

**SIGNED
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Z Hinchliffe & Sons Limited

**Directors' report and consolidated
financial statements**

Registered number 78708

30 June 1999



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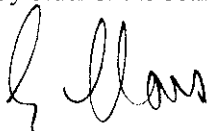
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Notice of meeting

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 Friday 10 December 1999 at 12pm 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 1999.
- 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

10 December 1999

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.

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

HSBC
Cloth Hall Street
Huddersfield
HD1 2ES

Auditors

KPMG
1 The Embankment
Neville Street
Leeds
LS1 4DW

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 1999.

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 the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard 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 uncertainty of 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 1999 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 1999	30 June 1998	30 June 1999	30 June 1998
GP Wilby	2,561	2,561	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	60,583	4,647	4,647

Harold Hinchliffe Limited

	Ordinary shares of 5p each		Cumulative preference shares of 5p each	
	30 June 1999	30 June 1998	30 June 1999	30 June 1998
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.

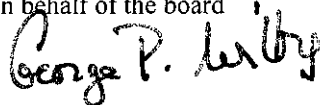
Year 2000

The directors have undertaken a review of the likely impact of the Year 2000 on the company's computer systems and business. The directors are satisfied, based on the undertakings received, that the company's computers and other business systems will not be adversely affected by Year 2000 compliance and assess that any associated costs are likely to be insignificant.

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

10 December 1999



1 The Embankment
Neville Street
Leeds
LS1 4DW

Report of the auditors 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 1999 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 dark ink, appearing as 'KPMG' with a stylized flourish.

KPMG
Chartered Accountants
Registered Auditors

10 December 1999

Consolidated profit and loss account

for the year ended 30 June 1999

	Note	1999 £	1998 £
Turnover	2	14,965,162	18,894,512
Cost of sales		(12,078,631)	(15,413,589)
Gross profit		2,886,531	3,480,923
Distribution costs		(931,580)	(938,837)
Administrative expenses		(1,252,931)	(1,454,597)
Other operating income		39,463	40,242
Operating profit		741,483	1,127,731
Interest receivable	6	508,658	594,597
Interest payable	6	(252,371)	(509,072)
Profit on ordinary activities before taxation	3	997,770	1,213,256
Tax on profit on ordinary activities	7	(418,510)	(522,991)
Profit for the financial year		579,260	690,265
Dividends proposed	8	(21,000)	(21,000)
Retained profit for the financial year	17	558,260	669,265

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 is set out in note 17.

Consolidated balance sheet

at 30 June 1999

	Note	1999		1998	
		£	£	£	£
Fixed assets					
Tangible assets	9		5,501,294		6,331,197
Investments	10		4,941,350		4,950,250
			10,442,644		11,281,447
Current assets					
Stocks	11	6,929,631		8,857,059	
Debtors	12	4,788,410		5,963,944	
Cash and short term deposits		2,363,643		1,517,048	
		14,081,684		16,338,051	
Creditors: amounts falling due within one year	13	(3,200,383)		(6,763,180)	
Net current assets			10,881,301		9,574,871
Total assets less current liabilities			21,323,945		20,856,318
Creditors: amounts falling due after more than one year	14	(2,340)		(3,340)	
Provisions for liabilities and charges	15	(349,118)		(438,751)	
Net assets			20,972,487		20,414,227
Capital and reserves					
Called up share capital	16	254,968		254,968	
Profit and loss account		20,717,519		20,159,259	
Shareholders' funds	17				
Equity		20,942,487		20,384,227	
Non-equity		30,000		30,000	
			20,972,487		20,414,227

Company balance sheet

at 30 June 1999

	Note	1999		1998	
		£	£	£	£
Fixed assets					
Tangible assets	9		4,909,461		5,608,350
Investments	10		1,488,135		2,787,130
Current assets			6,397,596		8,395,480
Stocks	11	5,284,126		6,900,107	
Debtors	12	4,822,662		5,578,439	
Cash at bank and in hand		1,071,920		621,016	
		11,178,708		13,099,562	
Creditors: amounts falling due within one year	13	(1,673,015)		(4,983,846)	
Net current assets			9,505,693		8,115,716
Total assets less current liabilities			15,903,289		16,511,196
Provisions for liabilities and charges	15		(349,118)		(438,751)
Net assets			15,554,171		16,072,445
Capital and reserves					
Called up share capital	16		254,968		254,968
Profit and loss account			15,299,203		15,817,477
Shareholders' funds					
Equity		15,524,171		16,042,445	
Non-equity		30,000		30,000	
			15,554,171		16,072,445

These financial statements were approved by the board of directors on 10 December 1999 and were signed on its behalf by:



GP Wilby
Director



JR Hinchliffe
Director

Consolidated cash flow statement
for the year ended 30 June 1999

	Note	1999	1998
		£	£
Net cash inflow from operating activities	18	4,320,175	3,321,778
Returns on investments and servicing of finance			
Interest received		508,658	594,597
Interest paid		(252,371)	(514,890)
Preference dividend paid		(1,050)	(1,050)
		<u>255,237</u>	<u>78,657</u>
Taxation			
UK corporation tax paid		(74,058)	(884,823)
Overseas tax paid		(38,638)	(85,037)
		<u>(112,696)</u>	<u>(969,860)</u>
Capital expenditure			
Payments to acquire tangible fixed assets		(44,453)	(1,216,681)
Receipts from sale of tangible fixed assets		8,258	51,082
		<u>(36,195)</u>	<u>(1,165,599)</u>
Equity dividends paid		(19,950)	(19,950)
		<u> </u>	<u> </u>
Increase in cash	19	4,406,571	1,245,026
		<u> </u>	<u> </u>

Reconciliation of net cash flow to movement in net debt (note 19)

	1999	1998
	£	£
Increase in cash	4,406,571	1,245,026
Net debt at beginning of year	(3,057,713)	(4,302,739)
	<u> </u>	<u> </u>
Net funds/(debt) at end of year	1,348,858	(3,057,713)
	<u> </u>	<u> </u>

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 1999. 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 loss for the financial year dealt with in the financial statements of Z Hinchliffe & Sons Limited is £497,274 (1998: profit £1,236,618).

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%.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to trading profit over the estimated useful life of the assets to which they relate.

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

	1999 £	1998 £
<i>Market analysis</i>		
Home	11,489,057	15,400,754
Export	3,476,105	3,493,758
	14,965,162	18,894,512

Notes (continued)

3 Profit on ordinary activities before taxation

	1999 £	1998 £
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration - audit	25,000	27,715
- other services	21,750	20,500
Depreciation	874,998	881,860
Exchange loss	13,997	3,077
Rents receivable from property	(39,446)	(40,242)
Profit on disposal of fixed assets	-	(13,118)
Amortisation of government grants	(1,000)	(1,000)
	<u> </u>	<u> </u>

4 Remuneration of directors

	1999 £	1998 £
Directors' emoluments:		
Remuneration as executives	430,560	517,599
Contributions to pension schemes	83,022	87,558
	<u> </u>	<u> </u>

The emoluments, excluding pension contributions, of the highest paid director were £131,971 (1998: £164,581). In addition, the highest paid director received £Nil (1998: £16,300) 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:

	1999	1998
Production	314	351
Distribution and administration	29	35
	<u> </u>	<u> </u>
	343	386
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	1999 £	1998 £
Wages and salaries	3,877,361	4,693,424
Social security costs	310,309	397,108
Other pension costs	235,788	232,276
	<u> </u>	<u> </u>
	4,423,458	5,322,808
	<u> </u>	<u> </u>

Notes (continued)

6 Interest

	1999 £	1998 £
Interest receivable		
Bank interest	508,658	594,597
	<u>508,658</u>	<u>594,597</u>
Interest payable		
On bank overdraft wholly repayable within five years	252,371	509,072
	<u>252,371</u>	<u>509,072</u>

7 Taxation

	1999 £	1998 £
UK corporation tax at 31% (1998 : 31%) on the profit for the year on ordinary activities	382,435	404,603
Deferred taxation	(94,883)	(46,266)
Overseas taxation	142,975	163,971
Adjustment relating to an earlier year	(12,017)	683
	<u>418,510</u>	<u>522,991</u>

8 Dividends

	1999 £	1998 £
Preference shares:		
Final proposed	1,050	1,050
Ordinary shares:		
Final proposed	19,950	19,950
	<u>21,000</u>	<u>21,000</u>

Notes (continued)

9 Tangible fixed assets

Group	Freehold land and buildings £	Plant and machinery £	Total £
Cost			
At beginning of year	4,968,370	13,231,116	18,199,486
Additions	7,175	37,278	44,453
Disposals	-	(26,733)	(26,733)
At end of year	4,975,545	13,241,661	18,217,206
Depreciation			
At beginning of year	1,679,829	10,188,460	11,868,289
Charge for year	168,223	706,775	874,998
On disposals	-	(27,375)	(27,375)
At end of year	1,848,052	10,867,860	12,715,912
Net book value			
At end of year	3,127,493	2,373,801	5,501,294
At beginning of year	3,288,541	3,042,656	6,331,197
Company			
	Freehold land and buildings £	Plant and machinery £	Total £
Cost			
At beginning of year	4,840,730	11,011,783	15,852,513
Additions	7,175	37,278	44,453
Disposals	-	(31,405)	(31,405)
At end of year	4,847,905	11,017,656	15,865,561
Depreciation			
At beginning of year	1,640,292	8,603,871	10,244,163
Charge for year	165,671	573,641	739,312
On disposals	-	(27,375)	(27,375)
At end of year	1,805,963	9,150,137	10,956,100
Net book value			
At end of year	3,041,942	1,867,519	4,909,461
At beginning of year	3,200,438	2,407,912	5,608,350

Notes (continued)

10 Fixed asset investments

Group	Fixed interest securities £
<i>Cost and net book value</i>	
At beginning of year	4,950,250
Disposals during the year	(8,900)
At end of year	4,941,350

Listed fixed interest securities with a cost of £4,941,350 had a market value of £5,323,989 at 30 June 1999 (1998: £5,020,000).

Company	Shares in group undertakings £
<i>Cost</i>	
At beginning and end of year	2,787,130
<i>Provision</i>	
At beginning of year	-
Additions	1,298,995
At end of year	1,298,995
<i>Net book value</i>	
At 30 June 1999	1,488,135
At 30 June 1998	2,787,130

	Country of registration or incorporation	Principal activity	Class and percentage of shares held
<i>Subsidiary undertakings</i>			
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	
	1999 £	1998 £	1999 £	1998 £
Raw materials and consumables	3,836,942	5,029,457	3,323,530	4,533,580
Work in progress	381,609	508,170	258,897	256,023
Finished yarn	2,711,080	3,319,432	1,701,699	2,110,504
	6,929,631	8,857,059	5,284,126	6,900,107

Notes (continued)

12 Debtors

	Group		Company	
	1999	1998	1999	1998
Amounts falling due within one year	£	£	£	£
Trade debtors	4,035,402	5,048,012	1,789,211	2,767,153
Tax recoverable	120,303	255,612	120,303	255,612
Amounts owed by subsidiary undertakings	-	-	2,737,171	2,407,403
Other debtors	224,175	237,001	-	-
Prepayments and accrued income	408,530	423,319	175,977	148,271
	<u>4,788,410</u>	<u>5,963,944</u>	<u>4,822,662</u>	<u>5,578,439</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	1999	1998	1999	1998
	£	£	£	£
Bank overdrafts	1,014,785	4,574,761	-	3,236,821
Trade creditors	276,891	365,335	188,196	278,104
Amounts owed to subsidiary undertakings	-	-	94,565	-
Corporation tax	362,385	326,887	362,385	326,887
Foreign taxes	267,503	163,166	-	-
Other taxes and social security	707,274	738,767	604,591	682,126
Accruals and deferred income	550,545	573,264	402,278	438,908
Dividends proposed	21,000	21,000	21,000	21,000
	<u>3,200,383</u>	<u>6,763,180</u>	<u>1,673,015</u>	<u>4,983,846</u>

14 Creditors: amounts falling due after more than one year

Group	1999	1998
	£	£
Accruals and deferred income	2,340	3,340

15 Provisions for liabilities and charges

	Deferred taxation £
Group and company	
At beginning of year	438,751
Credit for the year	(89,633)
At end of year	<u>349,118</u>

Notes (continued)

15 Provisions for liabilities and charges (continued)

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

	1999 £	1998 £
Difference between accumulated depreciation and capital allowances	349,118	444,001
Advance corporation tax recoverable	-	(5,250)
	349,118	438,751

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

16 Called up share capital

	1999 £	1998 £
<i>Authorised</i>		
5% 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% 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

Group	1999 £	1998 £
Profit for the financial year	579,260	690,265
Dividends	(21,000)	(21,000)
	558,260	669,265
Retained profit	558,260	669,265
Opening shareholders' funds	20,414,227	19,744,962
	20,972,487	20,414,227
Closing shareholders' funds	20,972,487	20,414,227

The cumulative amount of goodwill written off is £1,047,831 (1998: £1,047,831).

Notes (continued)

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

	1999 £	1998 £
Operating profit	741,483	1,127,731
Depreciation charge	874,998	881,860
Profit on sale of tangible fixed assets	-	(13,118)
Decrease in stocks	1,927,428	616,486
Decrease in debtors	1,197,733	1,148,409
Decrease in creditors	(421,467)	(439,590)
Net cash inflow from operating activities	4,320,175	3,321,778

19 Analysis of net debt

	At beginning of year £	Cash flow £	At end of year £
Cash at bank and in hand	1,517,048	846,595	2,363,643
Bank overdrafts	(4,574,761)	3,559,976	(1,014,785)
Net funds/(debt)	(3,057,713)	4,406,571	1,348,858

20 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