

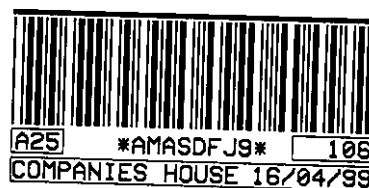
**SIGNED
COPY**

Z Hinchliffe & Sons Limited

**Directors' report and consolidated
financial statements**

30 June 1998

Registered number 78708



Notice of meeting

Notice is hereby given that the annual general meeting of the company will be held at the registered office of the company, Hartcliffe Mills, Denby Dale, near Huddersfield on 27 November 1998 at 2pm for the following purposes:

- 1 to receive and adopt the report of the directors and the audited financial statements for the year ended 30 June 1998.
- 2 to declare a dividend.
- 3 to re-appoint the auditors, KPMG, for the ensuing year.
- 4 to transact any other business of the company.

By order of the board of directors



GL Ross
Secretary

22 October 1998

A member entitled to attend and vote is entitled to appoint a proxy (one or more proxies) to attend and vote instead of him. A proxy need not be a member.

Directors' report and consolidated financial statements

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Company information

Directors

GP Wilby	Chairman
JR Hinchliffe	
JH Hinchliffe	
GA Wilby	

Secretary

GL Ross

Registered office

Hartcliffe Mills
Denby Dale
Huddersfield
HD8 8QL

Bankers

Midland Bank plc
Cloth Hall Street
Huddersfield
HD1 2ES

Auditors

KPMG
Chartered Accountants
Station Street Buildings
Huddersfield
HD1 1LZ

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 1998.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for safeguarding the assets of the group and to prevent and detect fraud and other irregularities.

Principal activity

During the year the group continued to trade as yarn spinners.

Business review

The directors consider the results of the group to be satisfactory in view of the difficult trading conditions and decline in raw material prices.

Proposed dividend

The directors recommend the following dividends:

	£
On cumulative preference shares	1,050
On ordinary shares	19,950
	21,000

Directors' report *(continued)*

Directors and directors' interests

The directors who have held office throughout the financial year are shown on page 1. The interests of the directors holding office at 30 June 1998 in the shares of the group were as follows:

Z Hinchliffe & Sons Limited

	Ordinary shares of £1 each		Cumulative preference shares of £1 each	
	30 June 1998	30 June 1997	30 June 1998	30 June 1997
GP Wilby	2,561	60,561	515	515
JR Hinchliffe	12,591	12,591	4,778	4,778
JH Hinchliffe	12,592	12,592	4,777	4,777
GA Wilby	60,583	2,583	4,647	4,647

Harold Hinchliffe Limited

	Ordinary shares of 5p each		Cumulative preference shares of 5p each	
	30 June 1998	30 June 1997	30 June 1998	30 June 1997
GP Wilby	-	-	-	-
JR Hinchliffe	6,680	6,680	51,399	51,399
JH Hinchliffe	6,680	6,680	51,399	51,399
GA Wilby	-	-	-	-

Employees

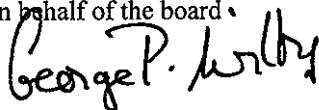
The group has continued to maintain and encourage employee involvement in those aspects of the group's affairs which are of direct concern to them using a variety of communication processes.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. They are eligible for promotion and, within the limits of their disabilities, are given equal consideration with other applicants.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board



GP Wilby
Director

22 October 1998



Station Street Buildings
Huddersfield
HD1 1LZ

Auditors' report to the members of Z Hinchliffe & Sons Limited

We have audited the financial statements on pages 5 to 17

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature of the KPMG firm, written in a cursive, stylized font.

KPMG
*Chartered Accountants
Registered Auditors*

22 October 1998

Consolidated profit and loss account

for the year ended 30 June 1998

	<i>Note</i>	1998 £	1997 £
Turnover	2	18,894,512	24,386,517
Cost of sales		(15,413,589)	(20,257,368)
Gross profit		3,480,923	4,129,149
Distribution costs		(938,837)	(943,487)
Administrative expenses		(1,454,597)	(1,483,144)
Other operating income		40,242	18,090
Operating profit		1,127,731	1,720,608
Interest receivable	6	594,597	728,220
Interest payable	6	(509,072)	(347,110)
Profit on ordinary activities before taxation	3-6	1,213,256	2,101,718
Tax on profit on ordinary activities	7	(522,991)	(536,621)
Profit for the financial year		690,265	1,565,097
Dividends proposed	8	(21,000)	(21,000)
Retained profit for the financial year	17	669,265	1,544,097

There are no recognised gains or losses other than the historical cost profit for the year stated above. A statement of the movements on shareholders' funds in reserves is set out in note 17.

Consolidated balance sheet

at 30 June 1998

	Note	1998 £	£	1997 £	£
Fixed assets					
Tangible assets	9	6,331,197		6,034,340	
Investments	10	4,950,250		4,950,250	
			<u>11,281,447</u>		<u>10,984,590</u>
Current assets					
Stocks	11	8,857,059		9,473,545	
Debtors	12	5,963,944		6,884,505	
Cash and short term deposits		1,517,048		1,431,097	
			<u>16,338,051</u>		<u>17,789,147</u>
Creditors: amounts falling due within one year	13	(6,763,180)		(8,540,101)	
Net current assets			<u>9,574,871</u>		<u>9,249,046</u>
Total assets less current liabilities			<u>20,856,318</u>		<u>20,233,636</u>
Creditors: amounts falling due after more than one year	14		(3,340)		(4,340)
Provisions for liabilities and charges	15		(438,751)		(484,334)
Net assets			<u>20,414,227</u>		<u>19,744,962</u>
Capital and reserves					
Called up share capital	16	254,968		254,968	
Profit and loss account		20,159,259		19,489,994	
Shareholders' funds	17				
Equity		20,384,227		19,714,962	
Non-equity		30,000		30,000	
			<u>20,414,227</u>		<u>19,744,962</u>

Company balance sheet

at 30 June 1998

	Note	1998		1997	
		£	£	£	£
Fixed assets					
Tangible assets	9		5,608,350		5,248,492
Investments	10		2,787,130		2,787,130
Current assets			8,395,480		8,035,622
Stocks	11	6,900,107		8,036,625	
Debtors	12	5,578,439		6,133,970	
Cash at bank and in hand		621,016		3,083	
		13,099,562		14,173,678	
Creditors: amounts falling due within one year	13	(4,983,846)		(6,868,139)	
Net current assets			8,115,716		7,305,539
Total assets less current liabilities			16,511,196		15,341,161
Provisions for liabilities and charges	15		(438,751)		(484,334)
Net assets			16,072,445		14,856,827
Capital and reserves					
Called up share capital	16		254,968		254,968
Profit and loss account			15,817,477		14,601,859
Shareholders' funds	17				
Equity		16,042,445		14,826,827	
Non-equity		30,000		30,000	
			16,072,445		14,856,827

These financial statements were approved by the board of directors on 22 October 1998 and were signed on its behalf by:

George P. Wilby

GP Wilby
Director

John Hinchliffe

JR Hinchliffe
Director

Consolidated cash flow statement

for the year ended 30 June 1998

	Note	1998 £	£	1997 £	£
Net cash inflow from operating activities	19		3,321,778		1,344,067
Returns on investments and servicing of finance					
Interest received		594,597		728,220	
Interest paid		(514,890)		(347,110)	
Preference dividend paid		(1,050)		(1,050)	
		<u>78,657</u>		<u>380,060</u>	
Taxation					
UK corporation tax paid		(884,823)		(612,310)	
Overseas tax paid		(85,037)		(10,791)	
		<u>(969,860)</u>		<u>(623,101)</u>	
Capital expenditure					
Payments to acquire tangible fixed assets		(1,216,681)		(801,577)	
Receipts from sale of tangible fixed assets		51,082		6,950	
		<u>(1,165,599)</u>		<u>(794,627)</u>	
Acquisitions			-		(3,104,924)
Equity dividends paid			(19,950)		(19,950)
Increase/(decrease) in cash	20		<u><u>1,245,026</u></u>		<u><u>(2,818,475)</u></u>

Reconciliation of net cash flow to movement in net debt (note 20)

	1998 £	1997 £
Increase/(decrease) in cash	1,245,026	(2,818,475)
Net (debt)/funds at beginning of year	(4,302,739)	3,465,986
Transfer to fixed asset investments	-	(4,950,250)
	<u>(3,057,713)</u>	<u>(4,302,739)</u>
Net debt at end of year		

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The group's financial statements consolidate the financial statements of Z Hinchliffe & Sons Limited and all its subsidiary undertakings. These financial statements are made up to 30 June 1998. Uniform accounting policies are adopted throughout the group. Unrealised profit arising on trading between group companies is eliminated on consolidation.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off. Dividends received are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

In accordance with Section 230(4) of the Companies Act 1985 Z Hinchliffe & Sons Limited is exempt from the requirement to present its own profit and loss account.

The amount of the profit for the financial year dealt with in the financial statements of Z Hinchliffe & Sons Limited is £1,236,618 (1997: £1,031,244).

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings is eliminated by immediate write off to reserves on acquisition.

Fixed assets and depreciation

Tangible assets

Depreciation is provided by the group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	Between 2% and 4% per annum
Plant and machinery	-	10% or 20% per annum
Motor vehicles	-	20% per annum

No depreciation is provided on freehold land.

Investments

Fixed asset investments are stated at cost unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate adjustment is made.

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Pension costs

The group operates four pension schemes on behalf of employees, one of which is a defined benefit scheme, the others being money purchase schemes.

The pension scheme charge for the year is disclosed in note 5. The defined benefit scheme's charge is calculated on the basis of triennial actuarial independent valuations. The most recent valuation of the defined benefit scheme was at 5 April 1997, and was by PR Barnes FIA of Barnes & Sherwood Limited. The valuation assumed a projected unit method of funding, with valuation rate of interest of 9% per annum in deferment, 8% per annum in payment, and 7.5% per annum salary increases. The market value of the scheme assets at 5 April 1997 was £1,160,077. The funding level of the scheme taking the value of the assets as a percentage of the past service liabilities with allowances for future salary increases to retirement or earlier exit, was 86%.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods manufactured by the group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the total amount receivable for goods sold to external customers, less returns and allowances and excluding value added tax.

2 Particulars of turnover

	1998 £	1997 £
<i>Market analysis</i>		
Home	15,400,754	20,220,591
Export	3,493,758	4,165,926
	18,894,512	24,386,517

Notes (continued)

3 Profit on ordinary activities before taxation

	1998 £	1997 £
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration - audit	27,715	27,040
- other services	20,500	40,225
Depreciation	881,860	762,536
Exchange loss	3,077	4,034
Rents receivable from property	(36,653)	(34,075)
Profit on disposal of fixed assets	(13,118)	(6,950)

4 Remuneration of directors

	1998 £	1997 £
Directors' emoluments:		
Remuneration as executives	517,599	475,498
Contributions to pension schemes	87,558	60,255
	605,157	535,753

The emoluments, excluding pension contributions, of the highest paid director were £164,581 (1997: £154,515). In addition, the highest paid director received £16,300 (1997: £7,900) in respect of contributions into personal pension schemes. Retirement benefit are accruing to the four directors under money purchase schemes.

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	1998	1997
Production	351	364
Distribution and administration	35	50
	386	414

The aggregate payroll costs of these persons were as follows:

	1998 £	1997 £
Wages and salaries	4,693,424	4,230,394
Social security costs	397,108	340,449
Other pension costs	232,276	161,319
	5,322,808	4,732,162

Notes (continued)

6 Interest

	1998 £	1997 £
Interest receivable		
Bank interest	594,597	727,092
Invoice discounting arrangements	-	1,128
	594,597	728,220
Interest payable		
On bank overdraft wholly repayable within five years	509,072	347,110

7 Taxation

	1998 £	1997 £
UK corporation tax at 31% (1997 : 32.5%) on the profit for the year on ordinary activities	404,603	535,000
Deferred taxation	(46,266)	(48,181)
Overseas taxation	163,971	48,885
Adjustment relating to an earlier year	683	917
	522,991	536,621

8 Dividends

	1998 £	1997 £
Preference shares:		
Final proposed	1,050	1,050
Ordinary shares:		
Final proposed	19,950	19,950
	21,000	21,000

Notes (continued)

9 Tangible fixed assets

Group	Freehold land and buildings £	Plant and machinery £	Total £
Cost			
At beginning of year	4,334,784	12,819,483	17,154,267
Additions	633,586	583,095	1,216,681
Disposals	-	(171,462)	(171,462)
At end of year	4,968,370	13,231,116	18,199,486
Depreciation			
At beginning of year	1,511,607	9,608,320	11,119,927
Charge for year	168,222	713,638	881,860
On disposals	-	(133,498)	(133,498)
At end of year	1,679,829	10,188,460	11,868,289
Net book value			
At end of year	3,288,541	3,042,656	6,331,197
At beginning of year	2,823,177	3,211,163	6,034,340
Company			
	Freehold land and buildings £	Plant and machinery £	Total £
Cost			
At beginning of year	4,207,144	10,625,002	14,832,146
Additions	633,586	501,548	1,135,134
Disposals	-	(114,767)	(114,767)
At end of year	4,840,730	11,011,783	15,852,513
Depreciation			
At beginning of year	1,474,622	8,109,032	9,583,654
Charge for year	165,670	578,299	743,969
On disposals	-	(83,460)	(83,460)
At end of year	1,640,292	8,603,871	10,244,163
Net book value			
At end of year	3,200,438	2,407,912	5,608,350
At beginning of year	2,732,522	2,515,970	5,248,492

Notes (continued)

10 Fixed asset investments

Group	Fixed interest securities £
-------	--------------------------------

Cash and net book value

At beginning and end of year	4,950,250
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Listed fixed interest securities with a cost of £4,950,250 had a market value of £5,020,000 at 30 June 1998 (1997: £4,986,875).

Company	Shares in group undertakings £
Cost and net book value	
At beginning and end of year	2,787,130

	Country of registration or incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Z Hinchliffe & Sons AG, Zug	Switzerland	Textiles	100% ordinary
John Woodhead (Dobroyd Mills) Limited	England	Textiles	100% ordinary
John Woodhead (Dobroyd Mills) USA Inc	USA	Dormant	100% ordinary

11 Stocks

	Group		Company	
	1998 £	1997 £	1998 £	1997 £
Raw materials and consumables	5,029,457	6,811,370	4,533,580	6,115,883
Work in progress	508,170	702,504	256,023	392,998
Finished yarn	3,319,432	1,959,671	2,110,504	1,527,744
	<u>8,857,059</u>	<u>9,473,545</u>	<u>6,900,107</u>	<u>8,036,625</u>

12 Debtors

	Group		Company	
	1998 £	1997 £	1998 £	1997 £
Amounts falling due within one year				
Trade debtors	5,048,012	6,266,792	2,767,153	3,113,418
Tax recoverable	255,612	27,764	255,612	27,764
Amounts owed by subsidiary undertakings	-	-	2,407,403	2,951,231
Other debtors	237,001	235,258	-	-
Prepayments and accrued income	423,319	354,691	148,271	41,557
	<u>5,963,944</u>	<u>6,884,505</u>	<u>5,578,439</u>	<u>6,133,970</u>

Notes (continued)

13 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Bank overdrafts	4,574,761	5,733,836	3,236,821	5,063,254
Trade creditors	365,335	956,772	278,104	254,792
Amounts owed to subsidiary undertakings	-	-	-	84,738
Corporation tax	326,887	530,374	326,887	530,374
Foreign taxes	163,166	133,117	-	-
Other taxes and social security	738,767	473,113	682,126	391,126
Accruals and deferred income	573,264	691,889	438,908	522,855
Dividends proposed	21,000	21,000	21,000	21,000
	<u>6,763,180</u>	<u>8,540,101</u>	<u>4,983,846</u>	<u>6,868,139</u>

14 Creditors: amounts falling due after more than one year

Group	1998	1997
	£	£
Accruals and deferred income	<u>3,340</u>	<u>4,340</u>

15 Provisions for liabilities and charges

	Deferred taxation £
Group and company	
At beginning of year	484,334
Credit for the year	(46,266)
Prior year charge	683
	<u>438,751</u>
At end of year	

The full potential liability for deferred taxation is set out below:

	1998	1997
	£	£
Difference between accumulated depreciation and capital allowances	444,001	489,584
Advance corporation tax recoverable	(5,250)	(5,250)
	<u>438,751</u>	<u>484,334</u>

No deferred taxation has been provided on earnings to be remitted to the parent company by Z Hinchliffe & Sons Limited AG, Zug, an overseas subsidiary.

Notes (continued)

16 Called up share capital

	1998 £	1997 £
<i>Authorised</i>		
5% (now 3.5% plus tax credit) cumulative preference shares of £1 each	30,000	30,000
Ordinary shares of £1 each	245,000	245,000
	275,000	275,000
<i>Allotted, called up and fully paid</i>		
5% (now 3.5% plus tax credit) cumulative preference shares of £1 each	30,000	30,000
Ordinary shares of £1 each	224,968	224,968
	254,968	254,968

The preference shares are entitled to a fixed cumulative dividend and, in any future winding up, a right to repayment of £1 per share. Such a repayment would be in priority to any other shares. These shares only carry voting rights at general meetings on any resolutions relating to their rights and privileges.

17 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Profit for the financial year	690,265	1,565,097
Dividends	(21,000)	(21,000)
	669,265	1,544,097
Retained profit	669,265	1,544,097
Goodwill written off on acquisition	-	(1,047,831)
Opening shareholders' funds	19,744,962	19,248,696
	20,414,227	19,744,962
Closing shareholders' funds	20,414,227	19,744,962

The cumulative amount of goodwill written off is £1,047,831 (1997: £1,047,831).

18 Commitments

Capital commitments at the end of the financial year for which no provision has been made are as follows:

	Group		Company	
	1998 £	1997 £	1998 £	1997 £
Contracted	-	10,219	-	-

Notes (continued)

19 Reconciliation of operating profit to net cash inflow from operating activities

	1998 £	1997 £
Operating profit	1,127,731	1,720,608
Depreciation charge	881,860	762,536
Profit on sale of tangible fixed assets	(13,118)	(6,950)
Decrease/(increase) in stocks	616,486	(326,474)
Decrease/(increase) in debtors	1,148,409	(518,768)
Decrease in creditors	(439,590)	(286,885)
Net cash inflow from operating activities	3,321,778	1,344,067

20 Analysis of net debt

	At beginning of year £	Cash flow £	At end of year £
Cash at bank and in hand	1,431,097	85,951	1,517,048
Bank overdrafts	(5,733,836)	1,159,075	(4,574,761)
Net debt	(4,302,739)	1,245,026	(3,057,713)

21 Ultimate parent undertaking

The company is a subsidiary of Harold Hinchliffe Limited which is the ultimate parent company and is registered in England and Wales.

Copies of the financial statements of Harold Hinchliffe Limited may be obtained from:

Registrar of Companies
Companies House
Crown Way
Maindy
Cardiff
CF4 3UZ