information from independent sources on rates of salary for similar jobs in comparable companies.

The details of the remuneration packages of individual directors are set out in note 6 to the accounts. Each of the executive directors has a service contract which is terminable on 12 months' notice.

In common with benefits provided for other senior company managers, the executive directors are provided with a car and with medical and disability insurance schemes.

Performance-related element The executive directors participate in an incentive scheme based on earnings per share. The basis of calculating earnings per share is identical to that used in the Company's published accounts and is after deducting the cost of the incentive scheme. The incentive scheme is non-pensionable. No bonus was paid in respect of 1998 earnings.

The Remuneration Committee is reviewing options for a long term incentive plan, and if appropriate will seek shareholder approval for the introduction of such a plan.

Vymura plc executive share option scheme The Company operates an Inland Revenue approved Executive Share Option Scheme which was adopted by the Company on 14 April 1994.

Options granted under the Scheme are normally exercisable between three years and ten years from the date of grant. No options were granted under the Scheme during the year ended 31 December 1998.

There are no performance criteria attached to options granted under the Scheme prior to the flotation of the Company. No options were granted to the executive directors of the Company prior to flotation.

The exercise of options granted since the flotation of the Company is dependent upon the percentage increase in the earnings per share of the Company calculated over any three consecutive accounting periods (the earliest being not earlier than the accounting period current at the grant date of such options) being equal to the growth in the retail prices index over the same period plus 6%.

Vymura plc savings related share option scheme The Company operates a related share option scheme which was adopted by shareholders on 14 April 1994. Directors are eligible to participate on equal terms with other employees. Eligible employees were invited to apply for a grant of options in May 1994 and again in May 1997. No such invitation was extended in the year ended 31 December 1998.

Unapproved share options The Company operates its employee share schemes to facilitate the acquisition of ordinary shares in the Company by directors and employees and thereby to increase their commitment to the Company's future growth and prosperity. Due to the limit of £30,000 imposed by the Inland Revenue on the value of shares over which options may be granted under the existing Approved Executive Share Option Scheme, it is perceived that such scheme alone may not provide a sufficient incentive to key employees. An unapproved Executive Share Option Scheme was approved by the shareholders at the annual general meeting in May 1998.

Vymura plc profit sharing scheme The Company operates an Inland Revenue approved Profit Sharing Scheme which was adopted by the members on 14 April 1994. No shares were appropriated under this scheme during the year ended 31 December 1998.

Pensions The executive directors are members of the Vymura Pension Plan, a defined benefit scheme, funded both by the Company and the individual and which is open to substantially all full time employees. The Company also makes payments on behalf of the executive directors to an insured defined contribution policy, effected with Standard Life Trustee Company Limited.

Re-election of directors George Lawrence Blenkinship and Colin Irwin John Hamilton Drummond both retire by rotation under the Articles of Association and are proposed for re-election at the annual general meeting on 28 April 1999. Both these directors have a service contract. George Lawrence Blenkinship has a one year service contract and such contract is terminable on 12 months' notice given by either the Company or George Lawrence Blenkinship. Colin Irwin John Hamilton Drummond has a three year service contract commencing 22 September 1998.

Committee members The members of the Remuneration Committee are the non-executive directors of the Company, currently Andrew Garety and Colin Drummond. Richard Finnis was a member of the Remuneration Committee during 1998 and ceased to be a member on his retirement.

Andrew Garety Chairman

Auditors' responsibilities statement

The responsibilities of a listed company's auditors The responsibilities of the Company's independent auditors are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and the accountancy profession's ethical guidance. Their responsibilities in relation to the Annual Report are set out below.

They report to the shareholders their opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. They also report to the shareholders if, in their opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if they have not received all the information and explanations they require for their audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

They review whether the statement on page 19 reflects the Company's compliance with those provisions of the Combined Code specified for their review by the Stock Exchange, and they report if it does not. They are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

They read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. They consider the implications for their report to shareholders if they become aware of any apparent misstatements or material inconsistencies with the financial statements.

Auditors' report

To the Shareholders of Vymura plc: We have audited the financial statements on pages 24 to 37 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 27 and 28.

Respective responsibilities of directors and auditors As described on page 20 the Company's directors are responsible for the preparation of the financial statements. Our responsibilities are described on page 22.

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 Company's state of affairs at 31 December 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester M1 4EU

Arthur Andersen

23 February 1999

Profit and loss account

For the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	**40,635**	40,952
Cost of sales		**(25,202)**	(24,522)
Gross profit		**15,433**	16,430
Other operating expenses	3	**(12,168)**	(11,269)
Operating profit		**3,265**	5,161
Interest receivable and similar income		**129**	136
Interest payable and similar charges	4	**(158)**	(181)
Profit on ordinary activities before taxation	5	**3,236**	5,116
Tax on profit on ordinary activities	7	**(817)**	(1,458)
Profit for the financial year		**2,419**	3,658
Dividends paid and proposed	8	**(1,474)**	(1,396)
Retained profit for the year		**945**	2,262
Retained profit, beginning of year		**8,140**	5,861
Transfer from other reserves	18	**17**	17
Retained profit, end of year		**9,102**	8,140
Earnings per share	9	**9.4p**	14.2p

All activity has arisen from continuing operations. The Company has no recognised gains or losses other than the profit for the financial year.

A statement of movements on reserves is given in note 18.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible fixed assets	10	**13,347**	11,346
Investment	11	**–**	–
		13,347	11,346
Current assets			
Stocks	12	**7,264**	6,958
Debtors	13	**6,078**	5,425
Cash at bank and in hand		**993**	4,549
		14,335	16,932
Creditors: Amounts falling due within one year	14	**(6,437)**	(7,300)
Net current assets		**7,898**	9,632
Total assets less current liabilities		**21,245**	20,978
Creditors: Amounts falling due after more than one year	15	**(405)**	(1,085)
Net assets		**20,840**	19,893
Capital and reserves			
Called-up share capital	17	**1,293**	1,293
Capital redemption reserve	18	**7**	7
Share premium account	18	**9,728**	9,726
Revaluation reserve	18	**710**	727
Profit and loss account	18	**9,102**	8,140
Equity shareholders' funds		**20,840**	19,893

Signed on behalf of the Board

A J Garety Director

Andrew J Garety

J M Perrie Director

J Perrie

23 February 1999

The accompanying notes are an integral part of this balance sheet.

Cash flow statement

For the year ended 31 December 1998

	Notes	1998 £'000	1998 £'000	1997 £'000	1997 £'000
Net cash inflow from operating activities	20a		**3,371**		6,989
Returns on investments and servicing of finance					
Interest element of finance lease rentals and hire purchase contracts		**(58)**		(68)	
Interest received		**129**		136	
Interest paid		**(100)**		(113)	
Net cash outflow from returns on investments and servicing of finance			**(29)**		(45)
Taxation paid			**(1,590)**		(1,382)
Capital expenditure					
Purchase of tangible fixed assets, net of financing		**(3,208)**		(2,000)	
Sale of tangible fixed assets		**–**		–	
Net cash outflow from capital expenditure			**(3,208)**		(2,000)
Equity dividends paid			**(1,422)**		(1,289)
Cash (outflow) inflow before financing		**(2,878)**		2,273	
Financing					
Share issue		**2**		183	
Repayment of loans		**(500)**		(500)	
Capital element of finance lease rentals payments		**(180)**		(294)	
Net cash outflow from financing			**(678)**		(611)
(Decrease) increase in cash	20c		**(3,556)**		1,662

The accompanying notes are an integral part of this cash flow statement.

Notes to the accounts

31 December 1998

1 Accounting policies A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

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

b) Tangible fixed assets Land and buildings are shown at original historical cost or subsequent valuation as set out in note 10. Other fixed assets are shown at cost.

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold buildings	25 years (4% per annum)
Plant and machinery	3 – 25 years (4% – 33% per annum)

Land and assets in the course of construction are not depreciated.

Residual value is calculated on prices prevailing at the date of acquisition or revaluation where this has taken place.

c) Investments Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent reductions in value. Provisions for temporary fluctuations in value are not made.

Group accounts were not prepared for the year in accordance with Section 229 of the Companies Act on the basis of the immateriality of the subsidiary undertaking.

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

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	– purchase cost on a first-in, first-out basis, including transport
Work-in-progress and finished goods	– cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

There are no significant differences between balance sheet and replacement cost values.

e) Taxation Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

1 Accounting policies continued

f) Pension costs The pension cost for the defined benefit pension scheme is assessed in accordance with the advice of an independent, qualified actuary. The amount charged to the profit and loss account is the estimated regular cost of providing benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of pensionable payroll over the estimated average remaining working life of scheme members. Further information on pension costs is provided in note 21c.

For the defined contribution scheme the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or pre-payments in the balance sheet.

g) Foreign currency Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Where appropriate, the rate of exchange in a related forward exchange contract has been employed. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

h) Turnover Turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services provided in the normal course of business, after deduction of certain rebates and other concessions granted to customers.

i) Leases The Company enters into finance and operating leases as described in notes 15 and 21b respectively.

Assets held under finance leases are initially reported at the present value of the minimum lease payments at the inception of the lease, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

j) Development, design and pattern book costs These comprise expenditure on:

- The development of new production techniques.
- Costs of artwork and the preparation of print rollers for new designs, and
- The excess of expenditure over anticipated income on pattern books directly associated with new product ranges.

To the extent that the directors are satisfied with the technical, commercial and financial viability of individual projects, these costs are deferred and amortised over the period during which the Company is expected to benefit. The maximum period of amortisation is three years.

2 Analysis of turnover

Turnover originated wholly in the United Kingdom and arose entirely on the sale of printed wallcoverings and related textile products.

By geographical destination:

	1998 £'000	1997 £'000
United Kingdom	**36,061**	34,320
North America	**1,042**	1,368
Europe and other	**3,532**	5,264
	40,635	40,952

3 Other operating expenses

	1998 £'000	1997 £'000
Distribution costs	**2,760**	2,528
Selling and marketing costs	**6,284**	5,821
Administrative expenses	**3,124**	2,920
	12,168	11,269

4 Interest payable and similar charges

	1998 £'000	1997 £'000
Bank borrowings	**100**	113
Hire purchase contracts	**58**	68
	158	181

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 £'000	1997 £'000
a) Depreciation on tangible assets		
– owned	**1,129**	1,030
– hire purchase contracts	**78**	58
b) Hire of plant and machinery under operating leases	**378**	375
c) Auditors' remuneration	**36**	34
d) Staff costs (see note 6)	**10,275**	9,538
e) Restructuring costs	**213**	–

The auditors also received £67,160 (1997 – £29,870) in respect of non-audit services. Restructuring costs represent costs incurred following a strategic review of customer profitability.

6 Staff costs

Particulars of employees (including executive directors) are shown below:

	1998 £'000	1997 £'000
Employee costs during the year amounted to:		
Wages and salaries	**8,818**	8,224
Social security costs	**725**	674
Other pension costs (see also note 21c)	**732**	640
	10,275	9,538

The average monthly number of persons employed by the Company during the year was as follows:

	1998 Number employed	1997 Number employed
Production	**287**	298
Distribution	**10**	9
Sales	**43**	37
Administration	**56**	51
	396	395

Directors' remuneration:

Name of Director	Basic salary £	Taxable benefits £	Money purchase pension contributions £	1998 Total £	1997 Total £
Executive:					
T Smail	118,668	12,618	20,740	**152,026**	155,783
J M Perrie	79,570	9,086	5,556	**94,212**	100,680
G L Blenkinship	81,632	9,640	6,284	**97,556**	108,356
T Langstroth	85,374	11,382	5,355	**102,111**	111,778
Non-executive:					
A J Garety	40,000	–	–	**40,000**	13,500
I W Bell	–	–	–	–	32,000
R A Finnis	15,000	–	–	**15,000**	13,500
C I J H Drummond	5,000	–	–	**5,000**	–
	425,244	42,726	37,935	**505,905**	535,597

Performance related bonuses are determined by the Remuneration Committee based on the level of growth in earnings per share.

The directors' remuneration shown above (excluding pensions and pension contributions) included:

	1998 £'000	1997 £'000
Chairman	**40**	32
Highest paid director	**131**	145

The executive directors are also members of the defined benefit scheme. Under the Stock Exchange Rules, the Company should disclose the following information:

i) the amount of the increase during the year and of the accumulated total amount as at the reporting date in respect of the accrued pension to which each director would be entitled on leaving service, over and above any general increase to compensate for inflation to which early leavers would be entitled.

ii) the transfer value of the relevant increase in accrued pension or sufficient information in order to make a reasonable estimate of this value.

These details are given in the following table:

	T Smail	J M Perrie	G L Blenkinship	T Langstroth
Accumulated total accrued pensions at 31 December 1997	£26,416	£1,727	£8,176	£10,298
Increase in accrued pension during the year	£2,862	£1,396	£1,571	£1,455
Transfer value of the increase in accrued pension	£31,793	£2,414	£6,707	£5,230
Accumulated total accrued pension at 31 December 1998	£30,123	£3,178	£10,009	£12,083

7 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1998 £'000	1997 £'000
Corporation tax	**817**	1,458

No deferred tax has been provided because the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is improbable that any liability will crystallise. Had the Company been providing the full amount of potential deferred tax, the charge for the year would have been increased as follows:

	1998 £'000	1997 £'000
Capital allowances	**236**	78
Other timing differences	**55**	5
	291	83

8 Dividends paid and proposed

	1998 £'000	1997 £'000
Interim dividend paid of 1.7p (1997 – 1.6p) per Ordinary share of 5p each	**440**	414
Final dividend proposed of 4.0p (1997 – 3.8p) per Ordinary share of 5p each	**1,034**	982
	1,474	1,396

9 Earnings per ordinary share

The earnings and average number of shares used in the calculation of earnings per share are:

	1998 £'000	1997 £'000
Earnings, being profit for the financial year	**2,419**	3,658
Average number of shares	**25,856,299**	25,812,103

10 Tangible fixed assets

a) The movement in the year was as follows:

	Freehold land and buildings £'000	Plant and machinery £'000	Plant and machinery in course of construction £'000	Total £'000
Cost or valuation				
Beginning of year	3,156	10,774	1,461	15,391
Additions	224	1,368	1,616	3,208
Disposals	–	–	–	–
End of year	**3,380**	**12,142**	**3,077**	**18,599**
Depreciation				
Beginning of year	391	3,654	–	4,045
Charge	93	1,114	–	1,207
Disposals	–	–	–	–
End of year	**484**	**4,768**	–	**5,252**
Net book value				
Beginning of year	2,765	7,120	1,461	11,346
End of year	**2,896**	**7,374**	**3,077**	**13,347**
Leased assets included in the above:				
Net book value				
Beginning of year	–	1,108	–	1,108
End of year	–	**1,030**	–	**1,030**

Freehold land amounting to £1,468,765 (1997 – £1,468,765) has not been depreciated.

b) The freehold land and buildings are stated at fair value, which is based on an open market existing use valuation performed by King Sturge & Co., consultant surveyors, in June 1992.

c) Original cost, and aggregate depreciation based on cost, of freehold land and buildings included at valuation:

	1998 £'000	1997 £'000
Original cost	**2,009**	2,009
Depreciation based on cost	**(243)**	(206)
	1,766	1,803

11 Investment

The Company has an investment of £2 in the following subsidiary undertaking:

	Country of registration	Proportion of Ordinary shares held
Vymura Employee Trust Limited	United Kingdom	100%

Vymura Employee Trust Limited is currently dormant. The investment was acquired on 13 April 1994. The subsidiary undertaking has not been consolidated due to immateriality in accordance with Section 229 of the Companies Act.

12 Stocks

	1998 £'000	1997 £'000
Raw materials and consumables	**569**	663
Work-in-progress	**567**	674
Finished goods and goods for resale	**6,128**	5,621
	7,264	6,958

13 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Trade debtors	**4,549**	4,043
Prepayments and accrued income	**619**	334
Development, design and pattern book costs	**526**	485
	5,694	4,862
Amounts falling due after more than one year:		
Development, design and pattern book costs	**93**	81
Pensions	**291**	236
ACT on proposed dividends	**–**	246
	6,078	5,425

14 Creditors: Amounts falling due within one year

	1998 £'000	1997 £'000
Obligations under finance leases and hire purchase contract	**180**	180
Bank loan	**500**	500
Trade creditors	**2,693**	2,515
Other creditors		
– ACT payable	**110**	349
– VAT	**677**	533
– social security and PAYE	**223**	241
UK corporation tax payable	**534**	1,313
Proposed dividend	**1,034**	982
Accruals and deferred income	**486**	687
	6,437	7,300

15 Creditors: Amounts falling due after more than one year

	1998 £'000	1997 £'000
Obligations under finance leases and hire purchase contract	**405**	585
Bank loans (see below)	**–**	500
	405	1,085

The bank loan is repayable in equal half-yearly instalments, beginning in February 1995 and ending in August 1999. The rate of interest is calculated as 1% over LIBOR.

The security on the bank loan is by deed of charge incorporating fixed and floating charges over all the Company's assets.

Analysis of borrowings
Borrowings are repayable as follows:

	1998 £'000	1997 £'000
Due within one year		
– bank loan	**500**	500
– hire purchase contract	**180**	180
Due within one – two years		
– bank loan	**–**	500
– hire purchase contract	**180**	180
Due within two – five years		
– hire purchase contract	**225**	405
	1,085	1,765

16 Provisions for liabilities and charges
No deferred taxation has been provided because the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is improbable that any liability will crystallise.

The amount of unprovided deferred taxation is as follows:

	1998 £'000	1997 £'000
Excess of tax allowances over book depreciation of fixed assets	**1,518**	1,283
Other timing differences	**(34)**	(82)
	1,484	1,201
Taxes that would arise if property were to be disposed of at current book value	**266**	283

17 Called-up share capital

	1998 £	1997 £
Authorised 35,000,000 Ordinary shares of 5p each	**1,750,000**	1,750,000
Allotted, called-up and fully paid 25,857,001 Ordinary shares of 5p each (1997 – 25,855,130)	**1,292,850**	1,292,757

Options have been granted to subscribe for shares of the Company as follows:

Scheme	Number of shares under option	Subscription price per share	Exercise period
SAYE – 1997	139,966	£1.47	July 2000 to December 2000
Executive Share Option Scheme	16,260	£1.84	April 2000 to March 2007
Executive Share Option Scheme	100,000	£1.69	June 2000 to May 2007
SAYE – 1994	411,867	£1.26	August 1999 to January 2000
Executive Share Option Scheme	264,000	£1.50	May 1997 to April 2004
Executive Share Option Scheme	60,000	£1.35	October 1998 to September 2005

18 Reserves

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	1998 £'000	1997 £'000
Distributable		
– profit and loss account	**9,102**	8,140
Non-distributable		
– capital redemption reserve	**7**	7
– share premium account	**9,728**	9,726
Revaluation reserve	**710**	727
Total reserves	**19,547**	18,600

	Capital redemption reserve £'000	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
Beginning of year	7	9,726	727	8,140	18,600
Transfer from other reserves	–	–	(17)	17	–
Issue of new shares	–	2	–	–	2
Retained profit for the year	–	–	–	945	945
End of year	**7**	**9,728**	**710**	**9,102**	**19,547**

19 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial year	**2,419**	3,658
Dividends	**(1,474)**	(1,396)
Net addition to shareholders' funds	**945**	2,262
Opening shareholders' funds	**19,893**	17,448
Options exercised under SAYE	**2**	3
Options exercised under Executive Share Option	**–**	180
Closing shareholders' funds	**20,840**	19,893

20 Cash flow information

a) Reconciliation of operating profit to net cash inflow from operating activities

	1998 **£'000**	1997 £'000
Operating profit	**3,265**	5,161
Depreciation charges	**1,207**	1,088
(Increase) decrease in stocks	**(306)**	1,660
Increase in debtors	**(899)**	(553)
Increase (decrease) in creditors	**104**	(367)
Net cash inflow from operating activities	**3,371**	6,989

b) Reconciliation of net cash flow to movement in net debt

	1998 **£'000**	1997 £'000
(Decrease) increase in cash in the year	**(3,556)**	1,662
Cash outflow from decrease in debt and lease financing	**680**	794
Changes in net debt resulting from cash flows	**(2,876)**	2,456
Net funds at 1 January	**2,784**	328
Net (debt) funds at 31 December	**(92)**	2,784

c) Analysis of net debt

	At 1 January 1998 £'000	Cash flow £'000	Other non-cash changes £'000	**At 31 December 1998 £'000**
Cash at bank and in hand	4,549	(3,556)	–	**993**
Debt due within one year	(500)	500	(500)	**(500)**
Debt due after one year	(500)	–	500	**–**
Finance leases	(765)	180	–	**(585)**
	2,784	(2,876)	–	**(92)**

21 Guarantees and other financial commitments

a) Capital commitments at the end of the year, capital commitments were:

	1998 £'000	1997 £'000
Authorised and contracted for but not provided for	**338**	2,031
Authorised but not contracted for	**641**	622
	979	2,653

b) Lease Commitments The Company has entered into non-cancellable operating leases in respect of plant and machinery, the payments for which extend over a period of up to five years. The total annual rental (including interest) for the year was £377,523 (1997 – £375,499). The lease agreements provide that the Company will pay all insurance, maintenance and repairs.

The minimum annual rentals under the foregoing leases are as follows:

	1998 £'000	1997 £'000
Operating leases which expire		
– within one year	**41**	58
– within two – five years	**390**	277
	431	335

c) Pension arrangements The Company's principal pension scheme is the Vymura Pension Plan. The scheme, which is available to substantially all current employees, is of the defined benefit type with assets held in a separate trustee administered account.

The pension cost is assessed in accordance with the advice of a professionally qualified actuary. The latest actuarial valuation of the scheme was at 5 April 1998 and the projected unit method was used.

The principal assumptions used to calculate the pension cost for 1998 are:

Investment return	9½% per annum
Increase in earnings	7% per annum
Dividend growth	5% per annum
Pension increase	4½% per annum

These assumptions are the same as for the 5 April 1995 actuarial valuation and the pension cost recognises the excess assets over the liabilities at 5 April 1995. The results of the 5 April 1998 actuarial valuation will be reflected in the pension cost from 1 January 1999. The assumptions at 5 April 1998 incorporate the impact the removal of the ACT credit for pension schemes in the July 1997 Budget. The pension cost is expected to increase by around 2% of pensionable payroll from 1 January 1999.

At 5 April 1998 the market value of the assets of the scheme was £15,498,000 and the actuarial value covered 99.5% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The pension charge for the year in respect of defined benefit arrangements was £686,753 (1997 – £610,375). The difference between contributions paid and the charge for the year is shown within prepayments.

The Company also operates a defined contribution scheme for the executive directors and one senior employee. The pension charge for the scheme is the amount of contributions payable and totalled £45,640 (1997 – £30,057) in the year.

d) The Company has entered into an agreement with its financial adviser, Credit Suisse First Boston, which may lead to the crystalisation of a fee in the event of the Company undertaking specific corporate activity. The value of the fee cannot be determined until the nature and the size of the transaction is determined.

Financial history and financial calendar

years ended 31 December

Summary of financial history

	1994 £'000	1995 £'000	1996 £'000	1997 £'000	**1998 £'000**
Turnover	37,296	37,283	43,758	40,952	**40,635**
Operating profit	4,172	2,733	4,651	5,161	**3,265**
Interest receivable	44	8	8	136	**129**
Interest payable and similar charges	(440)	(326)	(268)	(181)	**(158)**
Profit on ordinary activities before taxation	3,776	2,415	4,391	5,116	**3,236**
Tax on profit on ordinary activities	(1,114)	(592)	(1,317)	(1,458)	**(817)**
Profit for the financial year	2,662	1,823	3,074	3,658	**2,419**
Dividends paid and proposed	(988)	(1,210)	(1,287)	(1,396)	**(1,474)**
Retained profit for the year	1,674	613	1,787	2,262	**945**
Earnings per share	10.70p	7.10p	11.90p	14.2p	**9.4p**

Financial calendar

Financial year end	31 December 1998
Ex-dividend date	15 March 1999
Final ordinary dividend payable to shareholders registered on	19 March 1999
Annual general meeting	28 April1999
Dividend payment date	6 May 1999
Announcement of interim results	August 1999

Notice of annual general meeting

Notice is hereby given that the annual general meeting of the Company will be held at Aldermary House, 15 Queen Street, London EC4N 1TX on Wednesday 28 April 1999 at 12.00 noon for the following purposes:

As ordinary business

1 To receive the annual report and financial accounts for the year ended 31 December 1998 (Resolution 1).

2 To declare a dividend (Resolution 2).

3 To reappoint Arthur Andersen as auditors of the Company and authorise the directors to fix their remuneration (Resolution 3).

4 To re-elect George Lawrence Blenkinship who is retiring by rotation under the Articles of Association as a director of the Company (Resolution 4).

5 To re-elect Colin Irwin John Hamilton Drummond who is retiring under the Articles of Association as a director of the Company (Resolution 5).

As special business

To consider and, if thought fit, to pass the following resolutions which will be proposed as to Resolution 6 as an ordinary resolution and as to Resolution 7 as a special resolution:

6 That the directors be authorised pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to a maximum nominal value of £457,150 which is equal to the unissued authorised share capital of the Company. The authority hereby given shall expire on the date falling five years after the date on which this resolution is passed unless previously renewed, varied or revoked by the Company in general meeting save that the Company may prior to 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 the relevant securities pursuant to any such offer or agreement (Resolution 6).

7 That conditional upon the passing of Resolution 6 above, the directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by Resolution 6 above as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:

(a) to the allotment of equity securities which are offered to all the holders of Ordinary shares (at a date selected by the directors) where the equity securities respectively attributable to the interest of all holders of Ordinary shares are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them, subject to such exclusions or arrangements as the directors may deem necessary or desirable to deal with the fractional entitlement otherwise arising or legal or practical problems with the laws or regulations of any regulatory authority or stock exchange in any territory;

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £64,600 (being approximately 5% of the aggregate amount of the Company's issued share capital at the date of the passing of this resolution)

such authority and power to expire on the date falling five years after the date on which this resolution is passed save that the Company may prior to 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 pursuant to any such offer or agreement (Resolution 7).

By order of the Board

J M Perrie Secretary

26 March 1999

Notes

1 Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, only those shareholders registered in the register of members of the Company as at 6.00 pm on Monday 26 April 1999 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at the time. Changes to entries on the register of members after 6.00 pm on Monday 26 April 1999 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2 Any member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A proxy need not preclude a member of the Company from attending and voting at the above meeting if he so desires.

3 The following documents, which are available for inspection during normal business hours at the registered office of the Company and the offices of Eversheds Solicitors, Senator House, 85 Queen Victoria Street, London EC4V 4JL on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the annual general meeting, will also be available for inspection at the place of the annual general meeting for a period of 15 minutes prior to the meeting and until the conclusion of the meeting:

(i) Register of interest of directors in the share capital of the Company;

(ii) Copies of the service contracts of directors of the Company.

Environmental policy

The policy of Vymura plc is to encourage respect for the environment and the adoption of an environmentally responsible attitude in the fulfilment of business objectives.

The pursuit of this policy will require the Company to focus attention upon the following key principles:

Environmental legislation The Company aims to comply with all relevant environmental legislation, regulations and codes of practice.

Management system The Company will maintain a documented environmental management system.

We will set environmental targets and monitor performance to enable continual improvement.

Communication The Company will promote awareness amongst employees of the importance of environmental issues to Vymura's business and the environmental impact of the business activities.

We will report significant environmental performance changes and improvements to stakeholders.

Resources and materials The Company will seek to conserve resources and materials and manage their use efficiently, through implementation of waste minimisation programmes and by encouraging the use of re-cycled materials where appropriate.

We will endeavour to understand the impact of the supply of raw materials and services, and to encourage continual improvement from suppliers.

Operation of the business The Company aims to operate the business efficiently, with due consideration for environmental, social and economic impacts and values, and our relative competitive position.

A high value will be placed on the control and improvement of environmental performance and prevention of pollution.

The environmental impact of significant changes to equipment or processes will be assessed as part of the approval process.

Products The design of products and packaging includes consideration of environmental impact throughout the product life cycle.

Designed and produced by Radley Yeldar (London)

Vymura plc PO Box 15, Talbot Road, Hyde, Cheshire SK14 4EJ Tel 0161 368 4000