

SIGNED COPY

Z Hinchliffe & Sons Limited

**Directors' report and consolidated
financial statements**

Registered number 78708

30 June 2000



Contents

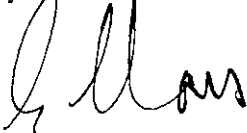
Company information	1
Directors' report	2
Report of the auditors to the members of Z Hinchliffe & Sons Limited	4
Consolidated profit and loss account	5
Consolidated balance sheet	6
Company balance sheet	7
Consolidated cash flow statement	8
Notes	9

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 4 December 2000 at 12 noon 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 2000.
- 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

8 November 2000

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 Bank plc
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 2000.

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 uncertain trading conditions worldwide and the 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 2000 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 2000	30 June 1999	30 June 2000	30 June 1999
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 2000	30 June 1999	30 June 2000	30 June 1999
GP Wilby	-	-	-	-
JR Hinchliffe	6,680	6,680	51,399	51,399
JH Hinchliffe	6,680	6,680	51,399	51,399
GA Wilby	-	-	-	-

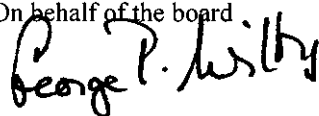
Employees

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

8 November 2000



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 19

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 is not disclosed.

Basis of audit 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 the group's and the company's affairs as at 30 June 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

8 November 2000

Consolidated profit and loss account
for the year ended 30 June 2000

	<i>Note</i>	2000 £	1999 £
Turnover	2	19,732,284	14,965,162
Cost of sales		(15,058,825)	(12,078,631)
Gross profit		4,673,459	2,886,531
Distribution costs		(1,337,361)	(931,580)
Administrative expenses		(1,463,039)	(1,252,931)
Other operating income		51,922	39,463
Operating profit		1,924,981	741,483
Interest receivable	6	491,045	508,658
Interest payable	6	(285,308)	(252,371)
Profit on ordinary activities before taxation	3	2,130,718	997,770
Tax on profit on ordinary activities	7	(502,141)	(418,510)
Profit for the financial year		1,628,577	579,260
Dividends proposed	8	(21,000)	(21,000)
Retained profit for the financial year	17	1,607,577	558,260

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

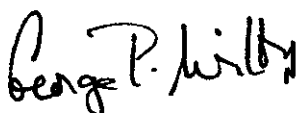
at 30 June 2000

	Note	2000		1999	
		£	£	£	£
Fixed assets					
Tangible assets	9	4,762,268		5,501,294	
Investments	10	4,885,560		4,941,350	
		9,647,828		10,442,644	
Current assets					
Stocks	11	10,120,194		6,929,631	
Debtors	12	6,573,646		4,788,410	
Cash and short term deposits		1,973,008		2,363,643	
		18,666,848		14,081,684	
Creditors: amounts falling due within one year	13	(5,419,502)		(3,200,383)	
Net current assets		13,247,346		10,881,301	
Total assets less current liabilities		22,895,174		21,323,945	
Creditors: amounts falling due after more than one year	14	-		(2,340)	
Provisions for liabilities and charges	15	(315,110)		(349,118)	
Net assets		22,580,064		20,972,487	
Capital and reserves					
Called up share capital	16	254,968		254,968	
Profit and loss account		22,325,096		20,717,519	
Shareholders' funds	17				
Equity		22,550,064		20,942,487	
Non-equity		30,000		30,000	
		22,580,064		20,972,487	

Company balance sheet
at 30 June 2000

	Note	2000		1999	
		£	£	£	£
Fixed assets					
Tangible assets	9		4,309,226		4,909,461
Investments	10		1,131,555		1,488,135
Current assets			5,440,781		6,397,596
Stocks	11	9,189,412		5,284,126	
Debtors	12	6,986,967		4,822,662	
Cash at bank and in hand		2,315		1,071,920	
		16,178,694		11,178,708	
Creditors: amounts falling due within one year	13	(4,513,904)		(1,673,015)	
Net current assets			11,664,790		9,505,693
Total assets less current liabilities			17,105,571		15,903,289
Provisions for liabilities and charges	15		(315,110)		(349,118)
Net assets			16,790,461		15,554,171
Capital and reserves					
Called up share capital	16		254,968		254,968
Profit and loss account			16,535,493		15,299,203
Shareholders' funds					
Equity		16,760,461		15,524,171	
Non-equity		30,000		30,000	
			16,790,461		15,554,171

These financial statements were approved by the board of directors on 8 November 2000 and were signed on its behalf by:



GP Wilby
Director



JR Hinchliffe
Director

Consolidated cash flow statement

for the year ended 30 June 2000

	Note	2000		1999	
		£	£	£	£
Net cash (outflow)/inflow from operating activities	18		(1,744,931)		4,320,175
Returns on investments and servicing of finance					
Interest received		491,045		508,658	
Interest paid		(267,333)		(252,371)	
Preference dividend paid		(1,050)		(1,050)	
			222,662		255,237
Taxation					
UK corporation tax paid		(304,588)		(74,058)	
Overseas tax paid		(295,061)		(38,638)	
			(599,649)		(112,696)
Capital expenditure					
Payments to acquire tangible fixed assets		(166,387)		(44,453)	
Receipts from sale of tangible fixed assets		40,128		(642)	
Receipts from sale of fixed asset investments		55,790		8,900	
			(70,469)		(36,195)
Equity dividends paid			(19,950)		(19,950)
(Decrease)/increase in cash	19		(2,212,337)		4,406,571

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

	2000	1999
	£	£
(Decrease)/increase in cash	(2,212,337)	4,406,571
Funds/(debt) at beginning of year	1,348,858	(3,057,713)
Net (debt)/funds at end of year	(863,479)	1,348,858

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 2000. 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 £1,257,290 (1999: loss £497,274).

Goodwill

Purchased goodwill (both positive and negative) arising on business combinations in respect of acquisitions before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Notes (continued)

2 Particulars of turnover

	2000 £	1999 £
<i>Market analysis</i>		
Home	15,410,615	11,489,057
Export	4,321,669	3,476,105
	<u>19,732,284</u>	<u>14,965,162</u>

3 Profit on ordinary activities before taxation

	2000 £	1999 £
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration - audit	25,625	25,000
- other services	13,100	21,750
Depreciation	873,698	874,998
Exchange loss	69,120	13,997
Rents receivable from property	(49,956)	(39,446)
Profit on disposal of fixed assets	(8,413)	-
Amortisation of government grants	(1,000)	(1,000)
	<u></u>	<u></u>

4 Remuneration of directors

	2000 £	1999 £
Directors' emoluments:		
Remuneration as executives	651,052	430,560
Contributions to pension schemes	87,193	83,022
	<u></u>	<u></u>

The emoluments, excluding pension contributions, of the highest paid director were £182,901 (1999: £131,971). In addition, the highest paid director received £36,071 (1999: £Nil) in respect of contributions into personal pension schemes. Retirement benefits are accruing to the four directors under money purchase schemes.

Notes (continued)

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:

	2000	1999
Production	321	314
Distribution and administration	33	29
	<u>354</u>	<u>343</u>

The aggregate payroll costs of these persons were as follows:

	2000 £	1999 £
Wages and salaries	4,269,526	3,877,361
Social security costs	337,347	310,309
Other pension costs	288,997	235,788
	<u>4,895,870</u>	<u>4,423,458</u>

6 Interest

	2000 £	1999 £
Interest receivable		
Bank interest	491,045	508,658
	<u>491,045</u>	<u>508,658</u>
Interest payable		
On bank overdraft wholly repayable within five years	285,308	252,371
	<u>285,308</u>	<u>252,371</u>

7 Taxation

	2000 £	1999 £
UK corporation tax at 30% (1999 : 31%) on the profit for the year on ordinary activities	523,458	382,435
Deferred taxation	(34,008)	(94,883)
Overseas taxation	115,185	142,975
Adjustment relating to an earlier year	(102,494)	(12,017)
	<u>502,141</u>	<u>418,510</u>

Notes (continued)

8 Dividends

	2000 £	1999 £
Preference shares:		
Final proposed	1,050	1,050
Ordinary shares:		
Final proposed	19,950	19,950
	<u>21,000</u>	<u>21,000</u>

9 Tangible fixed assets

Group	Freehold land and buildings £	Assets in the course of construction £	Plant and Machinery £	Total £
Cost				
At beginning of year	4,975,545	-	13,241,661	18,217,206
Additions	-	7,415	158,972	166,387
Disposals	-	-	(195,948)	(195,948)
	<u>4,975,545</u>	<u>7,415</u>	<u>13,204,685</u>	<u>18,187,645</u>
Depreciation				
At beginning of year	1,848,052	-	10,867,860	12,715,912
Charge for year	168,222	-	705,476	873,698
On disposals	-	-	(164,233)	(164,233)
	<u>2,016,274</u>	<u>-</u>	<u>11,409,103</u>	<u>13,425,377</u>
Net book value				
At end of year	<u>2,959,271</u>	<u>7,415</u>	<u>1,795,582</u>	<u>4,762,268</u>
At beginning of year	<u>3,127,493</u>	<u>-</u>	<u>2,373,801</u>	<u>5,501,294</u>

Notes (continued)

9 Tangible fixed assets (continued)

Company	Freehold land and buildings £	Assets in the course of construction £	Plant and Machinery £	Total £
Cost				
At beginning of year	4,847,905	-	11,017,656	15,865,561
Additions	-	7,415	150,194	157,609
Disposals	-	-	(160,670)	(160,670)
At end of year	4,847,905	7,415	11,007,180	15,862,500
Depreciation				
At beginning of year	1,805,963	-	9,150,137	10,956,100
Charge for year	165,670	-	580,551	746,221
On disposals	-	-	(149,047)	(149,047)
At end of year	1,971,633	-	9,581,641	11,553,274
Net book value				
At end of year	2,876,272	7,415	1,425,539	4,309,226
At beginning of year	3,041,942	-	1,867,519	4,909,461

Notes (continued)

10 Fixed asset investments

Group	Fixed interest securities £
<i>Cost and net book value</i>	
At beginning of year	4,941,350
Disposals during the year	(55,790)
At end of year	4,885,560

Listed fixed interest securities with a cost of £4,885,560 had a market value of £5,007,609 at 30 June 2000 (1999: £4,941,350, market value of £5,323,989).

Company	Shares in group undertakings £
<i>Cost</i>	
At beginning and end of year	2,787,130
Abatement	(7,500)
At end of year	2,779,630
<i>Provision</i>	
At beginning of year	1,298,995
Provided in the year	349,080
At end of year	1,648,075
<i>Net book value</i>	
At 30 June 2000	1,131,555
At 30 June 1999	1,488,135

	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

Notes (continued)

11 Stocks

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Raw materials and consumables	7,305,722	3,836,942	6,953,599	3,323,530
Work in progress	516,338	381,609	474,743	258,897
Finished yarn	2,298,134	2,711,080	1,761,070	1,701,699
	<u>10,120,194</u>	<u>6,929,631</u>	<u>9,189,412</u>	<u>5,284,126</u>

12 Debtors

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Amounts falling due within one year				
Trade debtors	5,928,515	4,035,402	3,174,390	1,789,211
Tax recoverable	-	120,303	-	120,303
Amounts owed by subsidiary undertakings	-	-	3,620,508	2,737,171
Other debtors	221,173	224,175	-	-
Prepayments and accrued income	423,958	408,530	192,069	175,977
	<u>6,573,646</u>	<u>4,788,410</u>	<u>6,986,967</u>	<u>4,822,662</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Bank overdrafts	2,836,487	1,014,785	2,150,732	-
Trade creditors	486,165	276,891	375,893	188,196
Amounts owed to subsidiary undertakings	-	-	375,358	94,565
Corporation tax	358,458	362,385	358,458	362,385
Foreign taxes	87,627	267,503	-	-
Other taxes and social security	828,342	707,274	736,926	604,591
Accruals and deferred income	801,423	550,545	495,537	402,278
Dividends proposed	21,000	21,000	21,000	21,000
	<u>5,419,502</u>	<u>3,200,383</u>	<u>4,513,904</u>	<u>1,673,015</u>

14 Creditors: amounts falling due after more than one year

Group	2000	1999
	£	£
Accruals and deferred income	-	2,340

Notes (continued)

15 Provisions for liabilities and charges

	Deferred taxation £
Group and company	
At beginning of year	349,118
Credit for the year	(34,008)
At end of year	315,110

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

	2000 £	1999 £
Difference between accumulated depreciation and capital allowances	349,118	349,118
Advance corporation tax recoverable	(34,008)	-
	315,110	349,118

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

	2000 £	1999 £
Authorised		
5% cumulative preference shares of £1 each	30,000	30,000
Ordinary shares of £1 each	245,000	245,000
	275,000	275,000
Allotted, called up and fully paid		
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.

Notes (continued)

17 Reconciliation of movements in shareholders' funds

Group	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Profit/(loss) for the financial year	1,628,577	579,260	1,257,290	(497,274)
Dividends	(21,000)	(21,000)	(21,000)	(21,000)
Retained profit/(loss)	1,607,577	558,260	1,236,290	(518,274)
Opening shareholders' funds	20,972,487	20,414,227	15,554,171	16,072,445
Closing shareholders' funds	22,580,064	20,972,487	16,790,461	15,554,171

The cumulative amount of goodwill written off is £1,047,831 (1999: £1,047,831).

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

	2000 £	1999 £
Operating profit	1,924,981	741,483
Depreciation charge	873,698	874,998
Profit on sale of tangible fixed assets	(8,413)	-
(Increase)/decrease in stocks	(3,190,563)	1,927,428
(Increase)/decrease in debtors	(1,905,539)	1,197,733
Decrease/(increase) in creditors	560,905	(421,467)
Net cash (outflow)/ inflow from operating activities	(1,744,931)	4,320,175

19 Analysis of net debt

	At beginning of year £	Cash flow £	At end of year £
Cash at bank and in hand	2,363,643	(390,635)	1,973,008
Bank overdrafts	(1,014,785)	(1,821,702)	(2,836,487)
Net (debt)/funds	1,348,858	(2,212,337)	(863,479)

Notes *(continued)*

20 Capital commitments

At 30 June 2000, the group had contracted capital commitments amounting to £165,000 (1999: £nil).

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