Deloitte & Touche

Deloitte Touche Tohmatsu

Company Registration No. 2700283

RUTLAND SHOE COMPANY LIMITED

Report and Financial Statements

26 June 1998

Deloitte & Touche
St John's House
East Street
Leicester
LE1 6NG

Deloitte & Touche

Deloitte Touche Tohmatsu

REPORT AND FINANCIAL STATEMENTS 1998

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A B Pringle
P N Davis

SECRETARY

A B Pringle

REGISTERED OFFICE

Victoria House
30 Victoria Street
Irthlingbrough
Northants
NN9 5RQ

BANKERS

Midland Bank plc
3 Walsall Road
Darlaston
Wednesbury
WS10 9JP

SOLICITORS

Dibb Lupton & Alsop
Windsor House
Temple Row
Birmingham
B2 5LF

AUDITORS

Deloitte & Touche
St John's House
East Street
Leicester
LE1 6NG

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks ended 26 June 1998.

ACTIVITIES

The company's principal activity is the manufacture of footwear.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The Group experienced very difficult trading conditions during the year at Clansman Shoe Company Ltd where the major customer strategically decided to resource its cemented shoes purchases from overseas. This change resulted in the generation of trading losses in the second half year at Clansman and the directors could see no immediate prospect of replacing such a significant volume of work. After taking professional advice, the directors decided to place Clansman into Administrative Receivership and this was effected on 24 June 1998.

Rutland Shoe Company Ltd meanwhile traded relatively well despite a continuing reduction in retail demand for welted shoes in the UK. Rutland has been targeting to broaden its customer base particularly in export and contract markets in order to reduce dependence on the UK retail sector. Rutland has, however, been adversely affected by the closure of Clansman and has undergone internal restructuring to improve margins and reduce overheads. This restructuring has significantly reduced the break-even point of the continuing operations.

Whilst the Group balance sheet shows a negative net asset position as at 26 June 1998 as a result of the closure of Clansman, the Group has continued to receive support from its financiers. The directors are cautiously optimistic that the continuing operations will be profitable, enabling the Group to trade out of its present financial circumstances.

YEAR 2000

We are aware of the year 2000 compliance issue and an assessment of this potential problem revealed that it is not expected to have a material impact on the financial statements both in respect of our own business and operations and our relationships with our customers, suppliers and other relevant parties.

EURO

The potential impact of the changeover to the Euro has been addressed and the costs of making any necessary modifications are not con sidered to be significant/material.

RESULTS AND TRANSFERS TO RESERVES

The profit after taxation for the 52 weeks amounted to £60,604 (52 weeks ended 27 June 1997 - £60,258). No dividend is proposed (total dividends 1997 - £60,000) leaving a profit of £60,604 to be transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The directors during the period were as follows:

A B Pringle

P N Davis

None of the directors who held office at 26 June 1998 had any interests in the shares of the company at the beginning or end of the period.

The directors are also directors of the ultimate parent company and their interests in the shares of that company are disclosed in that company's financial statements.

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DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

ABPringle

A B Pringle

Secretary

21-4-99

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AUDITORS' REPORT TO THE MEMBERS OF

RUTLAND SHOE COMPANY LIMITED

We have audited the financial statements on pages 5 to 13 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts concerning the uncertainty as to the continuation of support by the group's bankers and venture capital partner. In view of the significance of this uncertainty and the cross guarantees between the company and its parent company we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 26 June 1998 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte + Touche

Chartered Accountants
and Registered Auditors

22/4/99

Deloitte & Touche

Deloitte Touche Tohmatsu

PROFIT AND LOSS ACCOUNT
52 weeks ended 26 June 1998

	Note	52 weeks ended 26 June 1998 £	52 weeks ended 27 June 1997 £
TURNOVER	2 & 3	3,630,110	4,640,961
Change in stocks of finished goods and in work in progress		(159,422)	(6,269)
		3,470,688	4,634,692
Raw materials and consumables		(1,638,372)	(2,401,468)
Other external charges		(128,401)	(154,791)
Staff costs	4	(1,124,531)	(1,468,319)
Depreciation	5	(95,755)	(88,721)
Other operating charges		(369,009)	(426,249)
OPERATING PROFIT	5	114,620	95,144
Interest payable and similar charges	6	(54,016)	(37,490)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		60,604	57,654
Tax on profit on ordinary activities	7	-	2,604
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		60,604	60,258
Dividends	8	-	(60,000)
Profit for the financial period	17	60,604	258

All activities derive from continuing operations.

There are no recognised gains and losses other than the profit for the financial period or previous financial period. Accordingly, no statement of total recognised gains and losses is given.

Deloitte & Touche

Deloitte Touche Tohmatsu

BALANCE SHEET
26 June 1998

	Notes	1998 £	1998 £	1997 £	1997 £
FIXED ASSETS					
Tangible assets	9		346,192		431,535
CURRENT ASSETS					
Stocks	10	512,038		762,977	
Debtors	11	478,697		904,129	
Cash at bank and in hand		38		357	
		990,773		1,667,463	
CREDITORS: amounts falling due within one year	12	(1,117,222)		(1,581,439)	
NET CURRENT (LIABILITIES) / ASSETS			(126,449)		86,024
TOTAL ASSETS LESS CURRENT LIABILITIES			219,743		517,559
CREDITORS: amounts falling due after more than one year	13		(136,173)		(494,593)
PROVISIONS FOR LIABILITIES AND CHARGES	15		(1,474)		(1,474)
NET ASSETS			82,096		21,492
CAPITAL AND RESERVES					
Called up share capital	16		2		2
Profit and loss account	17		82,094		21,490
TOTAL EQUITY SHAREHOLDERS' FUNDS	18		82,096		21,492

These financial statements were approved by the Board of Directors on 21-4-99.

Signed on behalf of the Board of Directors

AB Pringle

A B Pringle

Director

NOTES TO THE ACCOUNTS
52 weeks ended 26 June 1998

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Group, of which Rutalnd Shoe Company Limited is a subsidiary, has incurred losses in the 52 week period ended 26 June 1998 and has net liabilities and net current liabilities as at 26 June 1998. In view of the cross guarantees between the company and it's parent company the directors have had special regard as to whether the financial statements should be drawn up on a going concern basis.

The Group meets its day to day working capital requirements through an overdraft facility which is repayable on demand of which £200,000 is guaranteed by the company's venture capital partner. The amount and terms of the borrowings are disclosed in notes 14, 15 and 26 of the Group's statutory financial statements.

The nature of the Group's business is such that there can be considerable unpredictable variation in the timing of sales orders and hence cash inflows. The directors have prepared projected cash flow information for the current financial year and the first half of the following financial year.

On the basis of this cash flow information, recent trading performance which has met expectations and discussions with the Group's bankers and venture capital partner, the directors of the parent company have formed a judgement at the time of approving the financial statements that there may be periods when the Group's overdraft exceeds the facility currently agreed. However, the directors of the parent company believe that the Group's bankers and venture capital partner will continue to support it as they have done so in similar situations in the past.

On this basis the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result from a withdrawal of support by the company's bankers and venture capital partner.

2. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover

Turnover represents amounts receivable for goods and services, from the company's single class of business, provided in the UK and overseas net of trade discounts, value added tax and other related taxes.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Plant and machinery	Over 10 years
Office equipment	Over 4 years
Motor vehicles	Over 4 years
Lasts	Over 3 years

Leasing and hire purchase contracts

Rentals paid under operating leases are charged against income on a straight line basis over the lease term.

Assets purchased under hire purchase agreements are capitalised as tangible fixed assets and depreciated in accordance with the above policy. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The interest element of the charge is charged to the profit and loss account on a straight line basis.

NOTES TO THE ACCOUNTS
52 weeks ended 26 June 1998

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is arrived at as follows:

Raw materials and goods for resale	purchase cost on a first-in, first-out basis
Work in progress and finished goods	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

3. GEOGRAPHICAL TURNOVER

	1998	1997
By destination	£	£
United Kingdom	1,893,758	3,012,572
The rest of the European Community	1,240,454	1,437,386
Others	495,898	191,003
	3,630,110	4,640,961

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors are directors of the parent company Blue Corporation Limited. The remuneration of the directors for their services to the group is shown in the financial statements of Blue Corporation Limited. It is not possible to allocate this amount between their services as directors of the companies.

	1998	1997
	No	No
Average number of persons employed		
Production	81	102
Administration	10	12
	91	114

	1998	1997
	£	£
Staff costs during the period (including directors)		
Wages and salaries	1,026,404	1,354,328
Social security costs	98,127	113,991
	1,124,531	1,468,319

NOTES TO THE ACCOUNTS
52 weeks ended 26 June 1998

5. OPERATING PROFIT

Operating profit is after charging:	**1998** £	**1997** £
Depreciation and amortisation		
Owned fixed assets	69,765	63,286
Leased assets	25,990	25,435
Rentals under operating leases		
Hire of plant and machinery	10,456	10,544
Land and buildings	49,800	45,300
Auditors' remuneration	7,000	6,500
Loss on disposal of fixed assets	-	(445)

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	**1997** £
Bank loans, overdrafts and other loans repayable within five years	47,150	29,960
Hire purchase leases terminating within five years	6,866	7,530
	54,016	37,490

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	**1997** £
United Kingdom corporation tax at 21% (1997 - 24%)	-	-
Overprovision relating to prior period	-	(2,604)
Tax on profit on ordinary activities	-	(2,604)

There is no tax charge in relation to the profits earned because deferred tax movements are not provided for and group relief for which no payment has been made.

8. DIVIDENDS

	1998 £	**1997** £
Paid dividend at £30,000 per £1 ordinary share	-	60,000

NOTES TO THE ACCOUNTS
52 weeks ended 26 June 1998

9. TANGIBLE FIXED ASSETS

	Lasts	Plant and machinery	Office equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 28 June 1997	44,038	473,700	24,112	103,960	645,810
Additions	10,412	-	-	-	10,412
Disposals	-	-	(747)	-	(747)
At 26 June 1998	54,450	473,700	23,365	103,960	655,475
Accumulated depreciation					
At 28 June 1997	14,353	160,217	10,139	29,566	214,275
Charge for the period	17,087	47,370	5,308	25,990	95,755
Disposals	-	-	(747)	-	(747)
At 26 June 1998	31,440	207,587	14,700	55,556	309,283
Net book value					
At 26 June 1998	23,010	266,113	8,665	48,404	346,192
At 27 June 1997	29,685	313,483	13,973	74,394	431,535

The net book value of assets held under hire purchase agreements is £48,404 (1997: £74,394).

10. STOCKS

	1998	1997
	£	£
Raw materials and consumables	172,895	264,412
Work-in-progress	109,145	168,950
Finished goods and goods for resale	229,998	329,615
	512,038	762,977

11. DEBTORS: AMOUNTS DUE WITHIN ONE YEAR

	1998	1997
	£	£
Trade debtors	462,175	741,365
Amounts owed by fellow subsidiary undertakings	-	99,614
Amount owed by parent undertaking	-	49,297
Prepayments and accrued income	16,522	13,853
	478,697	904,129

Included within trade debtors is £222,039 (1997 £385,466) which is held with a debt factoring agent.

NOTES TO THE ACCOUNTS
52 weeks ended 26 June 1998

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Bank overdraft	301,499	641,944
Obligations under hire purchase agreements	42,043	23,931
Trade creditors	525,911	618,219
Corporation tax	-	-
Other taxes and social security costs	197,133	198,046
Other creditors	15,720	16,080
Accruals and deferred income	34,916	23,219
Proposed dividend	-	60,000
	1,117,222	1,581,439

Part of the bank overdraft is secured by a fixed and floating charge on the assets of the company, both present and future. The remaining part is secured by a fixed charge on purchase debts which fail to vest and a floating charge on the proceeds of other debt.

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £	1997 £
Obligations under hire purchase agreements	2,869	44,593
Amounts owed to parent undertaking	133,304	450,000
	136,173	494,593

The hire purchase creditor is secured on the assets to which the hire purchase agreement relates.

14. ANALYSIS OF BORROWINGS

	1998 £	1997 £
Bank overdraft:		
within one year	301,499	641,944
Obligations under hire purchase agreements:		
within one year	42,043	23,931
within one to two years	2,869	42,043
within two to five year	-	2,550
	44,912	68,524
	346,411	710,468

NOTES TO THE ACCOUNTS
52 weeks ended 26 June 1998

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Sales returns £
Balance at 28 June 1997 and 26 June 1998	1,474

Potential deferred taxation at 26 June 1998 not provided is made up as follows:

	1998 £	1997 £
Capital allowances in advance of depreciation	20,000	55,000

16. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Called up, allotted and fully paid		
2 ordinary shares of £1 each	2	2

17. PROFIT AND LOSS ACCOUNT

	£
At 28 June 1997	21,490
Profit for the financial period	60,604
At 26 June 1998	82,094

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit for the period	60,604	60,258
Dividends	-	(60,000)
Net addition to shareholders' funds	60,604	258
Opening shareholders' funds	21,492	21,234
Closing shareholders' funds	82,096	21,492

NOTES TO THE ACCOUNTS
52 weeks ended 26 June 1998

19. FINANCIAL COMMITMENTS

Operating lease commitments

At 26 June 1998 the company had annual commitments under non-cancellable operating leases as follows:

	1998 & 1997 Land and Buildings £
Leases which expire after five years	42,000

Other

The company has entered into an unlimited cross guarantee with its parent undertaking covering their respective bank loans and overdrafts. At 26 June 1998 the amount of the overdraft guaranteed was £286,437 (1997 - £98,205).

20. ULTIMATE PARENT UNDERTAKING

At the balance sheet date, the directors regard Blue Corporation Limited, a company registered in Great Britain, as the company's ultimate parent undertaking. The directors are the ultimate controlling parties of Blue Corporation Limited. Copies of the group financial statements can be obtained from the Registrar of Companies, Crown Way, Maindy, Cardiff, CF4 3UZ.

21. RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption provided in Financial Reporting Standard No 8 'Related Party Disclosures' and has not disclosed transactions with other group companies.

The directors of the company have guaranteed the bank overdraft of the company to a limit of £45,000 each.

22. POST BALANCE SHEETS

On 19 June 1998 the Group entered into an agreement whereby the Group's venture capital partner guaranteed £200,000 of the bank overdraft for a commitment fee at a rate of 5% per annum on the sum of £200,000. This agreement was extended on 9 March 1999 with the guarantee scheduled to remain in place until 31 October 1999 when it will reduce by £75,000 with the balance of the guarantee released on 30 April 2000.