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S&U PLC

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ANNUAL REPORT

AND ACCOUNTS

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S&U PLC

The group provides consumer credit, primarily financial services including hire purchase finance for car purchase and sales of electrical merchandise throughout England, Wales and Scotland.

Financial Highlights

	2003 £000	2002 £000
BUSINESS TRANSACTED	88,828	89,929
TURNOVER	34,996	34,430
OPERATING PROFIT	8,793	10,397
PROFIT BEFORE TAXATION	7,846	9,206
EARNINGS PER ORDINARY SHARE	46.0p	53.5p
DIVIDEND PER ORDINARY SHARE	28.0p	27.0p

Financial Calendar

Annual General Meeting			4 June 2003
Announcement of results	Half year ending 31 July 2003 Year ending 31 January 2004		September 2003 April 2004
Payment of dividends	6% Cumulative Preference shares		30 September 2003 & 31 March 2004
	31.5% Cumulative Preference shares		31 July 2003 & 31 January 2004
	Ordinary shares	– 2003 Final Record Date Ex-dividend Date – 2004 Interim	2 July 2003 6 June 2003 4 June 2003 November 2003

Chairman's Statement

"The potential for steady growth remains available and we will continue to invest in training to produce the quality improvements, which underpin profit growth."

Results

Business transacted for the year is £88.8m compared to £89.9m. However, the damage done to the figures by the lack of control in the South London area has reduced the pre-tax trading profits for the year to £7.8m as against £9.2m. This damage was referred to in the interim report although the full extent was not known at that time. It is laudable to cut costs but in this case it is evident the cuts went too far. Major changes have taken place both in management, staff and security procedures as a consequence of that situation to ensure such an event never happens again.

Earnings per share at 46.0p (53.5p previously) provide excellent cover for the recommended total dividend.

The Board is recommending a final dividend of 20p per ordinary share, making 28p for the year compared to 27p last year, an inflation beating increase for the year as a whole of 3.7% (last year's increase was 14.9%). The dividend will be paid on 2 July 2003 to ordinary shareholders on the register at 6 June 2003. The shares will be dealt ex dividend from 4 June 2003. On this basis, at the average market price for March 2003 of 388.3p, the yield would be 7.2% with a cover of 1.61 times. Shareholders have enjoyed dividend growth in every year since before the company's 50th anniversary in 1988, a record we will seek to maintain.

Home Collected Credit

Apart from the South London problem the rest of the country showed good progress, particularly S D Taylor, our north west subsidiary which produced pre tax profits of 29% of its shareholders' funds.

The potential for steady growth remains available and we will continue to invest in training to produce the quality improvements, which underpin profit growth.

Motor Car Finance – Advantage Finance Limited

In the competitive used car finance market, Advantage Finance is increasingly successful and 2002/03 was a year in which profits and cash receipts continued to grow sensibly and steadily in line with our strategy for this business. On turnover up 14%, pre-tax profits grew by 16% to nearly £1.3m, whilst borrowings grew by less than £0.75m.

The business is not yet mature, but has already developed larger and more reliable income streams and this is a tribute to our successful in-house underwriting programme and our improving collections team. The underwriting programme was reinforced during the year by a full review of policy and we also reorganised the collections team to achieve a quicker and more integrated approach to more difficult collection accounts. Both these changes should limit bad debts and further improve future income streams.

“Advantage has set itself a budgeted profit target of £1.6m for the current year. Prospects for the longer term are healthy.”

Our sales team also turned in a very creditable performance against stiff competition from other finance companies. Indeed we believe our efficient sales force, backed up by sophisticated in-house systems, (allowing high levels of service and support), to be an area of increasingly competitive advantage for us. Advantage has set itself a budgeted profit target of £1.6m for the current year. Prospects for the longer term are healthy and the directors are confident of further significant profit growth.

I am particularly proud of Advantage's results because I introduced Advantage to S & U as a new start-up venture only some three and a half years ago and the management team has already achieved a significant presence in the market.

Staff

I was sorry to say goodbye to the staff of A E Holt (Leicester) Limited, the small hosiery manufacturer that we had to close due to the increasing difficulty of competing against low labour cost countries. I thank them for their service to the group and wish them well.

Every company is only as good as the quality and dedication of its staff. S & U is a very labour intensive operation and therefore even more dependent upon its staff. We have a superb team and I must take this opportunity to thank them on your behalf for their contribution during the year.

Derek M Coombs
Chairman
2 April 2003

Managing Director's Report

After 3 years of rising, and indeed record profit, the year ended 2003 saw a hiatus in S & U's progress. Albeit the second highest in our history, profits before tax at £7.85m against £9.21m last year are frankly disappointing. This fall in profit was primarily due to an increase in bad debt expense of £2.4m on last year – substantially the result of fraud and unwise business practice discovered in our London and South East home collected operation. Nevertheless these highly localised problems have been addressed, systems tightened and far reaching changes in personnel made. Although the experience has been a difficult one, the raft of changes resulting will not only prevent a recurrence, but should strengthen home collected debt quality in the future. As a result, on conservative budget assumptions, I anticipated a strong recovery in Group profitability in the current financial year.

However, this recovery will take place against a slowing economy in which consumer confidence is falling. In the current more uncertain economic and political environment, the Group's resumption of profits growth this year will be based upon strict cost control, improved debt quality and further rises in productivity. I am confident that the lessons learned in the past year will provide a sound base for resumed (and sustained) growth in S & U.

In this light, outside London and the south east, the Group's performance in the year under review has been encouraging. Our Northern home collected credit subsidiaries both increased profits – in S D Taylor's case to a record. Advantage Finance, our motor finance subsidiary, produced a further advance to a best ever £1.3m profits before tax. Group costs were held to an increase of only 1.4%, whilst productivity per employee, particularly in home collected credit, increased on average by 5.2%. Gross margins improved once again as better value home collected and auto loan products were introduced.

Operating Results

	Year Ended 31 January 2003 £m	Year Ended 31st January 2002 £m
Business Transacted	**88.8**	89.9
Gross Profit	**31.9**	30.8
Operating Expenses	**16.3**	16.1
Doubtful Debt	**6.8**	4.3
Operating Profit	**8.8**	10.4
Interest	**1.2**	1.2
Profit on sale of fixed assets	**0.2**	-
Profit before Taxation	**7.8**	9.2

Home Collected Credit

Operating profit in this division was £6.7m this year or around 7.5% of total business transacted. As outlined above the fall of £1.7m in operating profits on last year was attributable to a reduction of £2m in our S & U subsidiary (more than 100% of which was caused by increased bad debt/fraud and lower turnover in our London and South East operation).

Whilst gross margins continue to improve, due to the introduction of new loan products, the rate at which we can increase business with our existing aspirational family customers will inevitably diminish over time. In a mature market, S & U's strict underwriting criteria inevitably restrict the flow of new customers. Therefore future growth will depend upon well trained representatives with the time and motivation to maximise existing relationships with carefully selected customers. Productivity and quality rather than volume will drive the business.

Both will be strengthened by new training and recruitment methods which happily this year were recognised by the award of the Investors in People status to S & U. Debt quality will be underpinned by new arrears and rigorous outside audit procedures recently implemented. Thus a slower expansion of our home collected book will not only be prudent in the current economic climate but entirely consistent with a significant increase in profit.

This trend has been evident at S D Taylor and Wilson Tupholme, our Northern consumer credit subsidiaries, throughout the past year. Strict cost and debt control saw both increase profit on only marginally higher turnover. Indeed profits at S D Taylor again increased by nearly 8% to achieve a pre tax return on assets of a record 29%; Wilson Tupholme achieved over 25% return.

Putting right the mistakes in underwriting and collections control made during a period of rapid expansion in the South East last year, will necessarily affect sales in our S & U subsidiary this year. New security, arrears and vetting procedures will ensure that sales growth reflects debt quality this year.

Finally the home collected credit industry has recently been the focus of a series of legislative proposals both by the Government in reforming the Consumer Credit Act and by the European Commission in preparing a new Consumer Credit Directive. Resultant legislative changes are expected in the UK by October 2004. Generally the changes proposed – particularly in a more flexible but better targeted licensing regime and in allowing easier review of excessive credit bargains – will benefit responsible lenders like S & U. By protecting consumers from the irresponsible behaviour of a handful of lenders, legislative proposals appear to recognise the role the home collected industry plays in providing access to credit for sections of society who would otherwise be marginalised. I believe that the new legislation will put the industry on a sustainable statutory footing, much to its long term benefit.

Advantage Finance

Last year saw a record number of new car registrations in the UK and this filtered to the used car finance market, which saw growth of 9% year on year from published information. Whilst maintaining underwriting criteria which are deliberately stringent in the sub-prime market, Advantage Finance, our motor finance subsidiary, saw turnover up by nearly 14% and pre tax profits better by nearly £200,000 up 16%. This is yet another good result from a business which was started in 1999 and whose committed management and staff focus upon a niche market in the sub-prime field. The current financial year has seen an encouraging start and I am confident that Advantage will meet, and probably exceed, its budget targets for the forthcoming year.

A new more integrated management structure has contributed to these results; so has further development of the company's internet-based Key Dealers Service and in-house underwriting which is both consistent and speedy. Exclusive deals to provide sub-prime finance for used car "megaparks" in the North East and a significant stream of new income through on-line finance broking will contribute to profits growth.

Challenges remain, particularly in improving gross margins through Advantage insurance offers and in managing early terminations associated with car repossession. Nevertheless debt quality remains good whilst the maturity of Advantage's debt, together with the much improved cash flow predicted last year, has meant that the company's return on capital employed has shown further improvement.

I fully anticipate that, by maintaining its present underwriting standards and cost structures, Advantage Finance will continue to provide a growing and significant contribution to the Group's result in the years ahead.

A E Holt

In 2001/2002 A E Holt, our rather anomalous hosiery manufacturing operation, made a loss of £27,000. At half year that had grown to £83,000, partly due to redundancies as it slashed its manufacturing capacity. These cost reductions have allowed a small profit in the second half. Nevertheless Holts management have not been able to demonstrate a business plan sufficiently profitable to warrant its continued existence. We are therefore closing its operations effective from June this year. These steps will eliminate what has recently been a drain on Group profit and ensure that S & U is entirely focused on its finance operations. The Group retains Holts Leicester property, which has long term development potential.

Group Profit, Dividend and Earnings Per Share

	Year ended		6 months ended		6 months ended	
	31 January 2003	31 January 2002	31 January 2003	31 January 2002	31 July 2002	31 July 2001
	£m	£m	£m	£m	£m	£m
Profit before tax	**7.8**	9.2	**3.3**	5.0	**4.5**	4.2
Profit after tax	**5.5**	6.4	**2.4**	3.5	**3.1**	2.9
Earnings per share	**46.0p**	53.5p	**20.0p**	29.1p	**26.0p**	24.4p
Dividends per share	**28.0p**	27.0p	**20.0p**	20.0p	**8.0p**	7.0p

Managing Director's Report

The fall in Group pre-tax profits this year has taken place almost entirely in the second half. It was in this period that the extent of the bad debt provisions and resultant fall in loan transactions associated with the problems in the South East were manifested. It is however encouraging that the current bad debt experience of the home collected business is well within budget. If continued this augurs well for a return to significant profit growth this year. For this reason it is appropriate to maintain a final dividend at 20p per ordinary share making a total for the year of 28p (2002 - 27p). At this level cover will be 1.61.

Capital Structure, Liquidity and Treasury

Both the growing maturity of our motor finance business and slower growth in home-collected has seen a strengthening of S & U's liquidity and cash flow position this year. Net cash outflow at £506,000 is a tenth of last year's £5.4m. As a result Group gearing has fallen to 67.1% which is not only conservative compared to our competitors but prudent in uncertain economic times; nevertheless our existing bank facilities provide significant funds for both organic growth and possible acquisitions complementary to our existing operations. Prudence has also dictated that we arrange swap facilities for around £10m of Group debt which insulates S & U against adverse future interest rate movements over the next 3 years.

Conclusion

This year's hiatus in S & U's fortunes has only reinforced our determination to resume the sustained expansion in Group profitability evident since 1998. Nor has it diminished our confidence in our strategy of focusing on high productivity, aspirational customers in home credit and high quality relationships with volume key dealers in motor finance. We shall continue to make acquisitions within home credit where opportunities arise whilst gradually expanding the geographical reach of Advantage Finance. Nevertheless all good businesses evolve and change. We continuously examine opportunities to add further types of finance operations to the Group, which are secure, profitable and have financially manageable growth prospects.

More challenging times bring out the best in people. Ours is quintessentially a "people" business and that is why I am delighted that the past year has seen the emergence of a number of high level executives in each of our subsidiary divisions who have the capabilities and commitment which will be required by S & U over the next 10 years. Lastly, I wish to thank our loyal customers, our excellent staff and your Board of Directors for their support in the past year and I look forward to renewed profits growth in the year ahead.

Anthony M V Coombs
Managing Director
2 April 2003

Officers and Professional Advisers

Directors

D M Coombs	*(Chairman)*
A M V Coombs MA (Oxon)	*(Managing Director)*
G D C Coombs MA (Oxon) MSc (Lon)	
M F Hepplewhite LLB (Hons) FCA	*(Non-executive)*
D Markou MBE FCA	*(Non-executive)*
K R Smith	*(Non-executive)*
F Coombs BA (Lon) MSc (Lon)	*(Non-executive)*

Secretary
E D Maiden

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130 New Street
Birmingham B2 4JU

Royal Bank of Scotland
5th Floor, 2 Saint Phillips Place
Birmingham B3 2RB

Solicitors
Hammonds
Rutland House
148 Edmund Street
Birmingham B3 2JR

Stockbrokers
Brewin Dolphin Securities Limited
7 Drumsheugh Gardens
Edinburgh EH3 7QH
and 5 Giltspur Street
London EC1A 9BD

Auditors
Deloitte & Touche
Chartered Accountants
Birmingham

Directors Biographies

Derek M Coombs *(Chairman)*	Chairman since 1975. Managing Director 1975 to April 1999. Former Member of Parliament. Chairman, Prospect Publishing Limited. Political journalist. Until recently, non-executive director, Metalrax Group Plc.
Anthony M V Coombs MA (Oxon) *(Managing Director)*	Joined S & U in 1975 and was appointed Managing Director in 1999. Between 1987 and 1997 served as a Member of Parliament and was a member of the Government. Serves on the Executive of the Consumer Credit Association and chairs its Public Relations Committee and is a director of a number of companies and charities including the Birmingham Royal Ballet Trust Board.
Graham D C Coombs MA (Oxon) MSc (Lon)	Joined S & U plc after graduating from London Business School in 1976. He is responsible for the Group's subsidiaries, Wilson Tupholme Limited and S D Taylor Limited and for property matters.
Mark F Hepplewhite LLB (Hons) FCA *(Non-executive)*	A law graduate and a Chartered Accountant by profession. He is contracted to act as Finance Director for a substantial group of property companies where he specialises in corporate tax matters.
Demetrios Markou MBE FCA *(Non-executive)*	A Chartered Accountant with over 30 years experience in public practice in Birmingham. He has extensive commercial and political experience.
Keith R Smith *(Non-executive)*	A former member of The Stock Exchange and a principal in stockbroking firms for more than 30 years. He has also been a director of a number of public and private companies and is currently a director of Nabarro Wells & Co Limited, a finance business specialising in advice to smaller public companies.
Fiann Coombs BA (Lon) MSc (Lon) *(Non-executive)*	An economic analyst. He has conducted a six-months' review of the company's operations.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 2003.

Activities

The principal activity of the group continues to be that of consumer credit and car finance. These include financial services, hire purchase and sales of electrical and household merchandise throughout England, Wales and Scotland. The group also markets hosiery, primarily for export.

Review of developments and future prospects

A review of developments during the year and future prospects is given in the chairman's statement on pages 2 and 3 and the managing director's report on pages 4 to 6.

Results and dividends

The group's profit on ordinary activities after taxation was £5,553,000 (2002 - £6,431,000). Dividends of £3,440,000 (2002 - £3,323,000) were paid and proposed during the year, leaving retained profits of £2,113,000 (2002 - £3,108,000) to be transferred to reserves.

The directors recommend a final dividend, subject to shareholders approval of 20.0p per share (2002 – 20.0p). This, together with the interim dividend of 8.0p per share (2002 - 7.0p) paid during the year, makes a total dividend for the year of 28.0p per share (2002 - 27.0p).

Directors and their interests

The directors of the company during and after the year and the beneficial interests of the directors at the year end and their immediate families in the shares of the company are set out below:

	At 31 January 2003		At 31 January 2002	
	31.5% Preference shares	Ordinary shares	31.5% Preference shares	Ordinary shares
D M Coombs	70,000	2,471,241	70,000	2,456,241*
A M V Coombs	–	538,110	–	538,110
G D C Coombs	–	565,970	–	565,970
M F Hepplewhite	–	7,000	–	7,000
K R Smith	–	10,000	–	7,000
D Markou	–	2,000	–	2,000
F Coombs	–	33,550	–	33,550*

*The director's interest reported for D M Coombs in 2002 was 2,056,241, this has been restated to take account of 400,000 shares held in trust, 200,000 of the shares held in trust were previously reported as being held by F Coombs.

Directors' Report

4,500 of the shares held by Mr M F Hepplewhite are held in trust for Anglo-Malay Consultants Limited, a close company of which he is a shareholder and director.

There were no changes to the directors' interests shown above between 31 January 2003 and 2 April 2003.

Grevayne Properties Limited, a company of which Messrs G D C and A M V Coombs are directors and shareholders owned 298,048 ordinary shares in the company at 31 January 2003 (2002 – 298,048).

The directors had no interests in the company's 6% Cumulative Preference shares or in the shares of its subsidiaries.

In accordance with the Companies Articles of Association Messrs A M V Coombs, K R Smith and D Markou being eligible, offer themselves for re-election.

No director had any interest in any material contract during the year relating to the business of the group.

Substantial Shareholdings

At 2 April 2003, the company had been notified of the following interests of 3% or more in its issued ordinary share capital (excluding those of the directors disclosed above):-

Shareholder	No of shares	% of share capital
Wiseheights Limited	2,420,000	20.6%
C K Coombs	1,621,501	13.8%
R C Greig Nominees	451,635	3.8%
Pierrette Limited	385,687	3.2%

Employees

The group's policy is to give full and fair consideration to applications for employment by disabled persons, having regard to the nature of the employment. Suitable opportunities and training are offered to disabled persons in order to provide their career development.

The group also recognises the need to communicate with employees. Newsletters are sent out to each employee at least twice per year to keep employees informed of the progress of the business as well as regular memos to the branches in respect of new initiatives.

Political and charitable contributions

During the year the company and the group made charitable contributions of £7,186 (2002 - £10,945). No political contributions were made.

Creditor payment policy

The group and the company do not follow any published code of practice but agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier.

Trade creditor days for the group for the year ended 31 January 2003 were 31 days (2002 – 34 days), and trade creditor days for the company were 29 days (2002 – 38 days), calculated in accordance with the requirements set down in the Companies Act 1985. This represents the ratio, expressed in days, between the amounts invoiced to the group and the company by their suppliers in the year and the amount due, at the year end, to trade creditors within one year.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

E D Maiden
Secretary
2 April 2003

Report of the Board to the Shareholders on Remuneration Policy

Introduction
This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of the periods ending on or after 31 January 2003. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

The Regulations require the auditors to report to the company's members on the "auditable part" of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration committee
The company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the committee are Mr M Hepplewhite, Mr D Markou, Mr F Coombs and Mr K Smith, who are all, with the exception of Mr F Coombs, independent non-executive directors. The committee is chaired by Mr K Smith.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorship or day-to-day involvement in running the business. The committee makes recommendations to the board. No director plays a part in any discussions about his or her own remuneration.

Remuneration Policy
The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee and is assessed annually for the following financial period. The remuneration of the non-executive directors is determined by the board within limits set out in the Articles of Association.

There are four main elements of the remuneration package for executive directors and senior management:

- Basic annual salary (including directors fees);
- Taxable benefits in kind in the main include company car plus related expenses and medical insurance;
- Performance related bonus payments; and
- Pension arrangements.

The company does not operate a share option or similar long term incentive schemes.

Basic Salary
An executive director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the group as a whole and to comparable positions in the financial sector. Executive director's contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Annual Bonus Payments
The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee considers the Group's pre tax profit performance for the year and the appropriate % of basic salary to be awarded for each executive. The Committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principle measure of those interests is in total shareholder return. The strategic objectives, control system and indicators are also aligned to total shareholder return. The executive directors were awarded bonuses in 2002, but no bonuses will be made in respect of the year ended January 2003.

Pension arrangements

The company makes contributions to a defined contribution pension scheme in respect of A M V Coombs and G D C Coombs. None of the directors has accrued benefit under the defined benefit scheme.

Performance graph

The following graph shows the company's performance, measured by total shareholder return, compared with the performance of the FTSE Speciality and Other Financial Services Index also measured by total shareholder return. The performance has also been benchmarked against Provident Financial a leading competitor. These comparators have been selected since they illustrate S & U's relative performance within their sector.

Directors' contracts

It is the company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice.

Mr A Coombs is proposed for re-election at the next annual general meeting has a service contract which provides for a notice period of one year. Mr K Smith and Mr D Markou who are also proposed for re-election, being non-executive directors, do not have a service contract.

A M V Coombs and G D C Coombs have rolling 12 month contracts. In the event of early termination, the directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

It is company policy that non-executive directors are not granted service contracts.

Non-executive directors

All non-executive directors have specific terms of engagement and their remuneration is determined by the board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The basic fee paid to each non-executive director in the year was £15,000. Non executives are not eligible to join the company's pension scheme.

Report of the Board to the Shareholders on Remuneration Policy

AUDITED INFORMATION

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2003 £000	2002 £000
Emoluments	648	838
Money purchase pension contributions	44	117
	692	955

Directors' emoluments

	Salaries and fees £000	Benefits in kind £000	Pension Contribution £000	Annual & Retirement Bonus £000	Total 2003 £000	Total 2002 £000
Executive directors						
D M Coombs	213	25	–	–	238	253
A M V Coombs	175	20	24	–	219	226
G D C Coombs	150	7	20	–	177	190
R E J Fisher	–	–	–	–	–	246
Non-executive directors						
M F Hepplewhite	15	–	–	–	15	14
D Markou	14	–	–	–	14	13
K R Smith	14	–	–	–	14	13
F Coombs	15	–	–	–	15	–
2003 Total	596	52	44	–	692	–
2002 Total	646	60	117	132	–	955

Directors' pension entitlements

2 directors are members of money purchase schemes. Contributions paid by the company in respect of such directors were as follows:

	2003 £000	2002 £000
A M V Coombs	24	23
G D C Coombs	20	20
R E J Fisher	–	74

Approval

This report was approved by the board of directors on 2 April 2003 and signed on its behalf by:

Keith Smith
Chairman of the Remuneration Committee

Corporate Governance

In June 1998 the Combined Code was issued by the London Stock Exchange. The Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of the earlier Cadbury and Greenbury Committees. Section 1 of the Code is applicable to companies.

A narrative statement on how the company has applied the Principles and a statement explaining the extent to which the provisions of the Code have been complied with appear below.

Narrative statement

The Code establishes 14 Principles of Good Governance, which are split into the four areas described below. The current position of the company is described below.

Directors

During the period under review, the company was controlled through the Board of Directors which comprised three executive and four non-executive directors. The independent non-executives are K Smith, M H Hepplewhite, D Markou. F Coombs is not considered to be independent due to his family relationships with the executives of the board and his shareholdings in S & U plc. The Chairman is mainly responsible for the running of the Board, he has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Managing Director's responsibilities focus on co-ordinating the company's business and implementing Group strategy. The Chairman and Managing Director are jointly responsible for acquisitions outside the traditional business, the development of the business into new areas, and relations with the investing community, public and media. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board has a formal schedule of matters reserved to it and meets at least three times a year with monthly circulation of papers. It is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers environmental and employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established an Audit Committee and a Remuneration Committee. Each committee operates within defined terms of reference. As the Board is small, it is not intended to form a separate nomination committee. The Board as a whole deals with such matters formally. Trading companies are managed by separate boards of directors. The minutes of their meetings and of the standing committees will be circulated to and reviewed by the Board of Directors.

The Audit Committee and the Remuneration Committee are composed of the four non-executive directors, Messrs M F Hepplewhite, D Markou , F Coombs and K R Smith. Chairmen of these committees are appointed from among the members.

Three out of the four non-executive directors are considered to be independent. The Board has designated Mr K R Smith as senior independent director.

Relations with Shareholders

The company continues to communicate with both institutional and private investors and responds quickly to all queries received verbally or in writing. All shareholders have at least twenty working days notice of the Annual General Meeting at which all directors are introduced and available for questions.

The Board is aware of the importance of maintaining close relations with investors and analysts for the group's market rating. Positive steps are being taken to enhance these relationships.

Corporate Governance

Accountability and Audit

Financial Reporting

Reviews of the performance and financial position of the group are included in the Managing Director's Report. The Board uses this, together with the Chairman's Statement and the Directors' Report within pages 2 to 11, to present a balanced and understandable assessment of the company's position and prospects. The directors' responsibilities in respect of the financial statements are described on page 18 and those of the auditors on page 19.

Internal Control

The board acknowledges that it is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

As disclosed in the stock exchange announcement on 12 December 2002 a fraud was discovered in the London Branch.

Whilst no system of internal control can be expected to prevent fraud (particularly that involving collusion) the number and scale of frauds identified in the London branch indicate that there has been a breakdown in internal controls during the financial year.

As a consequence of this breakdown in addition to the ongoing process for identifying, evaluating and managing the significant risks faced by the group that was in place for the whole of the financial year, there has been a detailed investigation into the frauds and a subsequent implementation of additional control procedures. Additional procedures implemented include:

- Setting up of a four person independent representative checking group
- Establishing maximum numbers of call and book debt levels per representative
- Greater use of arrears reports in investigation analysis
- Increased use of audit letters
- Random cash audits

In addition the board has resolved to appoint a suitably qualified finance director designate to further strengthen the groups internal control environment.

This review is ongoing. All reviews are considered by the Board and accord with the Internal Control guidance for directors on the combined code produced by the Turnbull working party. Whilst the Board acknowledges its overall responsibility for internal control it believes strongly that senior management within the Group's operating businesses should also contribute in a substantial way and this has been built into the process.

The Board does not consider there is a need for a formal independent internal audit function because of the increased control procedures already introduced (see above) and due to the size of the group.

The Board intends to keep its risk control procedures under constant review particularly as regards the need to embed internal control and risk management procedures further into the operations of business and to deal with areas of improvement which come to management's and the board's attention.

As might be expected in a group of this size, a key control procedure is the day to day supervision of the business by the executive directors, supported by the managers with responsibility for operating units and the central support functions of finance, information systems and human resources.

The executive directors are involved in the budget setting process, constantly monitor key statistics and review management accounts on a monthly basis, noting and investigating major variances. All significant capital expenditure decisions are approved by the board as a whole.

The executive directors receive reports setting out key performance and risk indicators and consider possible control issues brought to their attention by early warning mechanisms, which are embedded within the operational units and reinforced by risk awareness training. The executive directors also receive regular reports from the credit control and health and safety functions, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements.

Relationship with Auditors

The Audit Committee has specific terms of reference which deal with its authority and duties. It meets at least twice a year with the external auditors attending by invitation. The Committee overviews the monitoring of the adequacy of the group's internal controls, accounting policies and financial reporting and provides a forum through which the group's external auditors report to the non-executive directors.

Going Concern basis

After making enquiries, the directors have formed a judgement that there is a reasonable expectation that the group 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 financial statements. This statement also forms part of the Directors' Report.

Compliance statement

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. The company has complied throughout the accounting period ended 31 January 2003 with the provisions set out in Section 1 of the Code with the exception of:

Section B2.2 of the code, which prescribes that all directors of the remuneration committee should be independent non executive.

Statement of Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group 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; and
- state whether applicable accounting standards have been followed.

The directors confirm that they have met the above requirements.

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 the group's system of internal control, for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

E D Maiden
Secretary
2 April 2003

Independent Auditors' Report

To the members of S & U PLC

We have audited the financial statements of S & U Plc for the year ended 31 January 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the reconciliation of net cashflow to movement in net debt, the movement on reserves and the related notes 1 to 24 and the note of historical cost profits and losses. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom 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 and the part of the directors' remuneration report described as having been audited. 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 circumstances of the company and the group, 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 January 2003 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Birmingham
2 April 2003

Consolidated Profit and Loss Account

Year ended 31 January 2003

	Note	2003 £000	2002 £000
Business transacted	1	88,828	89,929
Turnover	1,2	34,996	34,430
Cost of sales		(3,131)	(3,653)
Gross profit		31,865	30,777
Other expenses		(16,310)	(16,080)
Provision for doubtful debt (includes exceptional item of £1.9m)	4	(6,762)	(4,300)
Total administrative expenses		(23,072)	(20,380)
Operating profit	5	8,793	10,397
Profit on sale of fixed assets	11	214	-
Net interest payable	6	(1,161)	(1,191)
Profit on ordinary activities before taxation		7,846	9,206
Tax on profit on ordinary activities	7	(2,293)	(2,775)
Profit on ordinary activities after taxation being profit for the financial year		5,553	6,431
Dividends paid and proposed – including amounts in respect of non equity shares	9	(3,440)	(3,323)
Retained profit for the financial year		2,113	3,108
Basic Earnings per Ordinary share	10	46.0p	53.5p
Dividends per Ordinary share	9	28.0p	27.0p

There have been no recognised gains or losses other than the profit for the current and preceding years.

All activities derive from continuing operations.

Statement of Movements on Reserves

Year ended 31 January 2003

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000	Total £000
The Group				
Balance at 1 February 2002	2,136	609	28,488	31,233
Transfer of depreciation on freehold properties	-	(9)	9	-
Retained profit for the financial year	-	-	2,113	2,113
Balance at 31 January 2003	**2,136**	**600**	**30,610**	**33,346**
The Company				
Balance at 1 February 2002	2,136	41	11,811	13,988
Transfer of depreciation on freehold properties	-	-	-	-
Retained profit for the financial year	-	-	163	163
Balance at 31 January 2003	**2,136**	**41**	**11,974**	**14,151**

Consolidated Balance Sheet

31 January 2003

	Note	2003 £000	2002 £000
Fixed assets			
Tangible assets	11	2,646	2,768
Current assets			
Amounts receivable from customers			
(including £12,776,000 falling due after one year (2002 – £12,578,000))	13	60,949	59,292
Stocks	14	214	238
Debtors	15	946	879
Cash at bank and in hand		106	115
		62,215	60,524
Creditors: amounts falling due within one year	16	(14,398)	(14,942)
Net current assets		47,817	45,582
Total assets less current liabilities		50,463	48,350
Creditors: amounts falling due after more than one year	17	(15,000)	(15,000)
Net assets		35,463	33,350
Capital and reserves			
Called up share capital	18	2,117	2,117
Share premium account		2,136	2,136
Revaluation reserve		600	609
Profit and loss account		30,610	28,488
Total shareholders' funds		35,463	33,350
Attributable to equity shareholders		34,813	32,700
Attributable to non-equity shareholders		650	650
		35,463	33,350

These financial statements were approved by the Board of Directors on 2 April 2003.

Signed on behalf of the Board of Directors

D. M. Coombs } *Directors*
A. M. V. Coombs

Company Balance Sheet

31 January 2003

	Note	2003 £000	2002 £000
Fixed assets			
Tangible assets	11	835	955
Investments	12	2,893	2,893
		3,728	3,848
Current assets			
Amounts receivable from customers	13	17,044	18,310
Stocks	14	54	45
Debtors	15	17,668	17,447
Cash at bank and in hand		5	7
		34,771	35,809
Creditors: amounts falling due within one year	16	(7,231)	(8,552)
Net current assets		27,540	27,257
Total assets less current liabilities		31,268	31,105
Creditors: amounts falling due after more than one year	17	(15,000)	(15,000)
		16,268	16,105
Capital and reserves			
Called up share capital	18	2,117	2,117
Share premium account		2,136	2,136
Revaluation reserve		41	41
Profit and loss account		11,974	11,811
Total shareholders' funds		16,268	16,105
Attributable to equity shareholders		15,618	15,455
Attributable to non-equity shareholders		650	650
		16,268	16,105

These financial statements were approved by the Board of Directors on 2 April 2003.

Signed on behalf of the Board of Directors

D. M. Coombs } *Directors*

A. M. V. Coombs

Consolidated Cash Flow Statement

Year ended 31 January 2003

	Note		2003		2002
		£000	£000	£000	£000
Cash flow from operating activities	20		7,366		1,750
Returns on investments and servicing of finance					
Interest received		5		12	
Interest paid		(1,159)		(1,116)	
Preference dividends paid		(78)		(78)	
Net cash outflow from returns on investments and servicing of finance			(1,232)		(1,182)
Taxation			(3,035)		(2,430)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(707)		(708)	
Proceeds of sale of fixed assets		459		74	
Net cash outflow for capital expenditure and financial investment			(248)		(634)
Equity dividends paid			(3,357)		(2,876)
Cash outflow before financing			(506)		(5,372)
Financing					
Increase in loans from banks			-		5,000
Decrease in cash in the year			(506)		(372)

Reconciliation of net cash flow to movement in net debt

	2003	2002
	£000	£000
Decrease in cash in the year	(506)	(372)
Cash outflow from increase in debt	-	(5,000)
Movement in net debt in the year	(506)	(5,372)
Net debt at 1 February 2002	(23,177)	(17,805)
Net debt at 31 January 2003	(23,683)	(23,177)

Note of Historical Cost Profits and Losses

Year ended 31 January 2003

	2003 £000	2002 £000
Profit on ordinary activities before taxation	7,846	9,206
Difference between historical cost depreciation charge and actual depreciation charge on the revalued amount	9	11
Historical cost profit on ordinary activities before taxation	7,855	9,217
Historical cost profit for the year retained after taxation and dividends	2,122	3,119

Reconciliation of Movements in Consolidated Shareholders' Funds

Year ended 31 January 2003

	2003 £000	2002 £000
Profit for the financial year	5,553	6,431
Dividends	(3,440)	(3,323)
Net addition to shareholders' funds	2,113	3,108
Opening shareholders' funds:	33,350	30,242
Closing shareholders' funds	35,463	33,350
Attributable to 6% Cumulative Preference shareholders	200	200
Attributable to 31.5% Cumulative Preference shareholders	450	450
Total attributable to non-equity interests	650	650
Attributable to equity interests	34,813	32,700
	35,463	33,350

Notes to the Accounts

Year ended 31 January 2003

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted by the directors are described below.

Accounting convention
The financial statements are prepared under the historical cost convention as modified by the revaluation of certain freehold properties.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries. All of these companies have the same year end date as the group.

Turnover
Turnover is exclusive of value added tax and comprises:

● Home collected instalment credit agreements	Credit charges received or receivable.
● Monthly instalment credit agreements (consumer credit)	Credit charges received or receivable.
● Monthly instalment credit agreements (car finance)	Credit charges received or receivable.
● Hire purchase agreements	Gross amount received or receivable, less deferred revenue.
● Goods and services	Gross amounts of goods and services supplied.
● Insurance	Net commission received and receivable on premiums paid by customers.

Business Transacted
The directors have included a memorandum figure at the top of the profit and loss account, 'Business Transacted'. This represents the total amount that the customer has contracted to pay subject to the deferral of revenue attributable to a later period and VAT.

Tangible fixed assets
Depreciation is provided on the cost or valuation of tangible fixed assets in order to write off such cost or valuation over the expected useful lives as follows:

Freehold buildings	2% per annum straight line
Computers	20% per annum straight line
Fixtures, fittings and plant	10% to 20% per annum on reducing balance
Motor vehicles	25% per annum on reducing balance

No depreciation is provided on freehold land. The company has adopted the transitional provisions in relation to its freehold properties under FRS 15 and as such the valuation performed in 1973 has been frozen and the properties will be held at modified historic cost.

1. Accounting policies (continued)

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Debtors

Bad debts are written off and a specific reserve is made on all debts which are considered doubtful.

Deferred revenue

Deferred revenue comprises that part of the gross profit on customer accounts at the year end which had not been earned at the balance sheet date.

Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of manufactured goods includes materials, direct labour, and a proportion of production overheads appropriate to the relevant stage of production.

Deferred taxation

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Goodwill

Any goodwill which arises on future acquisitions will be capitalised and amortised over its useful life in accordance with the requirements of FRS 10 "Goodwill and intangible assets".

Pensions

The company's contributions to its defined benefit pension scheme are expensed in order to allocate the cost of providing the pensions, recognising any actuarial surplus or deficiency (where applicable), over the working lives of the relevant employees.

The Group has adopted the transitional requirements of Financial Reporting Standard 17 'Retirement Benefits'.

The company also operates a defined contribution pension scheme and the pension charge represents the amount payable by the company for the financial year.

Leases

Rental costs under operating leases are charged to the profit and loss account when incurred.

Notes to the Accounts

Year ended 31 January 2003

2. Analyses of turnover, operating profit/(loss) and net assets

All operations are situated in the United Kingdom. Analyses by class of business of turnover, operating profit and net assets are stated below:

	Turnover		Operating profit		Net assets	
	2003	2002	2003	2002	2003	2002
	£000	£000	£000	£000	£000	£000
Class of business						
Consumer credit, rentals and other retail trading	27,647	27,630	6,745	8,441	33,850	32,100
Car finance	6,676	5,861	2,126	1,983	1,220	808
Hosiery	673	939	(78)	(27)	393	442
	34,996	34,430	8,793	10,397	35,463	33,350

	Turnover	
	2003	2002
Geographical analysis by destination	£000	£000
United Kingdom	34,401	33,590
Other European countries	595	840
	34,996	34,430

3. Information regarding employees

	2003	2002
	No	No
The average number of persons employed by the group in the year was:		
Consumer credit, rentals and other retail trading	280	284
Car finance	57	50
Hosiery	11	18
	348	352

	2003	2002
	£000	£000
Staff costs during the year (including directors):		
Wages and salaries	7,374	7,195
Social security costs	676	679
Pension costs for money purchase scheme	143	166
	8,193	8,040

4. Exceptional bad debt expense

Within the bad debt expense are the financial effects of frauds that were identified at the London branch during the year ended 31 January 2003.

The bad debt provision in respect of London has increased by £1,872,000 to £2,265,000 at 31 January 2003 (2002 - £393,000), which includes both the direct losses due to the fraud and the indirect negative impact on the normal collection procedures.

5. Operating profit

	2003 £000	2002 £000
Operating profit is after charging/(crediting):		
Depreciation and amortisation:		
Owned assets	584	694
Rentals under operating leases:		
Hire of plant and machinery	12	6
Other operating leases	277	229
Auditors' remuneration:		
Group audit fees	71	56
Other services	15	18
Loss on sale of fixed assets	–	45
Rentals received/receivable under operating leases	(228)	(265)

The audit fee for the company was £25,000 (2002 - £25,000).

6. Net interest payable

	2003 £000	2002 £000
Bank loan and overdraft	1,157	1,193
Other interest payable	9	10
Interest payable and similar charges	1,166	1,203
Interest receivable	(5)	(12)
	1,161	1,191

7. Tax on profit on ordinary activities

	2003 £000	2002 £000
Corporation tax at 30% (2002 – 30%) based on the profit for the year	2,305	2,695
Deferred tax		
Origination and reversal of timing differences	(12)	80
	2,293	2,775

7. Tax on profit on ordinary activities (continued)

The actual tax charge for the current and the previous year exceeds the standard rate for the reasons set out in the following reconciliation.

	2003 £000	2002 £000
Profit on ordinary activities before tax	7,846	9,206
Tax on profit on ordinary activities at standard rate	2,353	2,762
Factors affecting charge for the period:		
Expenses not deductible of tax purposes	15	-
Non-qualifying depreciation	10	6
Disposal proceeds of ineligible disposals	-	(1)
Other permanent differences	-	2
Other timing differences	2	(74)
Differences in tax rates on current tax	3	-
Prior period adjustments	(78)	-
Total actual amount of current tax	2,305	2,695

8. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit for the financial year after taxation amounted to £3,603,000 (2002 - £4,355,000).

9. Dividends

	2003 £000	2002 £000
Interim paid - 8.0p per Ordinary share (2002 - 7.0p)	939	822
Final proposed - 20.0p per Ordinary share (2002 - 20.0p)	2,347	2,347
Ordinary dividends on equity shares	3,286	3,169
31.5% Cumulative Preference dividend	142	142
6% Cumulative Preference dividend	12	12
Preference dividends on non-equity shares	154	154
Total dividends paid and proposed	3,440	3,323

10. Earnings per ordinary share

The calculation of earnings per Ordinary share is based on profit after tax of £5,553,000 (2002 - £6,431,000) from which is deducted Preference dividends of £154,000 (2002 - £154,000) giving earnings of £5,399,000 (2002 - £6,277,000).

The number of shares used in the calculation is the average number of shares in issue during the year of 11,737,228 (2002 - 11,737,228). There are no dilutive shares.

11. Tangible fixed assets

The Group	Freehold land and buildings	Plant, machinery and motor vehicles	Fixtures and fittings	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 February 2002	1,256	4,571	1,193	7,020
Additions	-	648	59	707
Disposals	-	(947)	-	(947)
At 31 January 2003	1,256	4,272	1,252	6,780
Accumulated depreciation				
At 1 February 2002	214	3,103	935	4,252
Charge for the year	22	482	80	584
Disposals	-	(702)	-	(702)
At 31 January 2003	236	2,883	1,015	4,134
Net book value				
At 31 January 2003	1,020	1,389	237	2,646
At 31 January 2002	1,042	1,468	258	2,768

Comparable amounts determined according to the historical cost convention:

Cost	533	4,272	1,252	6,060
Accumulated depreciation	(113)	(2,883)	(1,015)	(4,019)
Net book value				
At 31 January 2003	420	1,389	237	2,046
At 31 January 2002	433	1,468	258	2,159

Included in the above is land at a cost or valuation of £60,000 (2002 - £60,000) which is not depreciated.

11. Tangible fixed assets (continued)

The Company	Freehold land and buildings	Plant, machinery and motor vehicles	Fixtures and fittings	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 February 2002	310	1,564	539	2,413
Additions	–	212	15	227
Disposals	–	(504)	-	(504)
At 31 January 2003	310	1,273	554	2,136
Accumulated depreciation				
At 1 February 2002	25	1,000	433	1,458
Charge for the year	6	167	32	205
Disposals	–	(362)	–	(362)
At 31 January 2003	31	805	465	1,301
Net book value				
At 31 January 2003	279	468	89	835
At 31 January 2002	285	564	106	955

Comparable amounts determined according to the historical cost convention:

Cost	260	1,273	554	2,087
Accumulated depreciation	(22)	(805)	(465)	(1,292)
Net book value				
At 31 January 2003	238	468	89	795
At 31 January 2002	244	564	106	914

Included in the above is land at cost of £22,000 (2002 – £22,000) which is not depreciated.

The profit on sale of fixed assets resulted from the sale of land held at nil net book value at the date of disposal.

11. Tangible fixed assets (continued)

Freehold land and buildings at cost or valuation are stated:

	The Group		The Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
At open market valuation for existing use in 1973	971	971	60	60
At cost	285	285	250	250
	1,256	1,256	310	310

The net book value of tangible fixed assets leased out under operating leases was:

The Group		The Company	
2003	2002	2003	2002
£000	£000	£000	£000
306	319	93	115

12. Investments

The Company	£000
Shares in subsidiary companies	
At 1 February 2002 and 31 January 2003	2,893

Interests in subsidiaries

The principal subsidiaries of the company, all of which are wholly owned directly by the company, operate in Great Britain and are incorporated in England and Wales.

Subsidiary	Principal activity
S D Taylor Limited	Consumer credit, rentals and other retail trading
Wilson Tupholme Limited	Consumer credit, rentals and other retail trading
Advantage Finance Limited	Car finance
A E Holt (Leicester) Limited	Hosiery

Notes to the Accounts

Year ended 31 January 2003

13. Amounts receivable from customers

	The Group		The Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Gross instalment credit receivables	82,431	77,399	22,906	22,389
Less: Provision for doubtful debt	(8,790)	(5,772)	(3,680)	(1,632)
Instalment credit receivables after provision	73,641	71,627	19,226	20,757
Less: Deferred revenue	(12,692)	(12,335)	(2,182)	(2,447)
	60,949	59,292	17,044	18,310
Amounts receivable under finance leases and hire purchase agreements included above	20,570	19,680	444	827
Value of assets acquired during the year to be leased under finance leases or hire purchase agreements	11,670	11,468	373	559
Rentals received during the year in respect of finance leases and hire purchase agreements	12,507	10,985	734	1,131

14. Stocks

	The Group		The Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Raw materials	8	16	-	-
Work in progress	56	66	-	-
Finished goods and goods for resale	150	156	54	45
	214	238	54	45

15. Debtors

	The Group		The Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Trade debtors	41	117	–	–
Amounts owed by subsidiary undertakings	–	–	17,240	17,022
Deferred tax asset	68	56	39	30
Corporation tax recoverable	79	–	79	–
Other debtors	429	380	176	234
Prepayments and accrued income	329	326	134	161
	946	879	17,668	17,447

All the above amounts fall due within one year.

Movement on deferred taxation balance in the period

	£000
Opening balances	56
Credit to profit and loss account	12
Closing balance	68

Analysis of deferred tax balance

	2003	2002
	£000	£000
Capital allowances in excess of depreciation	66	57
Short term timing differences	2	2
Other	–	(3)
	68	56

No provision has been made for deferred tax on revaluing property to its market value. The tax on the gains arising from the revaluation would only become payable if the property were to be sold without rollover relief being available. These assets are expected to be used in the continuing operations of the business and therefore no tax is expected to be paid in the foreseeable future.

16. Creditors: amounts falling due within one year

	The Group		The Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Bank overdrafts	8,789	8,292	2,386	3,069
Trade creditors	530	677	172	258
Amounts owed to group undertakings	-	-	1,683	1,453
Corporation tax	1,170	1,821	18	544
Group relief payable	-	-	24	9
Other taxation and social security	253	293	112	137
Other creditors	479	490	288	285
Accruals and deferred income	750	946	121	374
Proposed dividend	2,427	2,423	2,427	2,423
	14,398	14,942	7,231	8,552

S & U plc had the following overdraft facilities outstanding at 31 January 2003:

A facility for £10 million (2002 – £10m) due for review in August 2003;

A facility for £2 million (2002 – £2m) due for review in June 2003.

17. Creditors: amounts falling due after more than one year

	The Group		The Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Bank loan	15,000	15,000	15,000	15,000
	15,000	15,000	15,000	15,000

The bank overdraft and loans are secured over the assets of the group under a multilateral guarantee.

A maturity analysis of the above borrowings is given in note 19.

18. Called up share capital

		2003	2002
		£000	£000
Authorised			
14,400,000	Ordinary shares of 12.5p each	1,800	1,800
200,000	6.0% Cumulative Preference shares of £1 each	200	200
3,600,756	31.5% Cumulative Preference shares of 12.5p each	450	450
		2,450	2,450
Called up, allotted and fully paid			
11,737,228	Ordinary shares of 12.5p each	1,467	1,467
200,000	6% Cumulative Preference shares of £1 each	200	200
3,600,756	31.5% Cumulative Preference shares of 12.5p each	450	450
		2,117	2,117

The 6.0% Cumulative Preference shares enable the holder to receive a cumulative preferential dividend at the rate of 6.0% on paid up capital and the right to a return of capital plus a premium of 10p per share at either a winding up or a repayment of capital.

The 31.5% Cumulative Preference shares entitle the holder to receive a cumulative preference dividend of 31.5% plus associated tax credit and the right to a return of capital plus a premium of 22.5p per share on either a winding up or a repayment of capital. The rights of the holders of these shares to dividends and returns of capital are subordinated to those of the holders of the 6.0% Cumulative Preference shares.

Neither class of Cumulative Preference share carries voting rights so long as the dividends are not in arrears.

19. Financial instruments

The Group's principal financial instruments are amounts receivable from customers, cash, preference share capital, and bank overdrafts.

The group's business objectives rely on maintaining a well spread customer base of carefully controlled quality by applying strong emphasis on good credit management, both through strict lending criteria at the time of underwriting a new credit facility and continuous monitoring of the collection process. The home collected credit hire purchase debts are secured by the goods. The car finance hire purchase debts are secured by the financed vehicle.

During the year under review and up to the balance sheet date, the level of borrowings has increased in line with the increase in activity in the car finance business. Borrowings have taken the form of committed three year facilities in view of the longer lending periods involved in the car finance business.

As at 31 January 2003 the group's indebtedness amounted to £23,789,000 (2002 – £23,292,000). The gearing was 67.1% (2002 – 69.5%), being calculated as net borrowings as a percentage of equity shareholders' funds. The Board is of the view that the gearing level remains conservative, especially for a lending organisation.

On 12 February 2003 the group entered into a £10 million interest rate swap at 4% for a period of 3 years as part of its interest rate risk exposure strategy. The group does not use derivative instruments for trading purposes or for speculative activity.

Notes to the Accounts

Year ended 31 January 2003

19. Financial instruments (continued)

The disclosures below exclude short term debtors and creditors.

Sterling financial liabilities

	2003 £000	2002 £000
Fixed rate	650	650
Floating rate (not hedged)	23,789	23,292
	24,439	23,942

The weighted average interest rate on fixed rate financial liabilities at 31 January 2003, being preference share capital having no maturity date, was 24% (2002 - 24%). The reference rate for floating rate financial liabilities is United Kingdom base rates. There are no non-interest bearing financial liabilities, or undrawn committed borrowing facilities.

Sterling financial assets

	2003 £000	2002 £000
Fixed rate	12,776	12,578
Non-interest bearing	106	115
	12,882	12,693

The weighted average interest rate on fixed rate financial assets at 31 January 2003 was 30.02% (2002 - 30.10%), with a weighted average period of 2.2 years (2002 - 2.2 years) for which the rate is fixed. Non-interest bearing financial assets constitutes cash in hand. There are no floating rate financial assets.

Currency risk

The Group has no material exposure to foreign currency risk.

Liquidity risk

The maturity of the Group's financial liabilities at 31 January 2003 was as follows:

	2003 £000	2002 £000
In one year or less or on demand	8,789	8,292
In more than two years but not more than five years	15,000	15,000
In more than five years	650	650
	24,439	23,942

19. Financial instruments (continued)

S & U plc has unused committed borrowing facilities at 31 January 2003 of £3.2 million (2002 – £3.7 million).

Fair values of financial assets and financial liabilities

	2003		2002	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Primary financial instruments:				
Net indebtedness	(23,683)	(23,683)	(23,177)	(23,177)
Preference share capital	(650)	(2,158)	(650)	(2,174)
Amounts receivable from customers (falling due after more than one year)	12,776	12,286	12,578	14,109

The fair values of cash at bank and in hand, the bank loans and the bank overdrafts are not materially different from their book values.

The fair values of the preference share capital are based on the mid prices at the close of business of those instruments sourced from the Daily Official Lists for 31 January 2003 and 2002.

Amounts receivable from customers have been discounted at a rate commensurate with the credit, interest rate and prepayment risks inherent in the assets. For amounts receivable from customers due in less than one year, which have been excluded from the numerical disclosures above, a discounted cash flow calculation does not give a result materially different to the carrying value of the assets.

20. Reconciliation of operating profit to net cash flow from operating activities

	2003	2002
	£000	£000
Operating profit	8,793	10,397
Depreciation	584	694
Loss on sale of fixed assets	-	45
Decrease in stocks	44	145
Increase in amounts receivable from customers	(1,657)	(9,718)
Increase in debtors	(8)	(77)
Increase/(decrease) in creditors	(390)	264
Net cash inflow from operating activities	7,366	1,750

Notes to the Accounts

Year ended 31 January 2003

21. Analysis of net debt

	31 January 2002 £000	Cash flow £000	31 January 2003 £000
Cash at bank and in hand	115	(9)	106
Bank overdraft	(8,292)	(497)	(8,789)
	(8,177)	(506)	(8,683)
Debt due after more than one year	(15,000)	-	(15,000)
	(23,177)	(506)	(23,683)

22. Financial commitments

Capital commitments

At 31 January 2003 and 31 January 2002, the group and company had no capital commitments contracted but not provided for.

Operating lease commitments

At 31 January 2003, the group and company had annual commitments under non-cancellable other operating leases as set out below:

	The Group		The Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Land and buildings				
Leases which expire:				
Within one year	36	20	33	17
Within two to five years	107	115	107	115
After five years	28	56	14	21
	171	191	154	153
Other				
Leases which expire:				
Within one year	3	–	-	–
Within two to five years	4	5	3	1
After five years	1	-	-	–
	8	5	3	1

23. Contingent liabilities

In respect of the group, the directors are not aware of any contingent liabilities. The company has entered into cross-guarantee arrangements with respect to the bank overdrafts of certain of its subsidiaries. The maximum exposure under this arrangement at 31 January 2003 was £6,402,551 (2002 - £5,065,000).

24. Pension schemes

Additional disclosures regarding the group's defined benefit scheme are required under the transitional provisions of Financial Reporting Standard 17 'Retirement Benefits' ('FRS 17') and these are set out below. The disclosures relate to the second year of the transitional provisions. They provide information, which will be necessary for full implementation of FRS 17 in the year ended 31 January 2005.

This standard will require assets or liabilities arising from the Group's defined benefit pension scheme to be evaluated and accounted for in the primary financial statements on a new basis. As a transitional measure, the standard requires that the pension asset or liability calculated on the new basis is disclosed by way of memorandum in the notes to the accounts. These disclosures are given at (b) below. The standard provides that the asset or liability recognised in the accounts at 31 January 2003 should continue to be calculated according to Statement of Standard Accounting Practice 24 'Accounting for Pension Costs' ('SSAP 24'). Disclosures relating to this calculation are given at (a) below.

(a) Disclosures made in accordance with SSAP 24
The company operates both defined benefit and defined contribution type pension schemes.

The assets of the S & U plc defined benefit pension scheme are held under trust. The scheme is closed to new entrants. The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out as at 31 March 2001, using the projected unit method. The actuarial valuation described above has been updated at 31 January 2003 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued for this purpose at fair value.

The following actuarial assumptions were applied:

Investment returns	6 % per annum.
Salary growth	4 % per annum.
Pension increases	2.5 % per annum in respect of post 5 April 1997 service and 0% per annum in respect of pre 6 April 1997 service.

At the last actuarial valuation date, the market value of the assets of the scheme was £1,411,865 and the actuarial value was sufficient to cover 105% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The surplus position produces a nil pension cost in the period and no contributions were made in the year and no further contributions from the company are foreseen. As a result of the surplus position, all benefits in the scheme were increased by 25% with effect from 1 April 1997.

(b) Disclosures made in accordance with FRS 17
A full actuarial valuation was carried out at 31 March 2001 and updated to 31 January 2003 by a qualified independent actuary. The valuation method used was the project unit method. The major assumptions used by the actuary were (in nominal terms):

	At year end 31 January 2003	At year end 31 January 2002
Rate of increase in salaries	3.8%	4.0%
Rate of increase in pensions in payment	2.3%	2.5%
Discount rate	5.5%	5.5%
Inflation assumption	2.3%	2.5%

Notes to the Accounts
Year ended 31 January 2003

24. Pension schemes (continued)

The assets in the scheme and the expected rate of return were:

	Expected rate of return at year end 31 January 2003	Fair value at year end 31 January 2003 £000	Expected rate of return at year end 31 January 2002	Fair value at year end 31 January 2002 £000
Equities	7.9%	652	6.8%	1,018
Bonds	5.5%	192	5.2%	204
Cash	4.0%	33	4.0%	2
Total fair value of assets		877		1,224
Actuarial value of liability		1,030		931
(Deficit)/surplus in the scheme		(153)		293
Useable surplus		–		146
Related deferred tax asset/(liability)		46		(44)
Net pension (deficit)/asset		(107)		102

Reserves note	At year end 31 January 2003 £000	At year end 31 January 2002 £000
Profit and loss reserve excluding pension asset	30,610	28,488
Pension reserve	(107)	102
Profit and loss reserve	30,503	28,590

Amounts Included within Operating Profit

	At year end 31 January 2003 £000
Current Service Cost	10
Past Service Cost	–
	10

24. Pension schemes (continued)

Analysis of amount credited to other finance income

	At year end 31 January 2003 £000
Expected return on pension scheme	80
Interest on pension scheme liabilities	(51)
	29

Analysis of amount recognised in statement of total recognised gains and losses

	At year end 31 January 2003 £000
Actual returns less expected return	(427)
Experience gains and losses on liabilities	(63)
Changes in assumptions	25
Actuarial gain recognised in STRGL	(465)

Movement in scheme at beginning of year

	At year end 31 January 2003 £000
Surplus in scheme at beginning of year	293
Movements in year	
Current Service cost	(10)
Contributions	-
Past service cost	-
Other finance costs	29
Actuarial gain	(465)
Deficit in scheme at end of year	(153)

History of experience of gains and losses

	At year end 31 January 2003 £000
Difference between expected and actual return on scheme assets:	
Amount (£)	(427)
Percentage of scheme assets	49%
Experience gains or losses on scheme liabilities:	
Amount (£)	(63)
Percentage of scheme assets	7%
Total actuarial gain in the statement of total gains and losses:	
Amount (£)	(465)
Percentage of scheme assets	53%

Five Year Financial Record

	1999 £000	2000 £000	2001 £000	2002 £000	2003 £000
Business Transacted	64,833	72,810	86,482	89,929	88,828
Turnover	23,629	26,479	31,892	34,430	34,996
Operating profit	6,066	6,188	8,449	10,397	8,793
Profit on ordinary activities before taxation	5,852	6,007	7,620	9,206	7,846
Corporation tax	(1,796)	(1,758)	(2,319)	(2,775)	(2,293)
Profit after taxation	4,056	4,249	5,301	6,431	5,553
Assets employed					
Fixed assets	2,891	2,980	2,873	2,768	2,646
Current assets	31,723	40,052	51,166	60,524	62,215
	34,614	43,032	54,039	63,292	64,861
Creditors	(8,441)	(15,229)	(23,797)	(29,942)	(29,398)
Shareholders' funds	26,173	27,803	30,242	33,350	35,463
Earnings per Ordinary share	33.3p	34.9p	43.9p	53.5p	46.0p
Dividends per Ordinary share	20.0p	21.0p	23.5p	27.0p	28.0p
Statistics					
Operating profit as a percentage of business transacted	9.4%	8.5%	9.8%	11.6%	9.9%
Profit on ordinary activities before taxation as a percentage of shareholders funds	22.4%	21.6%	25.2%	27.6%	22.1%
Net borrowings as a percentage of shareholders' funds	18.0%	35.8%	58.9%	69.5%	67.1%

The results for the years ended 31 January 1999 and 2000 have not been restated for the adoption of FRS 19. Hence, these results are not directly comparable to 2001, 2002 and 2003.

Notice of Meeting

Notice is hereby given that the sixty-fifth Annual General Meeting of S & U plc will be held at Nuthurst Grange Hotel, Hockley Heath, Warwickshire B94 5NL on Wednesday 4 June 2003 at 11.30 a.m. for the following purposes:

1. To receive and consider the financial statements for the year ended 31 January 2003, together with the reports of the directors and auditors thereon.

2. To declare a final ordinary dividend of 20.0p per share.

3. To re-elect as a director Mr A M V Coombs who retires by rotation.

4. To re-elect as a director Mr K R Smith who retires by rotation.

5. To re-elect as a director Mr D Markou who retires by rotation.

6. To approve the report of the board on remuneration policy.

7. To re-appoint Deloitte & Touche as auditors of the company.

8. To authorise the directors to fix the remuneration of the auditors.

By Order of the Board

E D Maiden
Secretary
2 April 2003

Notes:

1. Any member of the company entitled to attend and vote at this meeting may appoint a person or persons as a proxy to attend and, on a poll, to vote in his stead. A proxy need not be a member of the company. Proxy forms must be lodged with the registrars not later than 48 hours before the time fixed for the meeting.

2. In accordance with the company's articles of association, holders of the 6% and 31.5% Cumulative Preference Shares are not entitled to attend or vote in respect of these shares at this Annual General Meeting.

3. The register of directors' interests required to be kept by the Companies Act 1985 will be available for inspection at the Annual General Meeting.

Locations

BACUP

BIRMINGHAM

BRISTOL

DUNSTABLE

EDINBURGH

FALMOUTH

GRIMSBY

HEREFORD

IPSWICH

LEICESTER

LONDON

NEATH

NEWCASTLE-ON-TYNE

NEWTON ABBOT

NOTTINGHAM

PENMAENMAWR

PENRITH

PETERBOROUGH

SHEFFIELD

SOUTHAMPTON

STOKE-ON-TRENT

WOLVERHAMPTON

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