

Z HINCHLIFFE & SONS LIMITED
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2004

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Company registration number 78708



Z HINCHLIFFE & SONS LIMITED**COMPANY INFORMATION****Directors**

G P Wilby (Chairman)
J R Hinchliffe
J H Hinchliffe
G A Wilby

Secretary and Registered office

G L Ross
Hartcliffe Mills
Denby Dale
Huddersfield
HD8 8QL

Auditors

Wheawill & Sudworth
Chartered Accountants
35 Westgate
Huddersfield
HD1 1PA

Bankers

HSBC Bank plc
Cloth Hall Street
Huddersfield
HD1 2ES

Credit Suisse Private Banking
One Cabot Square
London
E14 4QJ

Z HINCHLIFFE & SONS LIMITED

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 30 June 2004.

Directors

The directors who served during the year were:

G P Wilby
J R Hinchliffe
J H Hinchliffe
G A Wilby

Directors' responsibilities for preparing the financial statements

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 judgments 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 company will continue in business.

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

Directors' interests

The interests of the directors in the share capital of the group at the end of the year and at the beginning of the year were as follows:

<u>Z Hinchliffe & Sons Limited</u>	Ordinary shares of £1 each	Cumulative preference shares of £1 each
G P Wilby	2,561	515
J R Hinchliffe	12,591	4,778
J H Hinchliffe	12,592	4,777
G A Wilby	60,583	4,647
 <u>Harold Hinchliffe Limited</u>	 Ordinary shares of 5p each	 Cumulative preference shares of 5p each
G P Wilby	-	-
J R Hinchliffe	6,680	51,399
J H Hinchliffe	6,680	51,399
G A Wilby	-	-

Z HINCHLIFFE & SONS LIMITED**DIRECTORS' REPORT (continued)****Principal activity**

The group's principal activity during the year continued to be that of yarn spinners.

Business review

The directors consider the results of the group to be satisfactory in view of difficult trading conditions worldwide.

Results and dividends

The loss for the year, after taxation, was £784,174.

The directors' recommend the following dividends:-

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

Employee involvement

Arrangements exist to inform and consult with employees' representatives on matters of concern to employees.

Employment of disabled persons

It is the policy of the group to give full and fair consideration to the employment of disabled persons, their training and career development with every effort being made to retain and assist employees who become disabled in the course of their employment.

Political Contribution

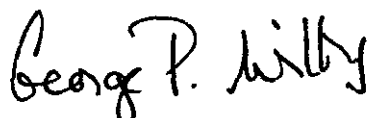
The group has made a political contribution to the Conservative Party of £5,000.

Auditors

A resolution to reappoint Wheawill & Sudworth as auditors will be put to the shareholders at the Annual General Meeting.

On behalf of the board

G P WILBY



Director
23 December 2004

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

Z HINCHLIFFE & SONS LIMITED

We have audited the financial statements of Z Hinchcliffe & Sons Limited for the year ended 30 June 2004 which are set out on pages 5 to 25. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

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 on page 2 in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 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 is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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. 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 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

WHEAWILL & SUDWORTH



Registered Auditors
Chartered Accountants

35 Westgate
Huddersfield
HD1 1PA
23 December 2004

Z HINCHLIFFE & SONS LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

for the year ended

30 JUNE 2004

		2004 £	2003 £
Notes			
2	Turnover	16,207,569	15,276,680
	Cost of sales	(13,828,852)	(13,283,607)
	Gross profit	2,378,717	1,993,073
	Distribution costs	(1,815,859)	(980,949)
	Administrative expenses	(1,383,166)	(1,151,325)
	Other operating income	-	1,636
3	Operating loss	(820,308)	(137,565)
4	Interest receivable	398,473	521,792
5	Interest payable	(248,800)	(244,051)
	(Loss) profit on ordinary activities before taxation	(670,635)	140,176
6	Taxation on (loss) profit on ordinary activities	(113,539)	(255,316)
	Loss for the financial year	(784,174)	(115,140)
	Retained profit brought forward	22,534,698	22,670,838
		21,750,524	22,555,698
7	Dividends	(21,000)	(21,000)
	Retained profit carried forward	21,729,524	22,534,698

Total recognised gains and losses

The loss for the financial year is the total of all recognised gains and losses for the year.

None of the group's activities were acquired or discontinued during the above two financial years.

The notes on pages 9 to 25 form part of these financial statements.

Z HINCHLIFFE & SONS LIMITED**CONSOLIDATED BALANCE SHEET****30 JUNE 2004**

Notes		2004 £	2003 £
	Fixed assets		
10	Tangible assets	3,696,943	4,014,734
11	Investments	3,884,050	5,884,050
		<u>7,580,993</u>	<u>9,898,784</u>
	Current assets		
12	Stocks	10,315,055	9,343,386
13	Debtors	9,407,744	7,805,825
	Cash at bank and in hand	3,447,417	1,092,195
		<u>23,170,216</u>	<u>18,241,406</u>
14	Creditors: amounts becoming due and payable within one year	<u>(8,743,217)</u>	<u>(5,327,624)</u>
	Net current assets	<u>14,426,999</u>	<u>12,913,782</u>
	Total assets less current liabilities	<u>22,007,992</u>	<u>22,812,566</u>
15	Provision for liabilities and charges	<u>(23,500)</u>	<u>(22,900)</u>
	Net assets	<u>21,984,492</u>	<u>22,789,666</u>
	Capital and reserves		
16	Called up share capital	254,968	254,968
	Profit and loss account	21,729,524	22,534,698
17	Shareholders' funds	<u>21,984,492</u>	<u>22,789,666</u>

The financial statements on pages 5 to 25 were approved by the board of directors on 23 December 2004 and signed on its behalf by

G P WILBY

J R HINCHLIFFE

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Directors*George P. Wilby**J R Hinchcliffe*

The notes on pages 9 to 25 form part of these accounts

Z HINCHLIFFE & SONS LIMITED**COMPANY BALANCE SHEET****30 JUNE 2004**

Notes		2004 £	2003 £
	Fixed assets		
10	Tangible assets	3,554,930	3,868,696
11	Investments	1,131,555	1,131,555
		<u>4,686,485</u>	<u>5,000,251</u>
	Current assets		
12	Stocks	10,315,055	9,343,386
13	Debtors	9,050,005	6,482,248
	Cash at bank and in hand	41,383	2,984
		<u>19,406,443</u>	<u>15,828,618</u>
14	Creditors: amounts becoming due and payable within one year	<u>(9,923,327)</u>	<u>(6,369,240)</u>
	Net current assets	<u>9,483,116</u>	<u>9,459,378</u>
	Total assets less current liabilities	<u>14,169,601</u>	<u>14,459,629</u>
15	Provision for liabilities and charges	-	-
	Net assets	<u>14,169,601</u>	<u>14,459,629</u>
	Capital and reserves		
16	Called up share capital	254,968	254,968
	Profit and loss account	13,914,633	14,204,661
17	Shareholders' funds	<u>14,169,601</u>	<u>14,459,629</u>

The financial statements on pages 5 to 25 were approved by the board of directors on 23 December 2004 and signed on its behalf by

G P WILBY

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J R HINCHLIFFE

)

Directors

George P. Wilby

Robert Hinchcliffe

The notes on pages 9 to 25 form part of these accounts

Z HINCHLIFFE & SONS LIMITED**CONSOLIDATED CASH FLOW STATEMENT**

for the year ended

30 JUNE 2004

		2004 £	2003 £
Notes			
8	Net cash (outflow) inflow from operating activities	(3,002,936)	204,719
8	Returns on investments and servicing of finance	164,014	273,166
	Taxation	(212,047)	(194,283)
8	Capital expenditure and financial investment	1,839,678	(1,213,531)
		<u>(1,211,291)</u>	<u>(929,929)</u>
	Equity dividend paid	(19,950)	(19,950)
	Decrease in cash in the year	<u><u>(1,231,241)</u></u>	<u><u>(949,879)</u></u>
9	Reconciliation of net cash outflow to movement in net debt		
	Decrease in cash in the year	(1,231,241)	(949,879)
	Net debt at 1 July	<u>(2,354,204)</u>	<u>(1,404,145)</u>
	Net debt at 30 June	<u><u>(3,585,265)</u></u>	<u><u>(2,354,024)</u></u>

The notes on pages 9 to 25 form part of these accounts.

Z HINCHLIFFE & SONS LIMITED

NOTES TO THE ACCOUNTS

30 JUNE 2004

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.

Consolidated financial statements

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 2004. 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 £269,028 (2003: loss £953,587).

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.

Depreciation

The depreciation of tangible fixed assets is based on cost and is applied on a straight line basis using the following asset lives:

Freehold buildings	- 25 to 50 years
Plant and equipment	- 5 to 15 years
Motor vehicles	- 5 years

In the year of acquisition tangible fixed assets are depreciated from the beginning of the financial year.

No depreciation is provided on freehold land.

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****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.

Stocks

Stocks are stated at direct cost plus attributable overheads or net realisable value if lower.

Turnover

Turnover represents the value of goods sold and services provided net of value added tax.

Grants

Grants in respect of expenditure on tangible fixed assets are treated as deferred income which is credited to the profit and loss account by instalments over the expected useful economic life of the related asset on a basis consistent with the depreciation policy. Grants of a revenue nature are recognised in the profit and loss account of the period of which they are paid.

Deferred taxation

Provision is made on the liability method based on current tax rates for deferred tax assets and liabilities arising from all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised only to the extent that it is more likely than not there will be suitable taxable profits from which the underlying timing differences can be deducted.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Any differences are taken to the profit and loss account.

Pension costs

The group operates four pension schemes on behalf of employees, two of which are defined benefit schemes, the others being defined contribution schemes.

Contributions to the defined contribution pension schemes are charged to the profit and loss account as they become payable.

Contributions to the defined benefit pension schemes are charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes.

2 Turnover

The turnover is attributable to the group's principal activity.

	2004 £	2003 £
Home	10,541,022	11,060,231
Export	5,666,547	4,216,449
	<u>16,207,569</u>	<u>15,276,680</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004**

	2004 £	2003 £
3 Operating loss		
(a) This is stated after charging and (crediting):		
Directors' emoluments (see below)	1,028,469	856,028
Auditors' remuneration in respect of:		
Audit services	20,500	20,000
Other services	11,200	7,600
Depreciation	478,113	482,731
Surplus on disposal of tangible fixed assets	-	(9,703)
Exchange losses (gains)	107,301	(13,828)
Rents receivable from property (net of expenses)	(60,156)	(148,968)
Stock provisions	-	45,113
	<u>1,028,469</u>	<u>856,028</u>
(b) Directors' emoluments:		
Aggregate emoluments	766,347	759,820
Company pension contributions	262,122	96,208
	<u>1,028,469</u>	<u>856,028</u>
Retirement benefits are accruing to four directors under money purchase schemes.		
Emoluments of the highest paid director:		
Aggregate emoluments	203,124	200,356
Company pension contributions	121,922	34,502
	<u>325,046</u>	<u>234,858</u>
(c) Particulars of staff:		
The average number of persons employed by the group during the year, including the directors, was as follows:		
	Number	Number
Production	291	312
Distribution and administration	26	27
	<u>317</u>	<u>339</u>
Staff costs:	£	£
Wages and salaries	4,861,105	4,672,607
Social security costs	433,086	375,273
Other pension costs	527,062	277,103
	<u>5,821,253</u>	<u>5,324,983</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004**

4	Interest receivable	2004	2003
		£	£
	Interest from fixed asset investments	398,435	468,403
	Bank interest	38	50,185
	Interest receivable from corporation tax repayments	-	3,204
		<u>398,473</u>	<u>521,792</u>
5	Interest payable		
	Bank overdrafts	<u>248,800</u>	<u>244,051</u>
6	Taxation on (loss) profit on ordinary activities		
(a)	Analysis of charge for the year		
	Current taxation:		
	UK Corporation tax on the (loss) profit for the year	1,380	2,305
	Adjustment in respect of previous years	-	(76)
	Irrecoverable withholding tax	42,634	-
		<u>44,014</u>	<u>2,229</u>
	Foreign taxes	68,925	247,087
		<u>112,939</u>	<u>249,316</u>
	Total current taxation (note (b))	112,939	249,316
	Deferred taxation:		
	Origination and reversal of timing differences	600	6,000
		<u>113,539</u>	<u>255,316</u>
	Taxation on (loss) profit on ordinary activities		
(b)	Factors affecting the charge for the year		
	The tax assessed for the year is higher (2003: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:		
	(Loss) profit on ordinary activities before taxation	(670,635)	140,176
	Corporation tax at 30% (2003 30%)	(201,191)	42,053
	Effects of:		
	Depreciation charges in excess of capital allowances	30,120	8,130
	Expenses not deductible for tax purposes	9,380	137
	Provisions now becoming deductible for tax purposes	928	(7,200)
	Utilisation of taxation losses	(361)	(361)
	Utilisation of advance corporation tax	-	(4,740)
	Profits charged to tax at rates lower than 30%	(41,494)	(30,826)
	Taxation losses generated in the year and carried forward	272,923	242,199
	Irrecoverable withholding tax	42,634	-
	Corporation tax over provided in a previous year	-	(76)
		<u>112,939</u>	<u>249,316</u>
	Current tax charge for the year (note (a))		

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004**

7	Dividends	2004	2003
		£	£
	Preference - final proposed	1,050	1,050
	Ordinary - final proposed	19,950	19,950
		<u>21,000</u>	<u>21,000</u>
8	Notes to the cash flow statement		
(a)	Reconciliation of operating loss to net cash (outflow) inflow from operating activities		
	Operating loss	(820,308)	(137,565)
	Depreciation	478,113	482,731
	Surplus on disposal of tangible fixed assets	-	(9,703)
	Decrease in stocks	(971,669)	(97,615)
	Increase in debtors	(1,352,112)	(32,275)
	Decrease in creditors	(336,960)	(854)
	Net cash (outflow) inflow from operating activities	<u>(3,002,936)</u>	<u>204,719</u>
(b)	Returns on investments and servicing of finance		
	Interest received	398,473	521,792
	Interest paid	(233,409)	(247,576)
	Preference dividend paid	(1,050)	(1,050)
		<u>164,014</u>	<u>273,166</u>
(c)	Capital expenditure and financial investment		
	Payments to acquire tangible fixed assets	(161,522)	(271,131)
	Receipts from sales of tangible fixed assets	1,200	34,600
	Net proceeds from sales/payments to acquire fixed asset investments	2,000,000	(977,000)
		<u>1,839,678</u>	<u>(1,213,531)</u>
9	Analysis of changes in net debt		
		At	At
		30 June 2003	30 June 2004
		£	£
	Cash at bank and in hand	1,092,195	3,447,417
	Bank overdrafts	(3,446,219)	(7,032,682)
	Net debt	<u>(2,354,024)</u>	<u>(3,585,265)</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004**

10 Tangible fixed assets	Freehold land and buildings £	Plant and machinery £	Total £
Group			
Cost			
At 1 July 2003	5,488,885	13,563,438	19,052,323
Additions	11,645	149,877	161,522
Disposals	-	(8,778)	(8,778)
At 30 June 2004	5,500,530	13,704,537	19,205,067
Depreciation:			
At 1 July 2003	2,568,274	12,469,315	15,037,589
Charge for the year	185,298	292,815	478,113
Disposals	-	(7,578)	(7,578)
At 30 June 2004	2,753,572	12,754,552	15,508,124
Net book amount at:			
30 June 2004	2,746,958	949,985	3,696,943
30 June 2003	2,920,611	1,094,123	4,014,734
Company			
Cost			
At 1 July 2003	5,287,602	13,563,438	18,851,040
Additions	11,645	149,877	161,522
Disposals	-	(8,778)	(8,778)
At 30 June 2004	5,299,247	13,704,537	19,003,784
Depreciation:			
At 1 July 2003	2,513,029	12,469,315	14,982,344
Charge for the year	181,273	292,815	474,088
Disposals	-	(7,578)	(7,578)
At 30 June 2004	2,694,302	12,754,552	15,448,854
Net book amount at:			
30 June 2004	2,604,945	949,985	3,554,930
30 June 2003	2,774,573	1,094,123	3,868,696

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004**

11	Fixed asset investments	Fixed interest securities
	Group	£
	Cost and net book value	
	At 1 July 2003	5,884,050
	Disposals	(2,000,000)
	At 30 June 2004	<u>3,884,050</u>

Listed fixed interest securities with a cost of £3,884,050 had a market value of £4,205,917 at 30 June 2004 (2003: cost of £5,884,050 market value of £6,433,529).

		Shares in group undertakings
	Company	£
	Cost	
	At 1 July 2003 and 30 June 2004	<u>2,779,630</u>
	Provision	
	At 1 July 2003 and 30 June 2004	<u>1,648,075</u>
	Net book value	
	At 30 June 2004	<u>1,131,555</u>
	At 30 June 2003	<u>1,131,555</u>

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

12	Stocks	Group		Company	
		2004 £	2003 £	2004 £	2003 £
	Raw materials and consumables	7,095,239	6,147,297	7,095,239	6,147,297
	Work in progress	703,461	541,771	703,461	541,771
	Finished yarn	2,516,335	2,654,318	2,516,335	2,654,318
		<u>10,315,055</u>	<u>9,343,386</u>	<u>10,315,055</u>	<u>9,343,386</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004**

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
13 Debtors				
Trade debtors	8,739,151	7,081,750	8,566,671	4,320,404
Amounts owed by subsidiary undertakings	-	-	-	1,895,405
Corporation tax recoverable	-	6,000	-	6,000
Foreign tax recoverable	255,807	-	255,807	-
Other debtors	29,155	243,111	-	-
Prepayments and accrued income	383,631	474,964	227,527	260,439
	<u>9,407,744</u>	<u>7,805,825</u>	<u>9,050,005</u>	<u>6,482,248</u>
14 Creditors: amounts becoming due and payable within one year				
Bank overdrafts	7,032,682	3,446,219	7,094,198	3,525,834
Trade creditors	343,343	352,307	343,343	325,618
Amounts owed to subsidiary undertakings	-	-	1,584,914	1,429,338
Corporation tax	1,380	2,305	1,380	-
Foreign taxes	455,828	304,204	-	-
Other taxes and social security	444,597	760,855	442,726	748,878
Accruals and deferred income	444,387	440,734	435,766	318,572
Proposed dividend	21,000	21,000	21,000	21,000
	<u>8,743,217</u>	<u>5,327,624</u>	<u>9,923,327</u>	<u>6,369,240</u>
15 Provision for liabilities and charges				
Group and company				
Deferred taxation	2004 £	2003 £	2004 £	2003 £
Taxation allowances in advance of depreciation	<u>23,500</u>	<u>22,900</u>	<u>-</u>	<u>-</u>
Movement during the year				
At 1 July 2003		22,900		
Profit and loss account - charge		600		
At 30 June 2004		<u>23,500</u>		

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

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****16 Share capital**

	Authorised		Allotted, called up and fully paid	
	2004	2003	2004	2003
	Number	Number	£	£
5% cumulative preference shares of £1 each	30,000	30,000	30,000	30,000
Ordinary shares of £1 each	245,000	245,000	224,968	224,968
	<u>275,000</u>	<u>275,000</u>	<u>254,968</u>	<u>254,968</u>

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		Company	
	2004	2003	2004	2003
	£	£	£	£
Loss for the financial year	(784,174)	(115,140)	(269,028)	(953,587)
Dividends	(21,000)	(21,000)	(21,000)	(21,000)
Net decrease in shareholders' funds	<u>(805,174)</u>	<u>(136,140)</u>	<u>(290,028)</u>	<u>(974,587)</u>
Shareholders' funds at 1 July	22,789,666	22,925,806	14,459,629	15,434,216
Shareholders' funds at 30 June	<u>21,984,492</u>	<u>22,789,666</u>	<u>14,169,601</u>	<u>14,459,629</u>
Equity interests	21,954,492	22,759,666	14,139,601	14,429,629
Non-equity interests	30,000	30,000	30,000	30,000
	<u>21,984,492</u>	<u>22,789,666</u>	<u>14,169,601</u>	<u>14,459,629</u>

The cumulative amount of goodwill written off is £1,047,831 (2003 £1,047,831).

18 Capital commitments

	2004	2003
	£	£
Group and company		
Capital expenditure contracted but not provided for in the accounts	<u>125,000</u>	<u>Nil</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****19 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
CF14 3UZ

20 Pension costs and commitments

The group operates two defined benefit and two defined contribution pension schemes.

Defined benefit schemes**1 The Z Hinchliffe & Sons Limited 1978 Retirement & Death Benefit Scheme**

The Scheme is a funded defined benefit final salary pension scheme which was set up by the Interim Trust Deed dated 31 May 1967. It has been approved by the Inland Revenue Savings, Pensions, Share Schemes (formerly the Pension Schemes Office) under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988. The employees covered by the Scheme are contracted-out of the State Earnings Related Pension Scheme (SERPS).

The company has fully adopted the requirements of Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17"). Under this accounting standard the following disclosures are required.

A full actuarial valuation was carried out on 5 April 2003 and updated to 30 June 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 30/06/04	At 30/06/03	At 30/06/02
Rate of increase in salaries	4.25%	4.0%	4.5%
Rate of increase in pensions in deferment	3.0%	2.3%	2.5%
Rate of increase in pensions in payment			
- Pension accrued before 5 April 1997	0.0%	0.0%	0.0%
- Pension accrued from 6 April 1997	3.0%	2.3%	2.5%
Discount rate	5.75%	5.5%	6.0%
Inflation assumption	3.25%	2.3%	2.5%

The actuary has revised the mortality tables for the purpose of the valuation at 30 June 2004 so as to reflect increasing longevity experienced by the population as a whole. This change has had the impact of increasing scheme liabilities.

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****20 Pension commitments (continued)****1 The Z Hinchliffe & Sons Limited 1978 Retirement & Death Benefit Scheme (continued)**

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

	Long-term rate of return expected at 30/06/04 %	Value at 30/06/04 £	Long-term rate of return expected at 30/06/03 %	Value at 30/06/03 £	Long-term rate of return expected at 30/06/02 %	Value at 30/06/02 £
AXA and Standard Life investments	6.5	2,678,000	6.0	2,446,342	6.0	2,189,629
Plus cash at bank and net current assets		139,000		136,659		62,777
Total market value of assets		2,817,000		2,583,001		2,252,406
Present value of scheme liabilities		(3,303,000)		(3,125,973)		(2,307,061)
Deficit in the scheme		(486,000)		(542,972)		(54,655)
Related deferred tax liability		-		-		-
Net pension liability		(486,000)		(542,972)		(54,655)

If these amounts had been recognised in the accounts, the net assets and profit and loss account reserve of the group at 30 June 2004 and 30 June 2003 would have been as follows:

	2004 £	2003 £
Net assets excluding pension liability	21,984,492	22,789,666
Pension liability	(486,000)	(542,972)
Net assets including pension liability	21,498,492	22,246,694
Profit and loss reserve excluding pension liability	21,729,524	22,534,698
Pension liability	(486,000)	(542,972)
Profit and loss reserve	21,243,524	21,991,726

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****20 Pension commitments (continued)****1 The Z Hinchliffe & Sons Limited 1978 Retirement & Death Benefit Scheme (continued)**

Analysis of the amount charged to operating profit

	2004	2003
	£	£
Current service cost	109,000	107,836
Life assurance premium	-	10,726
Total operating charge	109,000	118,562

Analysis of the amount credited to other finance income

Expected return on pension scheme assets	160,000	134,019
Interest on pension scheme liabilities	(175,000)	(135,304)
Net return	(15,000)	(1,285)

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

Actual return less expected return on pension scheme assets	(84,000)	112,420
Experience gains and losses arising on the scheme liabilities	(19,000)	(181,186)
Changes in assumptions underlying the present value of the scheme liabilities	123,000	(430,832)
Actuarial gain (loss) recognised in STRGL	20,000	(499,598)

Movement in deficit during the year

Deficit in scheme at 1 July	(543,000)	(54,655)
Movement in year:		
Current service cost including life assurance	(109,000)	(118,562)
Contributions	161,000	131,128
Other finance income	(15,000)	(1,285)
Actuarial gain (loss)	20,000	(499,598)
Deficit in scheme at 30 June	(486,000)	(542,972)

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****20 Pension commitments (continued)****1 The Z Hinchliffe & Sons Limited 1978 Retirement & Death Benefit Scheme (continued)**

Contributions increased to £159,999 (2003 £131,128). It has been agreed with the trustees that employer contributions will remain at 16.75% of pensionable salaries and employee contributions at 5% of pensionable salaries for the next three years.

The FRS 17 actuarial valuation at 30 June 2004 showed a deficit of £486,000.

At the last FRS 17 valuation as at 30 June 2003 there was a deficit of £542,972. The deficit has reduced as a result of the following:

- the change in actuarial assumptions
- the increase in asset values over the financial year due to improved investment returns.
- the increase in contributions received during the year.

History of experience gains and losses

	2004	2003
Difference between the expected and actual return on scheme assets:		
Amount	(£84,000)	£112,420
Percentage of scheme assets	(2.9%)	4.3%
Experience gains and losses on scheme liabilities:		
Amount	(£19,000)	(£181,186)
Percentage of the present value of the scheme liabilities	(0.6%)	(5.8%)
Total amount recognised in statement of total recognised gains and losses:		
Amount	£20,000	(£499,598)
Percentage of the present value of the scheme liabilities	0.6%	(15.9%)

2 The John Woodhead (Dobroyd Mills) Limited Pension & Life Assurance Scheme

The Scheme is a funded defined benefit final salary pension scheme which was set up by a Trust Deed dated 24 August 1983 and a supplemental trust deed dated 13 July 1992. It has been approved by the Inland Revenue Savings, Pensions, Share Schemes (formerly the Pension Schemes Office) under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988. The employees covered by the Scheme are not contracted-out of the State Earnings Related Pension Scheme (SERPS).

The company has fully adopted the requirements of Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17").

Under this accounting standard the following disclosures are required:

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****20 Pension commitments (continued)****2 The John Woodhead (Dobroyd Mills) Limited Pension & Life Assurance Scheme (continued)**

A full actuarial valuation was carried out on 1 June 2003 and updated to 30 June 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 30/06/04	At 30/06/03	At 30/06/02
Rate of increase in salaries	4.25%	4.0%	4.5%
Rate of increase in pensions in deferment	3.0%	2.3%	2.5%
Rate of increase in pensions in payment			
- Pension accrued before 5 April 1997	0.0%	0.0%	0.0%
- Pension accrued after 6 April 1997	3.0%	2.3%	2.5%
Discount rate	5.75%	5.5%	6.0%
Inflation assumption	3.25%	2.3%	2.5%

The actuary has revised the mortality tables for the purpose of the valuation at 30 June 2004 so as to reflect increased longevity experienced by the population as a whole. This change has had the impact of increasing scheme liabilities.

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

	Long-term rate of return expected at 30/06/04 %	Value at 30/06/04 £	Long-term rate of return expected at 30/06/03 %	Value at 30/06/03 £	Long-term rate of return expected at 30/06/02 %	Value at 30/06/02 £
Prudential With-Profit Fund plus Cash and Net Current Assets	6.0	993,000	7.0	826,536	6.0	1,143,341
Total market value of assets		993,000		826,536		1,143,341
Present value of scheme liabilities		(1,031,000)		(930,996)		(990,833)
(Deficit) surplus in the Scheme		(38,000)		(104,460)		152,508
Related deferred tax liability		-		-		-
Net pension (liability) asset		(38,000)		(104,460)		152,508

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****20 Pension commitments (continued)****2 The John Woodhead (Dobroyd Mills) Limited Pension & Life Assurance Scheme (continued)**

If these amounts had been recognised in the accounts, the net assets and profit and loss account reserve of the group at 30 June 2004 and 30 June 2003 would have been as follows:

	2004 £	2003 £
Net assets excluding pension liability	21,984,492	22,789,666
Pension liability	(38,000)	(104,460)
Net assets including pension liability	<u>21,946,492</u>	<u>22,685,206</u>
Profit and loss reserve excluding pension liability	21,729,524	22,534,698
Pension liability	(38,000)	(104,460)
Profit and loss reserve	<u>21,691,524</u>	<u>22,430,238</u>
Analysis of the amount charged to operating profit		
Current service cost	32,000	23,503
Life assurance premium	-	5,544
Total operating charge	<u>32,000</u>	<u>29,047</u>
Analysis of the amount credited to other finance income		
Expected return on pension scheme assets	58,000	69,062
Interest on pension scheme liabilities	(52,000)	(58,989)
Net return	<u>6,000</u>	<u>10,073</u>
Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	91,000	(278,268)
Experience gains and losses arising on the scheme liabilities	(28,000)	168,456
Changes in assumptions underlying the present value of the scheme liabilities	5,000	(140,590)
Actuarial gain (loss) recognised in STRGL	<u>68,000</u>	<u>(250,402)</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****20 Pension commitments (continued)****2 The John Woodhead (Dobroyd Mills) Limited Pension & Life Assurance Scheme (continued)**

Movement in (deficit) surplus during the year

	2004	2003
	£	£
(Deficit) Surplus in scheme at 1 July	(104,000)	152,508
Movement in year:		
Current service cost plus life assurance premium	(32,000)	(29,047)
Contributions	24,000	12,408
Other finance income	6,000	10,073
Actuarial gain (loss)	68,000	(250,402)
Deficit in scheme at 30 June	<u>(38,000)</u>	<u>(104,460)</u>

Contributions increased to £23,293 (2003 £12,408). It has been agreed with the trustees that employer contributions will remain at 12% of pensionable salaries and employee contributions at 4% of pensionable salaries for the next three years.

The FRS17 actuarial valuation at 30 June 2004 showed a deficit of £38,000. At the last FRS17 valuation as at 30 June 2003 there was a deficit of £104,460. The funding position has improved as a result of the following:

- the increase in asset values over the financial year due to improved investment returns.
- the increase in contributions received during the year.
- the change in actuarial assumptions.

History of experience gains and losses

	2004	2003
Difference between the expected and actual return on scheme assets:		
Amount	£91,000	(£278,268)
Percentage of scheme assets	9.2%	(33.7%)
Experience gains and losses on scheme liabilities:		
Amount	(£28,000)	£168,456
Percentage of the present value of the scheme liabilities	(2.7%)	18.1%
Total amount recognised in statement of total recognised gains and losses:		
Amount	£68,000	(£250,402)
Percentage of the present value of the scheme liabilities	6.6%	26.9%

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2004****20 Pension commitments (continued)****3 The two defined benefit schemes addressed above**

If the combined deficits calculated under FRS17 in respect of both schemes had been recognised in the accounts, the net assets and profit and loss account reserve of the group at 30 June 2004 and 30 June 2003 would have been as follows:

	2004 £	2003 £
Net assets excluding pension liability	21,984,492	22,789,666
Pension liability	(524,000)	(647,432)
Net assets including pension liability	21,460,492	22,142,234
Profit and loss reserve excluding pension liability	21,729,524	22,534,698
Pension liability	(524,000)	(647,432)
Profit and loss reserve	21,205,524	21,887,266

4 Defined contribution schemes

The company operates and makes contributions to two defined contribution pension schemes. The assets of the schemes are held separately from those of the company in trustee administered funds. The pension cost charge for the year was £343,770 (2003 £123,238).