

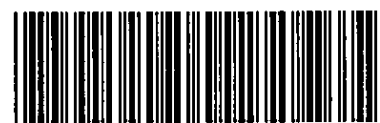
Z HINCHLIFFE & SONS LIMITED
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2006

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Company registration number 78708

SATURDAY



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28/04/2007
COMPANIES HOUSE

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
BCMZ1
Bahn hofstrasse 17
PostFach 357
CH-6301 Zug
Switzerland

Z HINCHLIFFE & SONS LIMITED

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 30 June 2006

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.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

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	-	-

* 2,500 ordinary shares of 5p each and 17,500 cumulative preference shares of 5p each are jointly held by J R Hinchliffe and J H Hinchliffe

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

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

The principal activities of the group's subsidiary undertakings are outlined in note 11 to the accounts

Business review

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

Results and dividends

The group loss for the year, after taxation, was £963,186

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

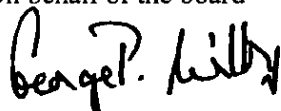
Employment of disabled persons

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

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

21 December 2006

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

Z HINCHLIFFE & SONS LIMITED

We have audited the financial statements of Z Hinchliffe & Sons Limited for the year ended 30 June 2006 which are set out on pages 5 to 27. These financial statements have been prepared under the accounting policies set out on pages 10 to 12.

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 (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 International Standards on Auditing (UK and Ireland) 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 judgments 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 report and financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and company's affairs as at 30 June 2006 and of the group's loss for the year then ended, and
- the report and financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the report and financial statements for the year ended 30 June 2006.

WHEAWILL & SUDWORTH



Registered Auditors
Chartered Accountants

35 Westgate
Huddersfield
HD1 1PA

21 December 2006

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

for the year ended

30 JUNE 2006

		2006	As restated
		£	2005 £
Notes			
2	Turnover	19,164,565	20,126,411
	Cost of sales	(16,770,866)	(15,864,922)
	Gross profit	2,393,699	4,261,489
	Distribution costs	(1,882,552)	(1,626,743)
	Administrative expenses	(1,202,716)	(1,137,711)
3	Operating (loss) profit	(691,569)	1,497,035
4	Interest receivable	302,734	517,297
5	Interest payable	(512,130)	(468,331)
	(Loss) profit on ordinary activities before taxation	(900,965)	1,546,001
6	Taxation on (loss) profit on ordinary activities	(62,221)	(251,017)
	(Loss) profit for the financial year	(963,186)	1,294,984

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

The notes on pages 10 to 27 form part of these financial statements

Z HINCHLIFFE & SONS LIMITED**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

for the year ended

30 JUNE 2006

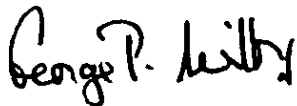
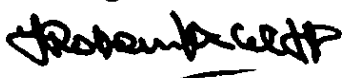
	Year ended 30 June 2006 £	As restated Year ended 30 June 2005 £
(Loss) profit for the financial year	(963,186)	1,294,984
Actuarial valuation gain (loss) on defined benefit pension scheme assets and liabilities	982,000	(405,000)
Total recognised gains and losses for the year	18,814	889,984

The notes on pages 10 to 27 form part of these accounts

Z HINCHLIFFE & SONS LIMITED
CONSOLIDATED BALANCE SHEET
30 JUNE 2006

Notes		2006 £	As restated 2005 £
	Fixed assets		
10	Tangible assets	4,091,649	4,251,818
	Current assets		
12	Stocks	11,365,326	14,063,775
13	Debtors	9,590,727	8,442,059
14	Investments	1,022,200	1,031,500
	Cash at bank and in hand	4,879,358	5,657,144
		<u>26,857,611</u>	<u>29,194,478</u>
15	Creditors: amounts becoming due and payable within one year	(8,641,970)	(10,126,320)
	Net current assets	<u>18,215,641</u>	<u>19,068,158</u>
	Total assets less current liabilities	<u>22,307,290</u>	<u>23,319,976</u>
16	Provision for liabilities and charges	(24,000)	(23,500)
17	Pension scheme asset	116,000	-
17	Pension scheme liabilities	(51,000)	(946,000)
	Net assets	<u>22,348,290</u>	<u>22,350,476</u>
	Capital and reserves		
18	Called up share capital	254,968	254,968
19	Profit and loss account	22,093,322	22,095,508
20	Shareholders' funds	<u>22,348,290</u>	<u>22,350,476</u>

The financial statements on pages 5 to 27 were approved by the board of directors on 21 December 2006 and signed on its behalf by

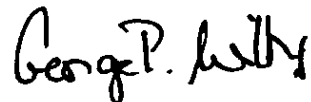
 G P WILBY)
 J R HINCHLIFFE) Directors

The notes on pages 10 to 27 form part of these accounts

Z HINCHLIFFE & SONS LIMITED**COMPANY BALANCE SHEET****30 JUNE 2006**

Notes		2006 £	As restated 2005 £
	Fixed assets		
10	Tangible assets	3,836,943	4,113,830
11	Investments	1,131,555	1,131,555
		<u>4,968,498</u>	<u>5,245,385</u>
	Current assets		
12	Stocks	11,365,326	14,063,775
13	Debtors	9,460,532	8,800,681
	Cash at bank and in hand	44,706	35,625
		<u>20,870,564</u>	<u>22,900,081</u>
15	Creditors: amounts becoming due and payable within one year	<u>(10,057,372)</u>	<u>(11,535,118)</u>
	Net current assets	<u>10,813,192</u>	<u>11,364,963</u>
	Total assets less current liabilities	<u>15,781,690</u>	<u>16,610,348</u>
16	Provision for liabilities and charges	-	-
17	Pension scheme asset	116,000	-
17	Pension scheme liabilities	(51,000)	(946,000)
	Net assets	<u>15,846,690</u>	<u>15,664,348</u>
	Capital and reserves		
18	Called up share capital	254,968	254,968
19	Profit and loss account	15,591,722	15,409,380
20	Shareholders' funds	<u>15,846,690</u>	<u>15,664,348</u>

The financial statements on pages 5 to 27 were approved by the board of directors on 21 December 2006 and signed on its behalf by

 G P WILBY)
 R HINCHLIFFE) Directors

The notes on pages 10 to 27 form part of these accounts

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

for the year ended

30 JUNE 2006

		2006 £	As restated 2005 £
Notes			
8	Net cash inflow (outflow) from operating activities	1,795,318	(1,263,932)
8	Returns on investments and servicing of finance	(232,747)	58,042
	Taxation	(266,186)	(167,460)
8	Capital expenditure and financial investment	(329,567)	1,047,505
		<u>966,818</u>	<u>(325,845)</u>
	Equity dividend paid	(19,950)	(19,950)
9	Increase (decrease) in cash in the year	<u>946,868</u>	<u>(345,795)</u>
9	Reconciliation of net cash inflow (outflow) to movement in net debt		
	Increase (decrease) in cash in the year	946,868	(345,795)
	Net debt at 1 July	<u>(2,142,020)</u>	<u>(1,796,225)</u>
	Net debt at 30 June	<u>(1,195,152)</u>	<u>(2,142,020)</u>

The notes on pages 10 to 27 form part of these accounts

Z HINCHLIFFE & SONS LIMITED

NOTES TO THE ACCOUNTS

30 JUNE 2006

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

Changes in accounting policies

In reporting the financial statements for the current year, the company has adopted the following Financial Reporting Standards

a) FRS 21 'Events after the Balance Sheet date,

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed dividends. If the company declares dividends to its shareholders after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. The aggregate amount of dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements. Previously, proposed dividends were recorded as liabilities at the balance sheet date.

This change in accounting policy has resulted in a prior year adjustment for the company and group Shareholders' funds at 1 July 2004 have been increased by £21,000. For the year ended 30 June 2005, the change in accounting policy has had no effect upon the retained profit for that year. The balance sheet at 30 June 2005 has been restated to reflect the de-recognition of a liability for proposed dividends of £21,000. For the year ended 30 June 2006, the change in accounting policy has no effect upon the retained loss for the year.

b) The presentation requirements of FRS 25 'Financial Instruments Disclosure and Presentation,

No material disclosure has been required in this respect given the nature of the company's and group's financing arrangements.

c) FRS 17 'Retirement Benefits'

For the year ended 30 June 2006 the group has fully adopted the accounting requirements of FRS 17. The new policy changes the method of accounting in respect of the group and company's defined benefit pension schemes. The scheme's surpluses/deficits are now recognised as assets/liabilities upon the group and company balance sheets with the movements during the year being recognised within the profit and loss account and the statement of recognised gains and losses. Previously contributions to the schemes were simply charged to the profit and loss account as they became payable.

This change in accounting policy has resulted in a prior year adjustment for the group and company Shareholders' funds at 1 July 2004 have decreased by £524,000. For the year ended 30 June 2005, the change in accounting policy has resulted in a net decrease in retained profit for the year of £17,000 and a decrease in other recognised gains of £405,000. The balance sheet at 30 June 2005 has been restated to reflect the recognition of pension scheme liabilities of £946,000. For the year ended 30 June 2006 the change in accounting policy has resulted in a net decrease in the retained loss for the year of £29,000, an increase in other recognised gains of £982,000 and in the restatement of the balance sheet at 30 June 2006 in order to recognise a pension scheme asset of £116,000 and a pension scheme liability of £51,000.

Z HINCHLIFFE & SONS LIMITED

NOTES TO THE ACCOUNTS (continued)

30 JUNE 2006

1 Accounting policies (continued)

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 2006. 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 £778,658 (2005 profit of £2,423,747).

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.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method over estimated economic lives from the time the asset is put into use. Present estimated economic lives are as follows:

Freehold buildings	- 25 to 50 years
Plant and equipment	- 5 to 10 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.

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.

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****1 Accounting policies (continued)****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 generated within the foreseeable future 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, or where the transaction is covered by a matching forward contract, at the rate specified in that contract. 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.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Pension costs – defined benefit schemes

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value at such a rate that properly reflects the time value of money and the characteristics of those liabilities.

Pension scheme assets are valued at market value at the balance sheet date.

The pension scheme surplus or deficit is recognised in full on the balance sheet as an asset or a liability. The deferred tax relating to the defined benefit asset/liability is offset against the defined benefit asset/liability and not included with other deferred tax assets or liabilities.

The movement upon the pension scheme surplus or deficit for the year is analysed between current service costs and finance income/charges which are recognised in the profit and loss account and actuarial valuation gains/losses which are recognised in the statement of total recognised gains and losses.

Pension costs – defined contribution schemes

Contributions made to the group defined contribution schemes operated by the company are charged to the profit and loss account as they become payable.

2 Turnover

The turnover is attributable to the group's principal activities

	2006 £	2005 £
Home	9,715,499	12,051,831
Export	9,449,066	8,074,580
	<u>19,164,565</u>	<u>20,126,411</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006**

	2006 £	2005 £
3 Operating (loss) profit		
(a) This is stated after charging and (crediting)		
Directors' emoluments (see below)	920,663	996,878
Auditors' remuneration in respect of		
Audit services	21,500	21,000
Other services	4,000	4,500
Depreciation	493,796	507,777
Surplus on disposal of tangible fixed assets	(4,060)	(15,147)
Exchange gains	(52,680)	(175,973)
Rents receivable from property (net of expenses)	(73,531)	(71,969)
	<u>920,663</u>	<u>996,878</u>
(b) Directors' emoluments		
Aggregate emoluments	785,936	769,803
Company pension contributions	134,727	227,075
	<u>920,663</u>	<u>996,878</u>
Retirement benefits are accruing to four directors under money purchase schemes		
Emoluments of the highest paid director		
Aggregate emoluments	205,906	204,077
Company pension contributions	54,897	103,772
	<u>205,906</u>	<u>204,077</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
	350	340
	<u>350</u>	<u>340</u>
Staff costs	£	£
Wages and salaries	5,756,096	5,439,307
Social security costs	520,926	495,118
Pension costs – defined benefit schemes	170,235	194,060
– defined contribution schemes	151,762	228,896
	<u>6,599,019</u>	<u>6,357,381</u>
4 Interest receivable	2006 £	2005 £
Interest from fixed asset investments	73,170	339,482
Bank interest	212,098	183,815
Other interest	3,466	-
Net finance income (costs) in respect of defined benefit pension schemes	14,000	(6,000)
	<u>302,734</u>	<u>517,297</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006**

5	Interest payable	2006	2005
		£	£
	Bank overdrafts	512,130	468,331
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	-	116,679
	Adjustment in respect of previous years	4,077	1,131
	Irrecoverable withholding tax	22,444	80,307
		26,521	198,117
	Foreign taxes	35,200	52,900
	Total current taxation (note (b))	61,721	251,017
	Deferred taxation		
	Origination and reversal of timing differences	500	-
	Taxation on (loss) profit on ordinary activities	62,221	251,017

At 30 June 2006 the group and company had unrelieved trading losses of £2,645,000 (2005 £1,975,000) and unrelieved capital losses of £99,126 (2005 £99,126)

(b)	Factors affecting the charge for the year		
	The tax assessed for the year is higher (2005 lower) than the standard rate of corporation tax in the UK (30%) The differences are explained below		
	Loss (profit) on ordinary activities before taxation	(900,965)	1,546,001
	Corporation tax at 30% (2005 30%)	(270,290)	463,800
	Effects of		
	Depreciation charges in excess of capital allowances	16,561	(189)
	Expenses not deductible for tax purposes	7,638	2,730
	Provisions now becoming deductible for tax purposes	-	(928)
	Utilisation of taxation losses	(360)	(298,704)
	UK corporation tax liability upon Z Hinchliffe & Sons AG dividend	134,665	103,205
	Profits charged to tax at rates lower than 30%	(45,098)	(105,435)
	Taxation losses generated in the year and carried forward	200,784	-
	Net (income) expenses relating to defined benefit pension schemes calculated under FRS 17 not taxable	(8,700)	5,100
	Irrecoverable withholding tax	22,444	80,307
	Corporation tax under provided in a previous year	4,077	1,131
	Current tax charge for the year (note (a))	61,721	251,017

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006**

7 Dividends	2006	2005
	£	£
Paid during the year		
Preference shares	1,050	1,050
Ordinary shares	19,950	19,950
	<u>21,000</u>	<u>21,000</u>
Proposed after the year end (not recognised as a liability)		
Preference shares	1,050	1,050
Ordinary shares	19,950	19,950
	<u>21,000</u>	<u>21,000</u>

8 Notes to the cash flow statement

	2006	As restated
	£	2005
	£	£
(a) Reconciliation of operating (loss) profit to net cash inflow (outflow) from operating activities		
Operating (loss) profit	(691,569)	1,497,035
Depreciation	493,796	507,777
Surplus on disposal of tangible fixed assets	(4,060)	(15,147)
Decrease (increase) in stocks	2,698,449	(3,748,720)
(Increase) decrease in debtors	(1,148,668)	709,878
Increase (decrease) in creditors	462,370	(225,755)
(Decrease) increase in defined benefit pension scheme employee benefits	(15,000)	11,000
Net cash inflow (outflow) from operating activities	<u>1,795,318</u>	<u>(1,263,932)</u>
(b) Returns on investments and servicing of finance		
Interest received	288,734	523,297
Interest paid	(520,431)	(464,205)
Preference dividend paid	(1,050)	(1,050)
	<u>(232,747)</u>	<u>58,042</u>
(c) Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(345,794)	(1,071,606)
Receipts from sales of tangible fixed assets	16,227	24,101
	<u>(329,567)</u>	<u>1,047,505</u>

9 Analysis of changes in net debt

	At	Cash flow	At
	30 June 2005	£	30 June 2006
	£	£	£
Cash at bank and in hand	5,657,144	(777,786)	4,879,358
Bank overdrafts	(8,830,664)	1,733,954	(7,096,710)
Current asset investments	1,031,500	(9,300)	1,022,200
Net debt	<u>(2,142,020)</u>	<u>946,868</u>	<u>(1,195,152)</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006**

10 Tangible fixed assets	Freehold land and buildings £	Plant and machinery £	Total £
Group			
Cost			
At 1 July 2005	5,969,790	14,146,029	20,115,819
Additions	167,632	178,162	345,794
Disposals	-	(122,504)	(122,504)
At 30 June 2006	<u>6,137,422</u>	<u>14,201,687</u>	<u>20,339,109</u>
Depreciation			
At 1 July 2005	2,956,892	12,907,109	15,864,001
Charge for the year	204,837	288,959	493,796
Disposals	-	(110,337)	(110,337)
At 30 June 2006	<u>3,161,729</u>	<u>13,085,731</u>	<u>16,247,460</u>
Net book amount at			
30 June 2006	<u>2,975,693</u>	<u>1,115,956</u>	<u>4,091,649</u>
30 June 2005	<u>3,012,898</u>	<u>1,238,920</u>	<u>4,251,818</u>
Company			
Cost			
At 1 July 2005	5,768,507	14,146,029	19,914,536
Additions	46,888	178,162	225,050
Disposals	-	(122,504)	(122,504)
At 30 June 2006	<u>5,815,395</u>	<u>14,201,687</u>	<u>20,017,082</u>
Depreciation			
At 1 July 2005	2,893,597	12,907,109	15,800,706
Charge for the year	200,811	288,959	489,770
Disposals	-	(110,337)	(110,337)
At 30 June 2006	<u>3,094,408</u>	<u>13,085,731</u>	<u>16,180,139</u>
Net book amount at			
30 June 2006	<u>2,720,987</u>	<u>1,115,956</u>	<u>3,836,943</u>
30 June 2005	<u>2,874,910</u>	<u>1,238,920</u>	<u>4,113,830</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****11 Fixed asset investments**

Fixed asset investments		Shares in undertakings £
Company		
Cost		
At 1 July 2005 and 30 June 2006		<u>2,779,630</u>
Provision		
At 1 July 2005 and 30 June 2006		<u>1,648,075</u>
Net book value		
At 30 June 2006		<u><u>1,131,555</u></u>
At 30 June 2005		<u><u>1,131,555</u></u>
	Country of registration or incorporation	Principal activity
Subsidiary undertakings		Class and percentage of shares held
Z Hinchliffe & Sons AG	Switzerland	Investment company
John Woodhead (Dobroyd Mills) Limited	England	Property management and letting
John Woodhead (Dobroyd Mills) USA Inc	USA	Dormant

12	Stocks	Group		Company	
		2006 £	2005 £	2006 £	2005 £
	Raw materials and consumables	7,605,647	10,378,481	7,605,647	10,378,481
	Work in progress	599,542	780,589	599,542	780,589
	Finished yarn	3,160,137	2,904,707	3,160,137	2,904,707
		<u>11,365,326</u>	<u>14,063,775</u>	<u>11,365,326</u>	<u>14,063,775</u>

13	Debtors	Group		Company	
		2006 £	2005 £	2006 £	2005 £
	Trade debtors	9,125,788	7,976,547	8,953,308	7,804,067
	Amounts owed by subsidiary undertaking	-	-	173,172	661,333
	Value added tax	-	28,753	-	28,753
	Other debtors	135,709	43,695	88,114	-
	Prepayments and accrued income	329,230	393,064	245,938	306,528
		<u>9,590,727</u>	<u>8,442,059</u>	<u>9,460,532</u>	<u>8,800,681</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****14 Investments**

Group	Fixed interest Securities £
At 1 July 2005	1,031,500
Disposals	(9,300)
At 30 June 2006	<u>1,022,200</u>

Listed fixed interest securities with a cost of £1,022,200 had a market value of £1,087,152 at 30 June 2006 (2005 cost of £1,031,500 market value of £1,056,004)

15 Creditors: amounts becoming due and payable within one year	2006 £	As restated 2005 £	2006 £	As restated 2005 £
Bank overdrafts	7,096,710	8,830,664	7,138,674	8,886,491
Trade creditors	399,794	407,485	399,794	407,485
Amounts owed to subsidiary undertaking	-	-	1,469,113	1,536,859
Corporation tax	-	116,679	-	110,242
Foreign taxes	80,493	168,279	-	-
Other taxes and social security	447,731	125,653	445,628	123,548
Accruals and deferred income	553,943	477,560	540,864	470,493
Other creditors	63,299	-	63,299	-
	<u>8,641,970</u>	<u>10,126,320</u>	<u>10,057,372</u>	<u>11,535,118</u>

16 Provision for liabilities and charges

Group and company				
Deferred taxation	2006 £	2005 £	2006 £	2005 £
Taxation allowances in advance of depreciation	<u>24,000</u>	<u>23,500</u>	<u>-</u>	<u>-</u>
Movement during the year				
At 1 July 2005		23,500		
Profit and loss account - charge		500		
At 30 June 2006		<u>24,000</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 2006****17 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 2006 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 30/06/06	At 30/06/05	At 30/06/04
Rate of increase in salaries	3.5%	3.75%	4.25%
Rate of increase in pensions in deferment	3.0%	2.75%	3.0%
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%	2.75%	3.0%
Discount rate	5.25%	5.0%	5.75%
Inflation assumption	3.0%	2.75%	3.25%

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****17 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 expected at 30/06/06 %	Value at 30/06/06 £	Long-term rate of expected at 30/06/05 %	Value at 30/06/05 £	Long-term rate of expected at 30/06/04 %	Value at 30/06/04 £
AXA and Standard Life investments	6.5	3,990,000	6.5	3,316,000	6.5	2,678,000
Plus cash at bank and net current assets		2,000		36,000		139,000
Total market value of assets		3,992,000		3,352,000		2,817,000
Present value of scheme liabilities		(3,876,000)		(4,023,000)		(3,303,000)
Surplus (deficit) in the scheme		116,000		(671,000)		(486,000)
Related deferred tax liability		-		-		-
Net pension asset (liability)		116,000		(671,000)		(486,000)

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****17 Pension commitments (continued)****1 The Z Hinchliffe & Sons Limited 1978 Retirement & Death Benefit Scheme (continued)**

An analysis of the defined benefit cost is as follows

Analysis of the amount charged to operating profit

	2006 £	2005 £
Current service cost	133,256	161,994
Past service cost	-	-
Total operating charge	<u>133,256</u>	<u>161,994</u>

Analysis of the amount credited (debited) to other finance income

Expected return on pension scheme assets	221,000	186,000
Interest on pension scheme liabilities	(203,000)	(192,000)
Total finance income (costs)	<u>18,000</u>	<u>(6,000)</u>

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

Actual return less expected return on pension scheme assets	311,000	269,000
Experience gains and losses arising on the scheme liabilities	68,000	48,000
Changes in assumptions underlying the present value of the scheme liabilities	364,000	(492,000)
Actuarial gain (loss) recognised in STRGL	<u>743,000</u>	<u>(175,000)</u>

Movement in surplus (deficit) during the year

Deficit in scheme at 1 July	(671,000)	(486,000)
Movement in year		
Current service cost and past service cost	(133,256)	(161,994)
Contributions	159,256	157,994
Other finance income (costs)	18,000	(6,000)
Actuarial gain (loss)	743,000	(175,000)
Surplus (deficit) in scheme at 30 June	<u>116,000</u>	<u>(671,000)</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****17 Pension commitments (continued)****1 The Z Hinchliffe & Sons Limited 1978 Retirement & Death Benefit Scheme (continued)**

The cost of company contributions into the scheme in respect of the year ended 30 June 2006 were £159,256 (2005 £157,994). It has been agreed with the trustees that the rate of employer and employee contributions currently in force will remain at 16.75% and 5% of pensionable salaries for the period to 5 April 2008.

The FRS 17 actuarial valuation at 30 June 2006 showed a surplus of £116,000.

At the last FRS 17 valuation as at 30 June 2005 there was a deficit of £671,000. The main reasons for the improvement in the scheme's financial position are:

- X increased investment returns achieved which were greater than previously assumed
- X changes to the actuarial assumptions allowing for future salary increases of 0.5% above price inflation as well as assuming that members will take maximum tax-free cash on retirement together with a correspondingly reduced pension rather than a lower level of tax-free cash and a higher residual pension.

History of experience gains and losses

	2006 £	2005 £	2004 £	2003 £
Difference between the expected and actual return on scheme assets				
Amount	311,000	269,000	(84,000)	112,420
Percentage of scheme assets	7.8%	8.0%	(2.9%)	4.3%
Experience gains and losses on scheme liabilities				
Amount	68,000	48,000	(19,000)	(181,186)
Percentage of the present value of the scheme liabilities	1.8%	1.2%	(0.6%)	(5.8%)
Total amount recognised in statement of total recognised gains and losses				
Amount	743,000	(175,000)	20,000	(499,598)
Percentage of the present value of the scheme liabilities	19.2%	(4.3%)	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 2006****17 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 2006 by a qualified independent actuary. The major assumptions used by the actuary were

	At 30/06/06	At 30/06/05	At 30/06/04
Rate of increase in salaries	3.5%	3.75%	4.25%
Rate of increase in pensions in deferment	3.0%	2.75%	3.0%
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%	2.75%	3.0%
Discount rate	5.25%	5.0%	5.75%
Inflation assumption	3.0%	2.75%	3.25%

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

	Long-term rate of return expected at 30/06/06 %	Value at 30/06/06 £	Long-term rate of return expected at 30/06/05 %	Value at 30/06/05 £	Long-term rate of return expected at 30/06/04 %	Value at 30/06/04 £
Prudential With-Profit Fund plus Cash and Net Current Assets	6.0	1,210,000	6.0	1,022,000	6.0	993,000
Total market value of assets		1,210,000		1,022,000		993,000
Present value of scheme liabilities		(1,261,000)		(1,297,000)		(1,031,000)
Deficit in the scheme		(51,000)		(275,000)		(38,000)
Related deferred tax liability		-		-		-
Net pension liability		(51,000)		(275,000)		(38,000)

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****17 Pension commitments (continued)****2 The John Woodhead (Dobroyd Mills) Limited Pension & Life Assurance Scheme (continued)**

An analysis of the defined benefit cost is as follows

Analysis of the amount charged to operating profit

Current service cost	36,979	32,066
Past service cost	-	-
Total operating charge	<u>36,979</u>	<u>32,066</u>

Analysis of the amount debited to other finance income

Expected return on pension scheme assets	61,000	60,000
Interest on pension scheme liabilities	(65,000)	(60,000)
Total finance cost	<u>(4,000)</u>	<u>-</u>

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

Actual return less expected return on pension scheme assets	124,000	(49,000)
Experience gains and losses arising on the scheme liabilities	(14,000)	(9,000)
Changes in assumptions underlying the present value of the scheme liabilities	129,000	(172,000)
Actuarial gain (loss) recognised in STRGL	<u>239,000</u>	<u>(230,000)</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****17 Pension commitments (continued)****2 The John Woodhead (Dobroyd Mills) Limited Pension & Life Assurance Scheme (continued)**

Movement in deficit during the year	2006 £	2005 £
Deficit in scheme at 1 July	(275,000)	(38,000)
Movement in year		
Current service cost and past service cost	(36,979)	(32,066)
Contributions	25,979	25,066
Other finance costs	(4,000)	-
Actuarial gain (loss)	239,000	(230,000)
Deficit in scheme at 30 June	<u>(51,000)</u>	<u>(275,000)</u>

The cost of company contributions into the scheme in respect of the year ended 30 June 2006 were £25,979 (2005 £25,066). It has been agreed with the trustees that the rate of employer and employee contributions currently in force will remain at 12% and 4% of pensionable salaries for the period to 1 June 2008.

The FRS17 actuarial valuation at 30 June 2006 showed a deficit of £51,000. At the last FRS17 valuation as at 30 June 2005 there was a deficit of £275,000. The main reasons for the improvement in the scheme's financial position are:

- X increased investment returns achieved which were greater than previously assumed
- X changes to the actuarial assumptions allowing for future salary increase of 0.5% above price inflation as well as assuming that members will take maximum tax-free cash on retirement together with a correspondingly reduced pension rather than a lower level of tax-free cash and a higher residual pension.

History of experience gains and losses

	2006 £	2005 £	2004 £	2003 £
Difference between the expected and actual return on scheme assets				
Amount	124,000	(49,000)	91,000	(278,268)
Percentage of scheme assets	10.2%	(4.8%)	9.2%	(33.7%)
Experience gains and losses on scheme liabilities				
Amount	(14,000)	(9,000)	(28,000)	168,456
Percentage of the present value of the scheme liabilities	(1.1%)	(0.7%)	(2.7%)	18.1%
Total amount recognised in statement of total recognised gains and losses				
Amount	239,000	(230,000)	68,000	(250,402)
Percentage of the present value of the scheme liabilities	19.0%	(17.7%)	6.6%	(26.9%)

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006****17 Pension commitments (continued)****3 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 £151,762 (2005: £228,896).

18 Share capital

	Authorised		Allotted, called up and fully paid	
	2006 Number	2005 Number	2006 £	2005 £
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.

19 Profit and loss account

	As restated Group £	As restated Company £
At 1 July 2005	22,095,508	15,409,380
Loss for the financial year	(963,186)	(778,658)
Dividends	(21,000)	(21,000)
Actuarial valuation gain on defined benefit pension scheme asset and liabilities	982,000	982,000
At 30 June 2006	<u>22,093,322</u>	<u>15,591,722</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE ACCOUNTS (continued)****30 JUNE 2006**

20 Reconciliation of movements in shareholders' funds	Group		Company	
	2006	As restated 2005	2006	As restated 2005
	£	£	£	£
(Loss) profit for the financial year	(963,186)	1,294,984	(778,658)	2,423,747
Dividends	(21,000)	(21,000)	(21,000)	(21,000)
Actuarial valuation gain/(loss) on defined benefit pension scheme assets and liabilities	982,000	(405,000)	982,000	(405,000)
Net (decrease) increase in shareholders' funds	(2,186)	868,984	(182,342)	1,997,747
Shareholders' funds at 1 July	22,350,476	21,481,492	15,664,348	13,666,601
Shareholders' funds at 30 June	22,348,290	22,350,476	15,846,690	15,664,348
Equity interests	22,318,290	22,320,476	15,816,690	15,634,348
Non-equity interests	30,000	30,000	30,000	30,000
	22,348,290	22,350,476	15,846,690	15,664,348

The cumulative amount of goodwill written off is £1,047,831 (2005 £1,047,831)

21 Capital commitments	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Capital expenditure contracted but not provided for in the accounts	175,000	175,000	140,000	175,000

22 Contingent liability

The company has given a guarantee to H M Customs & Excise in respect of deferred duty amounting to £175,000 (2005 £175,000)

23 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
Cardiff
CF14 3UZ