Vymura plc Annual Report 1995

Vymura

Vymura

Vymura plc designs, manufactures and distributes a wide range of printed wallcoverings and borders for sale in the UK and overseas markets.

The Company operates from a single manufacturing site of approximately 45 acres, in Hyde, near Manchester, with 500,000 sq ft of factory and modern office buildings. Vymura is one of the market leaders in the UK and offers products under the well known brand names, Vymura and Novamura, as well as producing a wide range of private label and licensed products, including Walt Disney and Jeff Banks.

Vymura is a leading wallcoverings supplier to the DIY superstores and national multiple retailers and is expanding sales to independent retailers and wholesalers in the UK. A growing export effort is mainly directed to the North American, European and Far Eastern markets.

The Company aims to develop and build the business for the long term benefit of its shareholders.

Vymura

Chairman's Statement

As reported in my half-yearly statement for 1995, the demand for wallcoverings in the UK was disappointing in the second quarter. This picture extended into the second half of the year and the strong Autumn trading period, which has been a feature of previous years, did not materialise.

The turnover for the year ended 31 December 1995 was £39.2m against £39.4m for the same period in 1994. Operating profit fell by 34% to £2.7m, as margins came under pressure from higher raw material prices. The profit on ordinary activities before taxation was £2.4m compared with £3.8m in 1994. Earnings per ordinary share fell from 10.70p in 1994 to 7.10p in 1995, a decrease of 34%.

The Board recommends an unchanged final dividend of 3.1p per ordinary share making a total of 4.7p for the year. The final dividend is payable on June 5 to the Shareholders on the register at April 23.

The debt to equity ratio at 31 December 1995 was 41%, as stocks rose by £2.3m in the year due to both higher raw material costs and the introduction of new ranges. Stocks were however lower than the £10.8m reported at the half year.

During 1995 we continued to place great importance on development of the customer base and the product range, as a result of which we achieved some success in both the home and export markets. Gains in a number of customers were offset by reduced sales to some of the more established accounts as a number of major retailers embarked on restructuring programmes. The reported value of UK sales declined marginally in spite of a slight improvement in market share and we recorded growth in export sales.

The increases in the costs of our major raw materials were larger than expected and peaked at 18% in overall terms, placing profit margins under severe pressure in the second half. Some price increases were implemented in the last quarter of 1995 and raw material costs eased towards the close of the year. However the results for the full year reflect both the impact of falling demand in the UK and an inability to recover higher raw material costs quickly and in full.

Your Board believes that UK consumer confidence remains fragile. The property market is sluggish, with many home owners still in a negative equity trap, and this continues to affect trading in many household goods sectors. More recently there have been some small signs of life in the housing market, but it is too early to be confident of a sustainable upturn. The overall lack of confidence in the UK market therefore remains a matter of concern and although exports offer growth prospects for Vymura, some overseas consumer markets are also showing signs of weakness.

In order to maximise our potential for recovery against this background we are intensifying our efforts to further reduce our cost base across all aspects of the business. Through a combination of investment and reorganisation we plan to reduce employee numbers by 15% through the course of 1996. This will give rise to an exceptional charge which will be reported in the interim statement.

In addition our investment in development and extension of the Vymura product range in 1995 provides a good platform from which to extend the customer base in 1996 at a reduced level of cost.

Sales for the first three months of 1996 are modestly ahead of budget. However, industry-wide sales in the UK have been strong in the early months of each of the past two years only to fall sharply in the second quarter. We therefore remain cautious about UK demand in the post-Easter period. Raw material prices have continued to decline slowly in the early part of 1996 and although these costs are still significantly above the levels of December 1994 our cost and pricing structuring is now more favourable than in the second half of 1995. Margins in the early part of 1996 will however be constrained by reduced manufacturing activity arising from a further controlled reduction in stock levels.

The operating benefits arising from the planned cost reductions and the moderation in raw material prices will have little impact until the second half of the year. However, operating profits before exceptional items in the first half of the year should show progress against the second half of 1995.

1995 proved to be a difficult year for Vymura but I would like to record our thanks to all the Company's employees for their efforts.

Iain Bell Chairman

Operating and Financial Review

UK Market Review

Wallcovering industry sales into the UK started well in 1995 with shipments up 5% in the first quarter. However, this trend was reversed and demand fell in each of the following quarters, leaving the year as a whole down by 3% at 90m units, with the fourth quarter, which has been strong in recent years, being particularly disappointing. Vymura sales volume for the full year was on a par with 1994, giving a small improvement in market share.

Decorating activity in the consumer market in 1995 was subdued, reflecting a continued lack of consumer confidence related to a poor housing market and employment uncertainty. Within the major UK retailers of wallcoverings there was considerable restructuring and consolidation throughout 1995. The most significant event was the purchase of Texas Homecare by J. Sainsbury plc to give the combined group more than 300 stores and around 20% of the wallcoverings market. These changes should create a more profitable and stable UK DIY retailer base in the medium term but in the short term the effects on suppliers are both difficult to forecast and potentially disruptive.

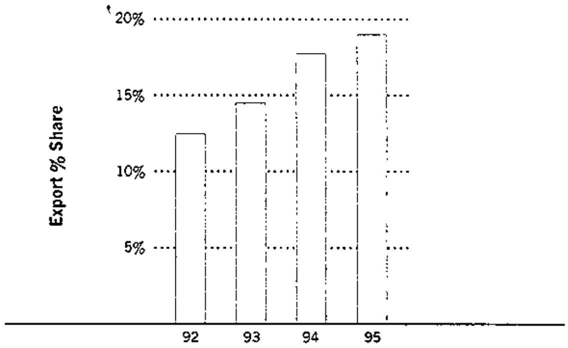
The DIY superstores remain the dominant retail outlets for wallcoverings in the UK and their share of sales to the consumer was unchanged in 1995. A key element of our strategy is to expand sales through our close working relationship with the leading UK wallcoverings retailers whilst complementing this strong position by widening our customer base in both the UK and selected overseas markets. Our focus on the DIY superstores and the development of marketing programmes to meet their specific needs has maintained our position as their leading supplier of wallcoverings. Whilst consumer purchases from High Street multiples have continued to decline slowly this customer grouping still accounts for around 20% of the total market. Our increased effort on sales to these customers has improved our position in this sector during 1995 and further progress is anticipated in 1996.

Export Review

UK wallcoverings manufacturers have been successful in overseas markets and the UK industry as a whole exports around 40% of total output. Historically, we have focused on the UK and exports have only comparatively recently been targeted for growth.

Operating and Financial Review

During 1995 our Exports increased to represent 19.0% of sales compared with 17.7% in 1994. Sales in North America were disappointing but sales into other markets were well ahead across a wide spread of customers.



During 1995 we exhibited at Trade Fairs in Frankfurt, Moscow and Shanghai and successfully extended our customer base, particularly in Eastern Europe and the Far East. The Heimtextil Exhibition in Frankfurt in January opened up several new prospects for 1996 and we aim to continue to build our Eastern European sales by attending the Moscow Trade Fair in April.

Product Review

Given the current flat consumer demand within the wallcoverings markets of Europe and America the total product offer needs to strike a balance between innovation to stimulate demand and more basic features such as the price spread and the breadth of ranges. We believe that the best way forward is a compact product range, within which new products are targeted at specific opportunities whether these be a design trend or a private label package. Because of our emphasis on a focused range of high performance items we introduced test marketing into our UK programme in 1994 to ensure that the better performing products were put into retail stores. We extended this programme in 1995 and we continue to invest in research methods to improve product performance.

Within the UK market we are active in those product sectors - borders, simplex wallpapers and flat vinyls - which have shown a resilient sales performance against the background of overall market decline and our UK sales in each of these categories increased in 1995.

During 1995 we stepped up our rate of new product creation by more than 50%, in order to consolidate our position in established product/customer sectors and to position us for growth in new areas. Licensed programmes remain a key part of our wallpaper strategy for the UK market and we extended our position in the character merchandising area by launching six new characters in 1995. During the year we had particular success with Power Rangers and Walt Disney's Pocahontas.

In the year we also launched "Distant Latitudes" the second design theme by the fashion designer Jeff Banks. Distant Latitudes is building on the great success of the first collection "Ports of Call", which remains a trend-setter within our marketplace.

Vymura

Operating and Financial Review

To expand the customer base we have recently introduced a second brand, 'Signature', into the UK market. The Signature brand will consist of compact ranges of products which utilise our extensive design library. The new brand is intended to expand our sales to the independent/wholesale sector of the market, which although smaller than the multiple retailer sector, does represent an area of growth potential for Vymura. In export markets we have also worked with our customers in Europe and North America to develop products where specific needs exist and the benefits of this will begin to show through in 1996 sales.

Successful designs often work across a wide spread of markets, but in many instances colour is the key to local success and specific colourations can make commercial sense. Our computer aided design/colouring facilities were extended in 1995 greatly enhancing our ability to respond to opportunities for such new business. Additionally, it will also enable us to maximise the use of our design library. Since we invested during 1995 in a wide range of designs we are able to reduce our expenditure in this key overhead area in 1996, without inhibiting sales growth.

Operations Review

Changes to working methods were introduced successfully in the first quarter of 1995. The workforce responded well to the new methods which have led to significant efficiency gains in key areas such as printing machine set-up times. Moreover, notwithstanding a smaller workforce, production capacity has been increased improving our ability to accommodate growth with the current equipment. The reduction in employees of 50 was mainly achieved through early retirement. Expenditure on plant and machinery in 1995 totalled £0.9m, with the emphasis on investment to improve the cost base. The main manufacturing items were modifications to the printing machines to reduce the volume of ink in circulation, thereby reducing ink wastage, and stage payments of £0.3m for a £1m investment in new wrapping equipment, which will be operational by the middle of 1996. We had expected to start the investment required under the Environmental Protection Act in 1995 but requirements for our industry are under review as a result of which the authorities concerned have put back the implementation date to 1998. We now expect to begin this investment programme in 1997.

Operating and Financial Review

A significant environmental issue for Vymura in 1995 was increased focus on the forest management techniques used by the suppliers of all wood products, including paper. Vymura was accepted as a member of the World Wide Fund for Nature in 1995 and we have been working closely with WWF and Finnboard, our main paper supplier, to establish forest certification processes which will build on the long established good forest management techniques in Finland.

We have developed further the working relationships with our key raw material suppliers as part of our programme for continuous improvement. Over the last eighteen months we have paid particular attention to our ink systems. Significant improvements have been made to waste management of inks and improvements to print quality have been made. Our printing skills have been recognised for the second year running by the award of two golds in the annual competition of the European Flexographic Technical Association.

Financial Review

The Company' s operating profits declined from £4.2m to £2.7m. The increases in the costs of our major raw materials were larger than expected and peaked at 18% in overall terms, placing profit margins under severe pressure in the second half. Part of the increase in costs was recovered by means of increased selling prices in the latter part of the year.

Because of ongoing levels of capital expenditure the Company does not provide for deferred taxation. As a result the effective rate of tax will fluctuate somewhat from year to year. The tax charge fell from 29.5% in 1994 to 24.5% in 1995 due to an increase in the benefit from timing differences that are not expected to reverse in the future.

Gearing (debt/equity) rose during the year from 18% to 41% but interest cover was at a satisfactory level of 8.6 times. The major reason for the rise in gearing was the sharp increase in stock levels. Year end stock value increased from £8.0m to £10.3m. The volume of finished goods stocks rose as we widened our product range and unit stock values increased significantly as a result of raw material price increases. At £0.9m capital expenditure was slightly in excess of depreciation. Corporation tax of £1.25m was paid and dividends of £1.2m were distributed.

In addition to an overdraft facility of £4.5m, the Company' s medium term financing at 31December 1995 consisted of finance leases of £0.4m and a term loan of £2m from Midland Bank which is repayable in equal instalments over the next four years. £0.5m of this loan was repaid during the year. An agreement has been entered into for the funding of capital expenditure of £0.9m in 1996 by means of finance leases.

It is the Board's intention to maintain the final dividend at 3.1p per ordinary share. The total dividend for 1995 will be covered 1.5 times by post tax profits. Prior year dividends reflect the Company's different capital structure prior to flotation on the London Stock Exchange in May 1994.

Export sales to several countries are denominated in United States dollars. The Company has entered into a foreign exchange contract to sell forward the majority of its projected dollar receipts for 1996. Arrangements of a similar nature were in force for 1995 dollar proceeds.

CREST Share Settlement System

It is proposed to transfer Vymura shares onto the Crest system. Crest is a new computerised system, designed by the Bank of England for settling transactions when shares are bought or sold on the London Stock Exchange.

On the proposed timetable Crest will be introduced in July 1996 and will make share transactions faster and more secure. Crest will remove much of the movement of paper around the country when shares are traded as now, and will replace the existing Talisman system by April 1997.

For shareholders to obtain maximum benefit from Crest, it will be necessary to hold shares in 'electronic' form removing the need for share certification. However, shareholders who wish to retain physical Share Certificates will still be able to buy and sell shares. Crest therefore provides an additional choice for shareholders.

A resolution was passed at the Board Meeting on 27 March 1996 authorising the Directors to seek the permission of CRESTCo Limited to transfer the shares onto the Crest system. Subject to permission being granted, it is anticipated that Vymura shares will move onto the Crest system by March 1997.

Tom Smail Chief Executive

Directors

Directors

Iain Bell, Non-Executive Chairman
Iain Bell, aged 55, was appointed to the board on 1 March 1994. He is a former group managing director and deputy chairman of Johnston Press plc. He is non-executive chairman of Edinburgh New Tiger Trust plc and a non-executive director of EFM Small Companies Trust plc, Fife Indmar plc and Hewden Stuart plc. He is a past president of the Scottish Newspaper Publishers Association.

Tom Smail, BSc, PhD, Chief Executive
Tom Smail, aged 53, joined Vymura in 1972. He led the restructuring which restored Vymura to profitability and growth in 1990, after a period of losses in the 1980s. In 1994 he was appointed Chief Executive.

Terry Langstroth, Sales and Marketing Director
Terry Langstroth, aged 41, has eight years service with Vymura. He joined Vymura in 1987 as sales manager, taking responsibility for the marketing and export departments in 1989. In June 1992, at the time of the management buy-out, he became Sales and Marketing Director.

Bob Bradbury, BSc, ARCS, FCMA, Finance Director and Company Secretary
Bob Bradbury, aged 48, has seven years service with Vymura. In 1972 he joined Bunzl PLC and became finance director of a number of manufacturing subsidiaries before moving to Manders (Holdings) plc, in 1986, as group chief accountant. He joined Vymura in 1988 as financial controller and became Finance Director at the time of the 1992 management buy-out.

George Blenkinship, BSc, Operations Director
George Blenkinship, aged 43, has five years service with Vymura. He 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.

Richard Finnis, BSc, Non-Executive Director
Richard Finnis, aged 67, was appointed to the Board on 1 April 1994. He worked for ICI from 1953. Between 1986 and 1991 he worked for European Vinyls Corporation and was a director of Weston-Hyde Products. He was president of the British Plastics Federation from 1991 until April 1992.

Andrew Garety, MA, FCA, Non-Executive Director
Andrew Garety, aged 47, was appointed to the Board on 1 April 1994. He was until January 1996 the group finance director of The Boddington Group plc which he joined in September 1989. Since qualifying as a chartered accountant with Price Waterhouse he has also worked for Courtaulds PLC, ICI and Tootal Group plc.

Company Information and Advisers

Company Information

Registered Office and Principal Place of Business
PO Box 15, Talbot Road
Hyde, Cheshire
SK14 4EJ

Company Secretary
Robert Arthur Bradbury
BSc, ARCS, FCMA

Registered Number
2630824

Advisers

Financial Advisers
BZW Limited
Ebbgate House, 2 Swan Lane
London EC4R 3TS

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
UBS Limited
100 Liverpool Street
London EC2M 2RH

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

Registrars
Lloyds Bank Registrars
54 Pershore Road South
Kings Norton
Birmingham B30 3EP

Directors' Report

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 1995.

Principal Activity and Business Review

The principal activity of the company is the design, manufacture and distribution of printed wallcoverings and borders.

Results and Dividends

The directors recommend a final dividend of 3.1p per Ordinary share which, if approved, will be payable on 5 June 1996 to members whose names are on the register on 23 April 1996. Results, dividends (paid and proposed) and recommended transfers to reserves are as follows:

	£000
Retained profit at 1 January 1995	3,428
Profit for the financial year	1,823
Dividends paid and proposed in the year	(1,210)
Transfer from other reserves	16
Retained profit at 31 December 1995	**4,057**

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	1995 Ordinary shares of 5p each	1994 Ordinary shares of 5p each
I W Bell (Chairman)*•	**2,000**	2,000
T Smail	**1,298,122**	1,278,122
R A Bradbury	**1,288,122**	1,278,122
G L Blenkinship	**1,303,122**	1,278,122
T Langstroth	**1,288,122**	1,278,122
R A Finnis*•	**2,000**	2,000
A J Garety*•	**2,000**	2,000

No changes took place in the interests of directors in the company' s shares between 31 December 1995 and 3 April 1996.

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 directors entered into service agreements with the company for a three year period commencing on 1 March 1994 and 1 April 1994 respectively.

No options were granted to the directors during the year and there are no contracts of significance between the company and the directors.

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

* Member of Remuneration Committee

• Member of Audit Committee

Taxation Status

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

Fixed Assets

Information relating to changes in tangible fixed assets is given in note 10 to the accounts.

Charitable and Political Contributions

The company contributed £3,305 (1994 - £2,286) to charities during the year.

Changes in Share Capital

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

Vymura

Directors' Report

Substantial Shareholdings

On 3 April 1996 the following were registered as being interested in 3% or more of the company's Ordinary share capital.

	Number	Percentage
Bank of Scotland London Nominees Limited	1,940,600	7.54%
Royal Bank of Scotland Edinburgh Nominees Limited	1,756,000	6.82%
The Equitable Life Assurance Society	1,512,920	5.88%
Bank of Scotland Nominees/Unit Trusts/Limited	1,284,945	4.99%
Chase Nominees Limited	872,500	3.39%
Barclays Industrial Development Limited	832,821	3.24%

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, 7, 8 and 9 of the notice of annual general meeting on page 32 constitute special business. Under the provisions 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 to allot relevant securities up to an aggregate nominal amount of £463,333 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 next following annual general meeting, 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 £64,300 (approximately 5 per cent of the issued ordinary share capital), in any way. This proposal is consistent with the guidelines approved in October 1987 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 per cent of the issued share capital.

Resolution 8 and 9 make certain minor changes to the Company's Articles of Association to conform to changes made in the Stock Exchange's Listing Rules since the adoption of the Articles.

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
R A Bradbury
Secretary
3 April 1996

PO Box 15
Talbot Road
Hyde, Cheshire
SK14 4EJ

Corporate Governance

Compliance with the Code of Best Practice

The company has complied throughout the year with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance.

Internal Financial Control

The board of directors has overall responsibility for ensuring that the company maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the accounts are described under the following headings:

- **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.

The board of directors reviews the operation and effectiveness of this framework on a regular basis. The directors consider that there have been no weaknesses in internal financial control that have resulted in any material losses, contingencies and uncertainties requiring disclosure in the accounts.

Going Concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Corporate Governance

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 group 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.

Auditors' Responsibilities

Company law requires auditors to form an independent opinion on the accounts presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the company has maintained proper accounting records;
- that the accounts are in agreement with the accounting records;
- that directors' emoluments and other transactions with directors are properly disclosed in the accounts; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the directors' report on pages 10 to 11. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the directors' report are inconsistent with the accounts.

Remuneration Committee Report

The company now complies with Section A "Remuneration committees" of the best practice provisions on directors' remuneration annexed to the listing rules.

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 benefit from an incentive scheme based on growth in 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 is payable in respect of 1995 earnings.
  The bonus paid in future years will be a percentage of basic salary equal to the percentage increase in earnings per share compared with the 10.7p per share earned in the base year of 1994 or, if higher, that earned in the prior year.
- **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 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:** Terence Langstroth and George Lawrence Blenkinship both retire by rotation under the Articles of Association and are proposed for re-election at the annual general meeting on 23 May 1996.

Iain Bell Chairman

Reports by the Auditors of Vymura plc on Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the directors' statement on page 12 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company to continue in operational existence for the foreseeable future.

Opinion

With respect to the directors' statements on internal financial control and going concern on page 12, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 12 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.

Arthur Andersen

Arthur Andersen
Chartered Accountants
and Registered Auditors
3 April 1996

Bank House
9 Charlotte Street
Manchester
M1 4EU

Auditors' Report

To the Shareholders of Vymura plc

We have audited the financial statements on pages 16 to 29 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 19 to 20.

Respective Responsibilities of Directors and Auditors

As described on page 13 the company's directors are responsible for the preparation of the 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 company's state of affairs at 31 December 1995 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

Arthur Andersen
Chartered Accountants
and Registered Auditors
3 April 1996

Bank House
9 Charlotte Street
Manchester
M1 4EU

Profit and Loss Account

for the year ended 31 December 1995

	Notes	1995 £000	1994 £000
Turnover	2	**39,161**	39,422
Cost of sales		**(24,005)**	(22,054)
Gross profit		**15,156**	17,368
Other operating expenses	3	**(12,423)**	(13,196)
Operating profit		**2,733**	4,172
Interest receivable and similar income		**8**	44
Interest payable and similar charges	4	**(326)**	(440)
Profit on ordinary activities before taxation	5	**2,415**	3,776
Tax on profit on ordinary activities	7	**(592)**	(1,114)
Profit for the financial year		**1,823**	2,662
Dividends paid and proposed	8	**(1,210)**	(988)
Retained profit for the year		**613**	1,674
Retained profit, beginning of year		**3,428**	2,243
Transfer from other reserves	18	**16**	213
Bonus issue of shares		**–**	(702)
Retained profit, end of year		**4,057**	3,428
Earnings per share	9	**7.1p**	10.7p

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.

Vymura

Balance Sheet
31 December 1995

	Notes	1995 £000	1994 £000
Fixed assets			
Tangible fixed assets	10	**9,420**	9,349
Investments	11	**-**	-
		9,420	9,349
Current assets			
Stocks	12	**10,333**	8,049
Debtors	13	**7,575**	7,110
Cash at bank and in hand		**56**	355
		17,964	15,514
Creditors: Amounts falling due within one year	14	**(10,064)**	(7,430)
Net current assets		**7,900**	8,084
Total assets less current liabilities		**17,320**	17,433
Creditors: Amounts falling due after more than one year	15	**(1,659)**	(2,385)
Net assets		**15,661**	15,048
Capital and reserves			
Called-up share capital	17	**1,287**	1,287
Capital redemption reserve	18	**7**	7
Share premium account	18	**9,549**	9,549
Revaluation reserve	18	**761**	777
Profit and loss account	18	**4,057**	3,428
Total capital employed		**15,661**	15,048

Signed on behalf of the Board
T Smail Director
R A Bradbury Director
3 April 1996

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

Cash Flow Statement

for the year ended 31 December 1995

	Notes	1995 £000	1995 £000	1994 £000	1994 £000
Net cash inflow from operating activities	20a		**78**		3,493
Returns on investments and servicing of finance					
Interest element of finance lease rentals and hire purchase contracts		**(35)**		(31)	
Interest received		**8**		44	
Interest paid		**(277)**		(537)	
Dividends paid		**(1,210)**		(190)	
Net cash outflow from returns on investments and servicing of finance			**(1,514)**		(714)
Taxation paid			**(1,245)**		(1,005)
Investing activities					
Purchase of tangible fixed assets, net of financing		**(936)**		(675)	
Sale of tangible fixed assets		**-**		7	
Sale of current asset		**-**		500	
Net cash outflow from investing activities			**(936)**		(168)
Net cash (outflow) inflow before financing			**(3,617)**		1,606
Financing					
Issue of ordinary share capital, net of issue costs		**-**		9,912	
Redemption of preference shares		**-**		(5,300)	
New loans		**-**		-	
Repayment of loans		**(500)**		(4,423)	
Capital element of finance lease rentals and hire purchase contracts		**(179)**		(155)	
Net cash (outflow) inflow from financing	20b		**(679)**		34
(Decrease) increase in cash and cash equivalents	20c		**(4,296)**		1,640

The accompanying notes are an integral part of this statement.

Notes to the Accounts

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 except in the prior year for the requirements of Statement of Standard Accounting Practice 3 (Earnings per Share), as the directors consider that this would not have fairly presented the earnings per share of the company given the capital reorganisation during that year. Further details are given in note 9.

(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)
Motor vehicles	2 years (50% 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 undertakings.

(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, except that the deferred tax effects of timing differences arising from pensions and other post retirement benefits are always recognised in full.

(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.
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.

Notes to the Accounts

1 Accounting Policies continued

(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 is 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.

(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:	1995 £000	1994 £000
United Kingdom	**31,721**	32,442
North America	**2,712**	3,533
Europe and other	**4,728**	3,447
	39,161	39,422

3 Other Operating Expenses

	1995 £000	1994 £000
Distribution costs	**2,208**	2,223
Selling and marketing costs	**7,200**	7,602
Administrative expenses	**3,015**	3,371
	12,423	13,196

Notes to the Accounts

4 Interest Payable and Similar Charges

	1995 £000	1994 £000
On bank loans, overdrafts and other loans		
- repayable within five years, by instalments	199	368
- repayable within five years, not by instalments	127	72
	326	440

Included in the above is the interest element of charges payable under finance leases and hire purchase contracts amounting to £35,000 (1994 - £47,000).

5 Profit on Ordinary Activities before Taxation

Profit on ordinary activities before taxation is after charging:

	1995 £000	1994 £000
(a) Depreciation on tangible assets		
· owned	715	547
· held under finance leases and hire purchase contracts	150	138
(b) Hire of plant and machinery under operating leases	281	280
(c) Auditors' remuneration	36	38
(d) Staff costs (see note 6)	9,674	9,365

The auditors also received £13,500 (1994 - £132,000) in respect of non-audit services.

6 Staff Costs

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

	1995 £000	1994 £000
Employee costs during the year amounted to:		
Wages and salaries	8,330	8,056
Social security costs	697	691
Other pension costs (see also note 21c)	647	618
	9,674	9,365

The average weekly number of persons employed by the company during the year was as follows:

	1995 Number employed	1994 Number employed
Production	327	360
Distribution	5	8
Sales	35	32
Administration	61	65
	428	465

Notes to the Accounts

6 Staff Costs continued

Directors' remuneration:

Name of Director		Basic salary £	Taxable benefits £	Pension contributions £	1995 Total £	1994 Total £
Executive:						
T Smail		105,000	9,211	35,263	**149,474**	145,677
R A Bradbury		72,500	10,095	14,915	**97,510**	94,178
G L Blenkinship		72,500	6,631	10,018	**89,149**	93,829
T Langstroth		80,292	10,112	7,247	**97,651**	94,489
Non-executive:						
I W Bell (Chairman)	(1994 - 10 months)	32,750	-	-	**32,750**	26,250
L S Allan	(1994 - 3 months)	-	-	-	**–**	3,473
R A Finnis	(1994 - 9 months)	13,125	-	-	**13,125**	9,000
A J Garety	(1994 - 9 months)	13,125	-	-	**13,125**	9,000
		389,292	36,049	67,443	**492,784**	475,896

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

	1995 £000	1994 £000
Chairman		
L S Allan (1994 - 3 months)	**–**	3
I W Bell (1995 - 12 months, 1994 - 10 months)	**33**	26
Highest paid director	**114**	110

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	1995 Number	1994 Number
£Nil - £5,000	**–**	1
£5,001 - £10,000	**–**	2
£10,001 - £15,000	**2**	-
£25,001 - £30,000	**–**	1
£30,001 - £35,000	**1**	-
£75,001 - £80,000	**1**	3
£80,001 - £85,000	**1**	-
£90,001 - £95,000	**1**	-
£110,001 - £115,000	**1**	1

Notes to the Accounts

7 Tax on Profit on Ordinary Activities

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

	1995 £000	1994 £000
Corporation tax at 33%	**592**	1,114

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 (credit) for the year would have been increased as follows:

	1995 £000	1994 £000
Capital allowances	**108**	181
Other timing differences	**159**	(18)
	267	163

8 Dividends Paid and Proposed

	1995 £000	1994 £000
9.5% cumulative redeemable preference shares of £1 each paid	**-**	183
9.5% cumulative convertible redeemable preferred ordinary shares of 10p each paid	**-**	7
Interim dividend paid of 1.6p per Ordinary share of 5p each	**412**	-
Final dividend proposed of 3.1p per Ordinary share of 5p each	**798**	798
	1,210	988

9 Earnings per Ordinary Share

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

	1995 £000	1994 £000
Earnings, being profit for the financial year	**1,823**	2,479
Average number of shares	**25,733,334**	23,157,078

Earnings are profit after taxation and dividends payable on redeemable preference shares.
In calculating the average number of shares for the previous year, the number of shares in issue prior to 12 May 1994 has been adjusted to reflect the sub-division of each 10p ordinary share into 2 Ordinary shares of 5p and the 27.1525 for 1 bonus issue on 12 May 1994. The treatment is in line with Statement of Standard Accounting Practice No. 3 "Earnings per share".
Also on 12 May 1994 144,568 10p ordinary shares were issued in line with the conversion rights attaching to 216,000 9.5% cumulative convertible redeemable preferred ordinary shares of 10p each, whilst the remaining 71,432 preferred ordinary shares, were redeemed by the company for an aggregate sum of 1p. In calculating the average number of shares, the 144,568 10p ordinary shares issued on 12 May 1994 have also been treated as being in issue throughout the period from 26 June 1992 to 12 May 1994. This treatment is not in accordance with SSAP 3 but in the directors' opinion is required to provide investors with a fair measure of earnings per share which is comparable between years.
Had the average number of shares been calculated in accordance with SSAP 3, all 216,000 cumulative convertible redeemable preferred ordinary shares in issue prior to 12 May 1994 would have been treated as 10p ordinary shares in issue during the period from 26 June 1992 to 12 May 1994. Accordingly, the average number of shares for the purpose of calculating earnings per share would have been 27,179,057 for the year ended 31 December 1994 compared with the 25,733,334 shares in issue on 31 December 1994 and earnings per share would have been 9.12p.

Notes to the Accounts

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 the course of construction £000	Total £000
Cost or valuation				
Beginning of year	2,945	7,763	204	10,912
Additions	59	622	255	936
End of year	**3,004**	**8,385**	**459**	**11,848**
Depreciation				
Beginning of year	145	1,418	-	1,563
Charge	60	805	-	865
End of year	**205**	**2,223**	**-**	**2,428**
Net book value				
Beginning of year	2,800	6,345	204	9,349
End of year	**2,799**	**6,162**	**459**	**9,420**
Leased assets included in the above:				
Net book value				
Beginning of year	-	1,479	-	1,479
End of year	**-**	**1,329**	**-**	**1,329**

Freehold land amounting to £1,488,000(1994 - £1,488,000) 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:

	1995 £000	1994 £000
Original cost	**1,995**	1,995
Depreciation based on cost	**(149)**	(101)
	1,846	1,894

11 Investments

The company has an investment of £2 in each of the following subsidiary undertakings:

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

Vymura Employee Trust Limited is currently dormant. The investment was acquired on 13 April 1994. Vymura Leisure Limited is currently dormant. The investment was acquired on 16 August 1995. These subsidiary undertakings have not been consolidated due to immateriality in accordance with Section 229 of the Companies Act.

Notes to the Accounts

12 Stocks

	1995 £000	1994 £000
Raw materials and consumables	**661**	696
Work-in-progress	**1,155**	910
Finished goods and goods for resale	**8,517**	6,443
	10,333	8,049

13 Debtors

	1995 £000	1994 £000
Amounts falling due within one year:		
Trade debtors	**5,830**	5,515
Prepayments and accrued income	**269**	239
Development, design and pattern book costs	**800**	890
Pensions	**167**	-
ACT recoverable	**-**	47
	7,066	6,691
Amounts falling due after more than one year:		
Development, design and pattern book costs	**231**	219
Pensions	**79**	-
ACT on proposed dividends	**199**	200
	7,575	7,110

14 Creditors: Amounts falling due within one year

	1995 £000	1994 £000
Obligations under finance leases and hire purchase contracts	**226**	179
Bank loans and overdrafts	**4,497**	500
Trade creditors	**2,702**	3,295
Other creditor		
- ACT payable	**302**	200
- VAT	**300**	508
- social security and PAYE	**227**	239
UK corporation tax payable	**484**	1,287
Proposed dividend	**798**	798
Accruals and deferred income	**528**	424
	10,064	7,430

Notes to the Accounts

15 Creditors: Amounts falling due after more than one year

	1995 £000	1994 £000
Obligations under finance leases and hire purchase contracts	**159**	385
Bank loans (see below)	**1,500**	2,000
	1,659	2,385

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 and overdraft is by deed of charge incorporating fixed and floating charges over all the company' s assets.

Analysis of borrowings

Borrowings are repayable as follows:	1995 £000	1994 £000
Due within 1 year		
- bank loans	**500**	500
- leases and hire purchase contracts	**226**	179
Due within 1-2 years		
- bank loans	**500**	500
- leases and hire purchase contracts	**159**	226
Due within 2-5 years		
- bank loans	**1,000**	1,500
- leases and hire purchase contracts	**–**	159
	2,385	3,064

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:

	1995 £000	1994 £000
Excess of tax allowances over book depreciation of fixed assets	**636**	518
Other timing differences related to		
- current assets and liabilities	**(81)**	(149)
- pensions	**81**	-
	636	369
Taxes that would arise if property were to be disposed of at current book value	**283**	283

Notes to the Accounts

17 Called-up Share Capital

	1995 £	1994 £
Authorised		
35,000,000 Ordinary shares of 5p each	**1,750,000**	1,750,000
Nil (1994 -5,300,000) unclassified shares of £1 each	–	5,300,000
Nil (1994 -71,432) unclassified shares of 10p each	–	7,143
	1,750,000	7,057,143
Allotted, called-up and fully-paid		
25,733,334 Ordinary shares of 5p each	**1,286,667**	1,286,667

On 25 May 1995 the 5,300,000 unclassified shares of £1 each and 71,432 unclassified shares of 10p each were cancelled.

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
S.A.Y.E	548,699	£1.26	August 1999 to January 2002
Executive Share Option Scheme	432,000	£1.50	May 1997 to April 2004
Executive Share Option Scheme	60,000	£1.35	October 1998 to September 2005
Executive Share Option Scheme	48,000	£1.50	July 1995 to June 1996

18 Reserves

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

	1995 £000	1994 £000
Distributable		
- profit and loss account	**4,057**	3,428
Non-distributable		
- capital redemption reserve	**7**	7
- share premium account	**9,549**	9,549
- other reserves	**761**	777
Total reserves	**14,374**	13,761

	Capital redemption reserve £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total £000
Beginning of year	7	9,549	777	3,428	13,761
Transfer from other reserves	-	-	(16)	16	-
Retained profit for the year	-	-	-	613	613
End of year	**7**	**9,549**	**761**	**4,057**	**14,374**

Notes to the Accounts

19 Reconciliation of Movements in Shareholders' Funds

	1995 £000	1994 £000
Profit for the financial year	**613**	1,674
Bonus issues of shares	–	(702)
	613	972
New share capital issued (net of costs)	–	5,313
Net addition to shareholders' funds	**613**	6,285
Opening shareholders' funds	**15,048**	8,763
Closing shareholders' funds	**15,661**	15,048

20 Cash Flow Information

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

	1995 £000	1994 £000
Operating profit	**2,733**	4,172
Depreciation charges	**865**	685
Profit on sale of tangible fixed assets	–	(3)
Increase in stocks	**(2,284)**	(188)
Increase in debtors	**(513)**	(361)
(Decrease) in creditors	**(723)**	(812)
Net cash inflow from operating activities	**78**	3,493

(b) Analysis of changes in financing

	Share capital (including premium) £000	Loans and finance lease obligations £000
Balance at 31 December 1993	5,530	7,642
Net cash inflow (outflow) from financing	4,612	(4,578)
Bonus issue of shares	694	-
Balance at 31 December 1994	10,836	3,064
Net cash outflow from financing	-	(679)
Balance at 31 December 1995	**10,836**	**2,385**

(c) Analysis of changes in cash and cash equivalents during the year

	Cash at bank and in hand £000	Bank overdrafts £000	Net £000
Balance at 31 December 1993	3	(1,288)	(1,285)
Net cash inflow	352	1,288	1,640
Balance at 31 December 1994	355	-	355
Net cash (outflow)	(299)	(3,997)	(4,296)
Balance at 31 December 1995	**56**	**(3,997)**	**(3,941)**

Notes to the Accounts

21 Guarantees and Other Financial Commitments

(a) Capital commitments

At the end of the year, capital commitments were:

	1995 £000	1994 £000
Contracted for but not provided for	**827**	186
Authorised but not contracted for	**29**	89
	856	275

(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 5 years. The total annual rental (including interest) for the year was £281,080 (1994 - £280,000). 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:

	1995 £000	1994 £000
Operating leases which expire		
- within 1 year	**29**	46
- within 2-5 years	**370**	112
	399	158

(c) Pension arrangements

The company' s principal pension scheme is the Vymura Pension Plan. The scheme, which is available to all current employees, is of the defined benefit type with assets held in a separate trustee administered fund.

The pension cost is assessed in accordance with the advice of a professionally qualified actuary. The latest actuarial valuation was at 5 April 1995 and used the projected unit method.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £9,146,000 and the actuarial value was sufficient to cover 113% of the benefits that had accrued to members after allowing for expected future increases in earnings. The surplus of £1,030,000 in the pension scheme is being spread over the average remaining service lives of employees.

The principal assumptions used in the valuation were:

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

The pension charge for the year in respect of defined benefit arrangements was £608,625 (1994 - £564,107). 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 £38,540 (1994 - £53,897) in the year.

Financial History and Financial Calendar

Summary of Financial History years ended 31 December

	1991 £000	1992 £000	1993 £000	1994 £000	**1995 £000**
Turnover	30,171	33,826	38,275	39,422	**39,161**
Operating profit	1,917	2,853	3,956	4,172	**2,733**
Costs arising on management buy-out	-	(389)	-	-	**-**
Interest receivable	-	32	39	44	**8**
Interest payable and similar charges	(1,233)	(1,037)	(718)	(440)	**(326)**
Profit on ordinary activities before taxation	684	1,459	3,277	3,776	**2,415**
Tax on profit on ordinary activities	-	(436)	(861)	(1,114)	**(592)**
Profit for the financial year	684	1,023	2,416	2,662	**1,823**
Dividends paid and proposed	-	(272)	(524)	(988)	**(1,210)**
Retained profit for the financial year	684	751	1,892	1,674	**613**
Earnings per share	3.70p	4.12p	10.34p	10.70p	**7.10p**

The profit and loss accounts include the results of the Vymura Operating Division of Weston-Hyde Products Limited up to the date of the management buy-out on 26 June 1992. The profit and loss accounts for the years ended 31 December 1991, 1992 and 1993 have been extracted from the financial information included in the Listing Particulars dated 12 May 1994 relating to the Company' s flotation on the London Stock Exchange. The management buy-out and subsequent flotation resulted in significant changes to the capital structure of the business. These had a material impact on interest charges, taxation, dividends and earnings per share during the years shown above.

Financial Calendar

Financial year end	31 December 1995
Ex-dividend date	15 April 1996
Final ordinary dividend payable to shareholders registered on	23 April 1996
Annual general meeting	23 May 1996
Dividend payment date	5 June 1996
Announcement of six months results	September 1996

CREST Share Settlement System

Shareholders should be aware of CREST, the new settlement system for shares and other securities, which is being developed by the Bank of England and which is expected to become operational on 15 July 1996.
CREST will be operated by CRESTCo, whose shareholders are from a broad spectrum of participants in the UK securities market. It will be a voluntary system which will enable shareholders to hold and transfer their shareholdings in electronic form rather than in paper if they wish. Shareholders who wish to retain their certificates will be able to continue to do so.
CREST will offer shareholders the option of sponsored membership enabling them to hold shares in their own name in electronic form while authorising an intermediary, such as a broker, to operate the membership on their behalf. Such shareholders will continue to have a direct relationship with the issuing company, just as if they had retained share certificates.
A company will be able to make its ordinary shares available for settlement in CREST by a resolution of its directors.

Notification of Directors' Resolution Relating to the CREST System

This is to give you notice, in accordance with the Uncertificated Securities Regulations 1995, that on 27 March 1996, the company resolved by resolution of its directors that title to the Ordinary shares of 5p each in the capital of the company, in issue or to be issued, may be transferred by means of a relevant system, (including the CREST system). The resolution of the directors became effective immediately.

Explanatory Note on the Resolution

The above notice is the notice that the company is obliged to give its members, under the Regulations, of the passing of a "directors' resolution" (as defined in the Regulations) in relation to its Ordinary shares. The directors' resolution will enable the company' s Ordinary shares to join CREST in due course. The shares have not become transferable by means of the CREST system merely by virtue of the passing of the directors' resolution; the permission of the Operator of the system, CRESTCo Limited, must also be given before the shares can become so transferable. This permission has not yet been given although CRESTCo have provisionally indicated that the company' s Ordinary shares will join CREST on 10 March 1997.
The effect of the directors' resolution is to disapply, in relation to the Ordinary shares, those provisions of the company' s articles of association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system.
Shareholders should also note that, under the Regulations, they have the right by ordinary resolution:

(a) if the permission of the Operator of the system, CRESTCo Limited, has not yet been given to the shares concerned becoming transferable by means of the CREST system to resolve that the directors' resolution shall cease to have effect; and

(b) once the permission of the Operator of the system, CRESTCo Limited, has been given to the shares concerned becoming transferable by means of the CREST system, to resolve that the directors of the company shall take the necessary steps to ensure that title to the shares concerned shall cease to be transferable by means of the CREST system and that the directors resolutions shall cease to have effect.

Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of the Company will be held at Roman House, Wood Street, London EC2Y 5BA on Thursday 23 May 1996, at 12.00 noon for the following purposes:

As Ordinary Business

1 To receive the annual report and financial accounts for the year ended 31st December 1995 (Resolution No 1).

2 To declare a dividend (Resolution No 2).

3 To re-appoint Arthur Andersen as auditors of the Company and authorise the directors to fix their remuneration (Resolution No 3).

4 To re-elect Terence Langstroth who is retiring by rotation under the Articles of Association as a Director of the Company (Resolution No 4).

5 To re-elect George Lawrence Blenkinship who is retiring by rotation under the Articles of Association as a Director of the Company (Resolution No 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 resolutions 7, 8 and 9 as special resolutions:

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 £463,333 which is equal to the unissued authorised share capital of the Company. The authority hereby given shall expire at the conclusion of the next annual general meeting 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 relevant securities pursuant to any such offer or agreement (Resolution No 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 the 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 in connection with an offer by way of rights to holders of ordinary shares where the equity securities respectively attributable to the interest of all holders of ordinary share 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 in any territory;

(b) to the allotment (otherwise than pursuant to subparagraph (a) above) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £64,300 (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 at the end of the next annual general of the Company 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 No 7).

8 That the Company' s Articles of Association be and are hereby amended by deleting the existing wording of Article 48.1.1 and replacing it with the words "if the share is not listed or otherwise dealt on a recognised investment exchange and it not fully paid up" (Resolution No. 8).

9 That the Company' s Articles of Association be and are hereby amended by the deletion of the existing wording of Article 119.2.5 and replacing it with the words "an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege not generally awarded to the employees to whom such arrangement relates; or" (Resolution No. 9).

By order of the Board
R A Bradbury
Secretary
19 April 1996

Notes

1 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.

2 The following information, which is available for inspection during normal business hours at the registered office of the Company 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 service contracts of Directors of the Company.

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