

Z HINCHLIFFE & SONS LIMITED
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2007

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Company registration number 78708

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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 2007

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 UK 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

Z HINCHLIFFE & SONS LIMITED

DIRECTORS' REPORT (continued)

Directors' interests (continued)

<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

The directors own no shares in any of the subsidiary companies

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 12 to the financial statements

Business review

During the year the group has continued to manufacture and sell cashmere and fine lambswool yarns to the knitwear industry

For the year under review our turnover (which is one of the key performance indicators) fell by 5%. This was caused by last year's warmer winter in the Northern Hemisphere and also by fierce competition from the Far East. We maintained our export levels at 50% of our turnover, mainly into Europe but also into developing markets which continue to improve in manufacturing quality.

During the year we have, as always, investigated all areas for the improvement of both quality and efficiency of operation whilst ensuring that we provide a safe working environment for our 355 employees.

The group is working hard to contain overhead costs (another key performance indicator of the business) and this means that any reduction in turnover will inevitably impact on profitability especially when faced with the necessity of incurring higher selling and marketing costs which arise from any such reduction.

During the year the group concluded the sale of a small piece of land for housing development which released an injection of funds. This will have a positive effect on the net assets of the business for future years. Stock levels and constituent parts (a key performance indicator for the business) have been kept under constant review in respect of raw material prices and finished yarn levels.

In order to reduce our environmental impact, the business continued to invest in equipment to make the most efficient use of energy. There have been no significant changes to the composition of our workforce during the year with the average number of employees during the year increasing from 350 to 355.

The strength of the balance sheet and the close attention given to controlling costs provide a firm basis for plans to continue successful trading into the foreseeable future.

Z HINCHLIFFE & SONS LIMITED

DIRECTORS' REPORT (continued)

Results and dividends

The group loss for the year, after taxation, was £213,451

The directors' recommend the following dividends -

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

Post balance sheet events

Since the year end of the Directors carried out a full review of the Company's production capacity. As a result it was concluded that, due to a large fall in demand for the products manufactured at the Jackson Bridge site, they had no alternative but to cease production at that location. This unfortunately resulted in the redundancy of the majority of the workforce based there which was concluded on 20 August 2007.

Financial instruments

The Company's principal financial instruments comprise bank balances, bank overdrafts, trade debtors and trade creditors. The main purpose of these instruments is to raise funds for the Company's operations and to finance the Company's operations.

Due to the nature of the financial instruments used by the Company there is no exposure to price risk. The Company's approach to managing other risks applicable to the financial instruments concerned is shown below.

In respect of bank balances the liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of overdrafts at floating rates of interest. The Company makes use of money market facilities where funds are available.

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits.

Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

Employee involvement

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

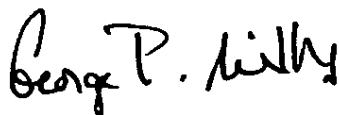
Employment of disabled persons

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.

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

A handwritten signature in black ink, appearing to read "George P. Wilby". The signature is written in a cursive, flowing style.

G P WILBY

Director

17 December 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF Z HINCHLIFFE & SONS LIMITED

We have audited the group and parent company financial statements of Z Hinchliffe & Sons Limited for the year ended 30 June 2007 which are set out on pages 8 to 30. These financial statements have been prepared under the accounting policies set out therein.

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

The Directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 group and 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
Z HINCHLIFFE & SONS LIMITED (continued)

Opinion

In our opinion:

- the 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 parent company's affairs as at 30 June 2007 and of the group's loss for the year then ended,
- the 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 financial statements

WHEAWILL & SUDWORTH



Registered Auditors
Chartered Accountants

35 Westgate
Huddersfield
HD1 1PA
17 December 2007

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

for the year ended

30 JUNE 2007

		2007 £	2006 £
Notes			
2	Turnover	18,149,275	19,164,565
	Cost of sales	(16,128,382)	(16,770,866)
	Gross profit	2,020,893	2,393,699
	Distribution costs	(1,921,581)	(1,882,552)
	Administrative expenses	(1,149,718)	(1,202,716)
	Profit on sale of land	802,267	-
3	Operating loss	(248,139)	(691,569)
4	Interest receivable	371,672	302,734
5	Interest payable	(410,103)	(512,130)
	Loss on ordinary activities before taxation	(286,570)	(900,965)
6	Taxation on loss on ordinary activities	73,119	(62,221)
	Loss for the financial year	(213,451)	(963,186)

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

The notes on pages 13 to 30 form part of these financial statements

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

for the year ended

30 JUNE 2007

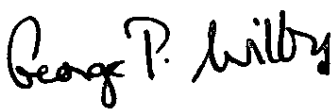
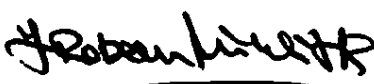
	Year ended 30 June 2007 £	Year ended 30 June 2006 £
Loss for the financial year	(213,451)	(963,186)
Actuarial valuation gain on defined benefit pension scheme assets and liabilities	533,000	982,000
Total recognised gains and losses for the year	319,549	18,814

The notes on pages 13 to 30 form part of these financial statements

Z HINCHLIFFE & SONS LIMITED**CONSOLIDATED BALANCE SHEET****30 JUNE 2007**

Notes		2007 £	2006 £
	Fixed assets		
10	Tangible assets	3,757,813	4,091,649
	Current assets		
12	Stocks	10,077,241	11,365,326
13	Debtors	10,256,652	9,590,727
14	Investments	1,000,700	1,022,200
	Cash at bank and in hand	4,984,464	4,879,358
		26,319,057	26,857,611
15	Creditors: amounts becoming due and payable within one year	(8,094,031)	(8,641,970)
	Net current assets	18,225,026	18,215,641
	Total assets less current liabilities	21,982,839	22,307,290
16	Provision for liabilities and charges	(30,000)	(24,000)
17	Pension scheme asset	638,000	116,000
17	Pension scheme asset / (liability)	56,000	(51,000)
	Net assets	22,646,839	22,348,290
	Capital and reserves		
18	Called up share capital	254,968	254,968
19	Profit and loss account	22,391,871	22,093,322
20	Shareholders' funds	22,646,839	22,348,290

The financial statements were approved by the board of directors and authorised for issue on 17 December 2007 and signed on its behalf by

G P WILBY

J R HINCHLIFFE

)

) Directors

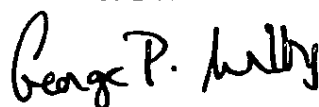
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The notes on pages 13 to 30 form part of these financial statements

Z HINCHLIFFE & SONS LIMITED**COMPANY BALANCE SHEET****30 JUNE 2007**

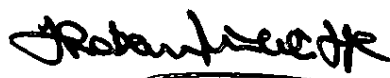
Notes		2007 £	2006 £
	Fixed assets		
10	Tangible assets	3,414,342	3,836,943
11	Investments	1,131,555	1,131,555
		<u>4,545,897</u>	<u>4,968,498</u>
	Current assets		
12	Stocks	10,077,241	11,365,326
13	Debtors	9,949,699	9,460,532
	Cash at bank and in hand	43,274	44,706
		<u>20,070,214</u>	<u>20,870,564</u>
15	Creditors' amounts becoming due and payable within one year	(9,418,233)	(10,057,372)
	Net current assets	<u>10,651,981</u>	<u>10,813,192</u>
	Total assets less current liabilities	<u>15,197,878</u>	<u>15,781,690</u>
16	Provision for liabilities and charges	-	-
17	Pension scheme asset	638,000	116,000
17	Pension scheme asset / (liability)	56,000	(51,000)
	Net assets	<u>15,891,878</u>	<u>15,846,690</u>
	Capital and reserves		
18	Called up share capital	254,968	254,968
19	Profit and loss account	15,636,910	15,591,722
20	Shareholders' funds	<u>15,891,878</u>	<u>15,846,690</u>

The financial statements were approved by the board of directors and authorised for issue on 17 December 2007 and signed on its behalf by



G P WILBY

)



J R HINCHLIFFE

)

) Directors

The notes on pages 13 to 30 form part of these financial statements

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

for the year ended

30 JUNE 2007

		2007 £	2006 £
Notes			
8	Net cash inflow from operating activities	122,514	1,795,318
8	Returns on investments and servicing of finance	(102,697)	(232,747)
	Taxation	2,063	(266,186)
8	Capital expenditure and financial investment	678,294	(329,567)
		<u>700,174</u>	<u>966,818</u>
	Equity dividend paid	(19,950)	(19,950)
9	Increase in cash in the year	<u><u>680,224</u></u>	<u><u>946,868</u></u>
9	Reconciliation of net cash inflow to movement in net debt		
	Increase in cash in the year	680,224	946,868
	Net debt at 1 July	<u>(1,195,152)</u>	<u>(2,142,020)</u>
	Net debt at 30 June	<u><u>(514,928)</u></u>	<u><u>(1,195,152)</u></u>

The notes on pages 13 to 30 form part of these financial statements

Z HINCHLIFFE & SONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

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 UK 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 2007. 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 £466,812 (2006 £778,658).

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.

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****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 full provision 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

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****2 Turnover**

The turnover is attributable to the group's principal activities

	2007 £	2006 £
Home	9,078,040	9,715,499
Export - Europe	6,352,885	6,418,745
- Rest of the World	2,718,350	3,030,321
	<u>18,149,275</u>	<u>19,164,565</u>

3 Operating loss

	2007 £	2006 £
(a) This is stated after charging and (crediting)		
Directors' emoluments (see below)	903,868	920,663
Auditors' remuneration in respect of		
Audit services	22,000	21,500
Other services	5,000	4,000
Depreciation	477,722	493,796
Surplus on disposal of tangible fixed assets	(822,180)	(4,060)
Exchange gains	(82,214)	(52,680)
Rents receivable from property (net of expenses)	(73,243)	(73,531)
	<u>903,868</u>	<u>920,663</u>
(b) Directors' emoluments		
Aggregate emoluments	788,854	785,936
Company pension contributions	115,014	134,727
	<u>903,868</u>	<u>920,663</u>

Retirement benefits are accruing to four directors under money purchase schemes

Emoluments of the highest paid director

Aggregate emoluments	202,913	205,906
Company pension contributions	45,591	54,897

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****3 Operating loss (continued)****(c) Particulars of staff**

The average number of persons employed by the group during the year, including the directors, was as follows

	2007 Number	2006 Number
Administration	8	8
Production	340	334
Selling	3	4
Directors	4	4
	<u>355</u>	<u>350</u>

	£	£
Staff costs		
Wages and salaries	5,700,259	5,756,096
Social security costs	504,003	520,926
Pension costs – defined benefit schemes	189,188	170,235
– defined contribution schemes	128,799	151,762
	<u>6,522,249</u>	<u>6,599,019</u>

4 Interest receivable

	2007 £	2006 £
Interest from fixed asset investments	72,331	73,170
Bank interest	235,341	212,098
Other interest	-	3,466
Net finance income in respect of defined benefit pension schemes	64,000	14,000
	<u>371,672</u>	<u>302,734</u>

5 Interest payable

	2007 £	2006 £
Bank overdrafts	<u>410,103</u>	<u>512,130</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007**

6 Taxation on loss on ordinary activities	2007 £	2006 £
(a) Analysis of charge for the year		
Current taxation		
UK Corporation tax on the loss for the year	-	-
Adjustment in respect of previous years	(114,319)	4,077
Irrecoverable withholding tax	-	22,444
	<u>(114,319)</u>	<u>26,521</u>
Foreign taxes	35,200	35,200
	<u>(79,119)</u>	<u>61,721</u>
Total current taxation (note (b))	(79,119)	61,721
Deferred taxation		
Origination and reversal of timing differences	6,000	500
	<u>6,000</u>	<u>500</u>
Taxation on (loss) on ordinary activities	<u>(73,119)</u>	<u>62,221</u>

At 30 June 2007 the group and company had unrelieved trading losses of £2,770,000 (2006 £2,645,000) and unrelieved capital losses of £99,126 (2006 £99,126)

(b) Factors affecting the charge for the year		
The tax assessed for the year is higher (2006 lower) than the standard rate of corporation tax in the UK (30%) The differences are explained below		
	2007 £	2006 £
Loss on ordinary activities before taxation	(286,570)	(900,965)
Corporation tax at 30% (2006 30%)	(85,971)	(270,290)
Effects of		
Depreciation charges in excess of capital allowances	(23,886)	16,561
Expenses not deductible for tax purposes	1,982	7,638
Indexation allowance and costs of gain	(24,920)	-
Provisions not yet deductible for tax purposes	1,380	-
Utilisation of taxation losses	(360)	(360)
UK corporation tax liability upon Z Hinchliffe & Sons AG dividend	-	134,665
Profits charged to tax at rates lower than 30%	(42,771)	(45,098)
Taxation losses generated in the year and carried forward	238,546	200,784
Net income relating to defined benefit pension schemes		
Calculated under FRS 17 not taxable	(28,800)	(8,700)
Irrecoverable withholding tax	-	22,444
Corporation tax under provided in a previous year	(114,319)	4,077
	<u>(79,119)</u>	<u>61,721</u>
Current tax charge for the year (note 6 (a))	<u>(79,119)</u>	<u>61,721</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007**

7	Dividends	2007 £	2006 £
	Paid during the year		
	Preference shares	1,050	1,050
	Ordinary shares	19,950	19,950
		<u>21,000</u>	<u>21,000</u>
	Paid after the year end on 2 July 2007 (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	2007 £	2006 £
(a)	Reconciliation of operating loss to net cash inflow from operating activities		
	Operating loss	(248,139)	(691,569)
	Depreciation	477,722	493,796
	Surplus on disposal of tangible fixed assets	(822,180)	(4,060)
	Decrease in stocks	1,288,085	2,698,449
	(Increase) in debtors	(547,977)	(1,148,668)
	Increase in creditors	7,003	462,370
	(Decrease) in defined benefit pension scheme employee benefits	(32,000)	(15,000)
	Net cash inflow from operating activities	<u>122,514</u>	<u>1,795,318</u>
(b)	Returns on investments and servicing of finance		
	Interest received	307,672	288,734
	Interest paid	(409,319)	(520,431)
	Preference dividend paid	(1,050)	(1,050)
		<u>(102,697)</u>	<u>(232,747)</u>
(c)	Capital expenditure and financial investment		
	Payments to acquire tangible fixed assets	(374,206)	(345,794)
	Receipts from sales of tangible fixed assets	1,052,500	16,227
		<u>678,294</u>	<u>(329,567)</u>
9	Analysis of changes in net debt	At 30 June 2006 £	At 30 June 2007 £
	Cash at bank and in hand	4,879,358	4,984,464
	Bank overdrafts	(7,096,710)	(6,500,092)
	Current asset investments	1,022,200	1,000,700
	Net debt	<u>(1,195,152)</u>	<u>(514,928)</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007**

10 Tangible fixed assets	Freehold land and buildings £	Plant and machinery £	Total £
Group			
Cost			
At 1 July 2006	6,137,422	14,201,687	20,339,109
Additions	108,087	266,119	374,206
Disposals	(216,733)	(160,265)	(376,998)
	<u>6,028,776</u>	<u>14,307,541</u>	<u>20,336,317</u>
At 30 June 2007			
Depreciation			
At 1 July 2006	3,161,729	13,085,731	16,247,460
Charge for the year	207,677	270,045	477,722
Disposals	-	(146,678)	(146,678)
	<u>3,369,406</u>	<u>13,209,098</u>	<u>16,578,504</u>
At 30 June 2006			
Net book amount at			
30 June 2007	2,659,370	1,098,443	3,757,813
30 June 2006	<u>2,975,693</u>	<u>1,115,956</u>	<u>4,091,649</u>
Company			
Cost			
At 1 July 2006	5,815,395	14,201,687	20,017,082
Additions	12,882	266,119	279,001
Disposals	(216,733)	(160,265)	(376,998)
	<u>5,611,544</u>	<u>14,307,541</u>	<u>19,919,085</u>
At 30 June 2007			
Depreciation			
At 1 July 2006	3,094,408	13,085,731	16,180,139
Charge for the year	201,237	270,045	471,282
Disposals	-	(146,678)	(146,678)
	<u>3,295,645</u>	<u>13,209,098</u>	<u>16,504,743</u>
At 30 June 2007			
Net book amount at			
30 June 2007	2,315,899	1,098,443	3,414,342
30 June 2006	<u>2,720,987</u>	<u>1,115,956</u>	<u>3,836,943</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****11 Fixed asset investments**

Company	Shares in undertakings £
Cost	
At 1 July 2006 and 30 June 2007	<u>2,779,630</u>
Provision	
At 1 July 2006 and 30 June 2007	<u>1,648,075</u>
Net book value	
At 30 June 2007	<u><u>1,131,555</u></u>
At 30 June 2006	<u><u>1,131,555</u></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	
	2007 £	2006 £	2007 £	2006 £
Raw materials and consumables	5,760,244	7,605,647	5,760,244	7,605,647
Work in progress	474,413	599,542	474,413	599,542
Finished yarn	3,842,584	3,160,137	3,842,584	3,160,137
	<u>10,077,241</u>	<u>11,365,326</u>	<u>10,077,241</u>	<u>11,365,326</u>

13 Debtors	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Trade debtors	9,586,202	9,125,788	9,413,722	8,953,308
Amounts owed by subsidiary undertaking	-	-	135,403	173,172
Other debtors	107,832	135,709	56,608	88,114
Corporation tax	114,319	-	114,319	-
Prepayments and accrued income	448,299	329,230	229,647	245,938
	<u>10,256,652</u>	<u>9,590,727</u>	<u>9,949,699</u>	<u>9,460,532</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****14 Investments**

Group	Fixed interest Securities £
At 1 July 2006	1,022,200
Disposals	(21,500)
	<u>1,000,700</u>
At 30 June 2007	<u>1,000,700</u>

Listed fixed interest securities with a cost of £1,022,200 had a market value of £1,009,400 at 30 June 2007 (2006 cost of £1,022,200 market value of £1,087,152)

	Group		Company	
15 Creditors: amounts becoming due and payable within one year	2007 £	2006 £	2007 £	2006 £
Bank overdrafts	6,500,092	7,096,710	6,534,545	7,138,674
Trade creditors	660,810	399,794	660,810	399,794
Amounts owed to subsidiary				
Undertaking	-	-	1,418,423	1,469,113
Foreign taxes	121,385	80,493	-	-
Other taxes and social security	276,660	447,731	274,638	445,628
Accruals and deferred income	474,660	553,943	469,393	540,864
Other creditors	60,424	63,299	60,424	63,299
	<u>8,094,031</u>	<u>8,641,970</u>	<u>9,418,233</u>	<u>10,057,372</u>

16 Provision for liabilities and charges

Group	2007 £	2006 £	2007 £	2006 £
Deferred taxation				
Taxation allowances in advance of depreciation	<u>30,000</u>	<u>24,000</u>	<u>-</u>	<u>-</u>
Movement during the year				
At 1 July 2006		24,000		
Profit and loss account - charge		<u>6,000</u>		
At 30 June 2007		<u>30,000</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 FINANCIAL STATEMENTS (continued)****30 JUNE 2007****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 2006 and updated to 30 June 2007 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 30/06/07	At 30/06/06	At 30/06/05
Rate of increase in salaries	4.0%	3.5%	3.75%
Rate of increase in pensions in deferment	3.5%	3.0%	2.75%
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	3.5%	3.0%	2.75%
Discount rate	5.75%	5.25%	5.0%
Inflation assumption	3.5%	3.0%	2.75%

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (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 30/06/07 %	Value at 30/06/07 £	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 £
AXA and Standard Life investments	6.5	4,674,000	6.5	3,990,000	6.5	3,316,000
Plus cash at bank and net current assets		90,000		2,000		36,000
Total market value of assets		4,764,000		3,992,000		3,352,000
Present value of scheme liabilities		(4,126,000)		(3,876,000)		(4,023,000)
Surplus (deficit) in the scheme		638,000		116,000		(671,000)
Related deferred tax liability		-		-		-
Net pension asset (liability)		638,000		116,000		(671,000)

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****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

	2007 £	2006 £
Current service cost	118,675	133,256
Past service cost	-	-
Total operating charge	<u>118,675</u>	<u>133,256</u>

Analysis of the amount credited to other finance income

Expected return on pension scheme assets	264,000	221,000
Interest on pension scheme liabilities	(206,000)	(203,000)
Total finance income	<u>58,000</u>	<u>18,000</u>

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

Actual return less expected return on pension scheme assets	368,000	311,000
Experience gains and losses arising on the scheme liabilities	(77,000)	68,000
Changes in assumptions underlying the present value of the scheme liabilities		
	130,000	364,000
Actuarial gain recognised in STRGL	<u>421,000</u>	<u>743,000</u>

Movement in surplus (deficit) during the year

Surplus (deficit) in scheme at 1 July	116,000	(671,000)
Movement in year		
Current service cost and past service cost	(118,675)	(133,256)
Contributions	161,675	159,256
Other finance income	58,000	18,000
Actuarial gain		
	421,000	743,000
Surplus in scheme at 30 June	<u>638,000</u>	<u>116,000</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****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 2007 were £ (2006 £159,256) 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 2007 showed a surplus of £638,000

At the last FRS 17 valuation as at 30 June 2006 there was a surplus of £116,000 The main reason for the improvement in the scheme's financial position are the better than expected returns on the scheme's assets and the increase in bond yields over the year

History of experience gains and losses

	2007 £	2006 £	2005 £	2004 £	2003 £
Difference between the expected and actual return on scheme assets					
Amount	368,000	311,000	269,000	(84,000)	112,420
Percentage of scheme assets	7.7%	7.8%	8.0%	(2.9%)	4.3%
Experience gains and losses on scheme liabilities					
Amount	(77,000)	68,000	48,000	(19,000)	(181,186)
Percentage of the present value of the scheme liabilities	(1.9%)	1.8%	1.2%	(0.6%)	(5.8%)
Total amount recognised in statement of total recognised gains and losses					
Amount	421,000	743,000	(175,000)	20,000	(499,598)
Percentage of the present value of the scheme liabilities	10.2%	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")

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****17 Pension commitments (continued)****2 The John Woodhead (Dobroyd Mills) Limited Pension & Life Assurance Scheme (continued)**

Under this accounting standard the following disclosures are required

A full actuarial valuation was carried out on 1 June 2006 and updated to 30 June 2007 by a qualified independent actuary. The major assumptions used by the actuary were

	At 30/06/07	At 30/06/06	At 30/06/05
Rate of increase in salaries	4.0%	3.5%	3.75%
Rate of increase in pensions in deferment	3.5%	3.0%	2.75%
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	3.5%	3.0%	2.75%
Discount rate	5.75%	5.25%	5.0%
Inflation assumption	3.5%	3.0%	2.75%

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

	Long-term rate of return expected at 30/06/07 %	Value at 30/06/07 £	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 £
Prudential With-Profit Fund plus Cash and Net Current Assets	6.0	1,361,000	6.0	1,210,000	6.0	1,022,000
Total market value of assets		1,361,000		1,210,000		1,022,000
Present value of scheme liabilities		(1,305,000)		(1,261,000)		(1,297,000)
Surplus (deficit) in the scheme		56,000		(51,000)		(275,000)
Related deferred tax liability		-		-		-
Net pension liability		56,000		(51,000)		(275,000)

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****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

	2007	2006
	£	£
Analysis of the amount charged to operating profit		
Current service cost	38,513	36,979
Past service cost	-	-
	<u>38,513</u>	<u>36,979</u>
Total operating charge	<u>38,513</u>	<u>36,979</u>
Analysis of the amount debited to other finance income		
Expected return on pension scheme assets	73,000	61,000
Interest on pension scheme liabilities	(67,000)	(65,000)
	<u>6,000</u>	<u>(4,000)</u>
Total finance income (cost)	<u>6,000</u>	<u>(4,000)</u>
Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	65,000	124,000
Experience gains and losses arising on the scheme liabilities	11,000	(14,000)
Changes in assumptions underlying the present value of the scheme liabilities	36,000	129,000
	<u>112,000</u>	<u>239,000</u>
Actuarial gain recognised in STRGL	<u>112,000</u>	<u>239,000</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****17 Pension commitments (continued)****2 The John Woodhead (Dobroyd Mills) Limited Pension & Life Assurance Scheme (continued)**

Movement in deficit during the year

	2007 £	2006 £
Deficit in scheme at 1 July	(51,000)	(275,000)
Movement in year		
Current service cost and past service cost	(38,513)	(36,979)
Contributions	27,513	25,979
Other finance income (costs)	6,000	(4,000)
Actuarial gain	112,000	239,000
Surplus (deficit) in scheme at 30 June	<u>56,000</u>	<u>(51,000)</u>

The cost of company contributions into the scheme in respect of the year ended 30 June 2007 were £27,513 (2006 £25,979). 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 2007 showed a surplus of £56,000. At the last FRS17 valuation as at 30 June 2006 there was a deficit of £51,000. The main reasons for the improvement in the scheme's financial position are increased bond yields and better than expected returns on the scheme assets.

History of experience gains and losses

	2007	2006 £	2005 £	2004 £	2003 £
Difference between the expected and actual return on scheme assets					
Amount	65,000	124,000	(49,000)	91,000	(278,268)
Percentage of scheme assets	4.8%	10.2%	(4.8%)	9.2%	(33.7%)
Experience gains and losses on scheme liabilities					
Amount	11,000	(14,000)	(9,000)	(28,000)	168,456
Percentage of the present value of the scheme liabilities	10.8%	(1.1%)	(0.7%)	(2.7%)	18.1%
Total amount recognised in statement of total recognised gains and losses					
Amount	112,000	239,000	(230,000)	68,000	(250,402)
Percentage of the present value of the scheme liabilities	8.6%	19.0%	(17.7%)	6.6%	(26.9%)

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007****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 £128,799 (2006 £151,762)

18 Share capital

	Authorised		Allotted, called up and fully paid	
	2007 Number	2006 Number	2007 £	2006 £
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

	Group £	Company £
At 1 July 2006	22,093,322	15,591,722
Loss for the financial year	(213,451)	(466,812)
Dividends	(21,000)	(21,000)
Actuarial valuation gain on defined benefit pension scheme asset and liabilities	533,000	533,000
At 30 June 2007	<u>22,391,871</u>	<u>15,636,910</u>
Group	2007 £	2006 £
Profit and loss reserve excluding pension liability	21,697,871	22,028,322
Pension reserve	694,000	65,000
Profit and loss reserve	<u>22,391,871</u>	<u>22,093,322</u>
Company		
Profit and loss reserve excluding pension liability	14,942,910	15,526,722
Pension reserve	694,000	65,000
Profit and loss reserve	<u>15,636,910</u>	<u>15,591,722</u>

Z HINCHLIFFE & SONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****30 JUNE 2007**

20	Reconciliation of movements in shareholders' funds	Group		Company	
		2007 £	2006 £	2007 £	2006 £
	Loss for the financial year	(213,451)	(963,186)	(466,812)	(778,658)
	Dividends	(21,000)	(21,000)	(21,000)	(21,000)
	Actuarial valuation gain on defined benefit pension scheme assets and liabilities	533,000	982,000	533,000	982,000
	Net increase (decrease) in shareholders' funds	298,549	(2,186)	45,188	182,342
	Shareholders' funds at 1 July	22,348,290	22,350,476	15,846,690	15,664,348
	Shareholders' funds at 30 June	22,646,839	22,348,290	15,891,878	15,846,690
	Equity interests	22,616,839	22,318,290	15,861,878	15,816,690
	Non-equity interests	30,000	30,000	30,000	30,000
		22,646,839	23,348,290	15,891,878	15,846,690

The cumulative amount of goodwill written off is £1,047,831 (2006 £1,047,831)

21	Capital commitments	Group		Company	
		2007 £	2006 £	2007 £	2006 £
	Capital expenditure contracted but not provided for in the accounts	-	175,000	-	140,000

22 Contingent liability

The company has given a guarantee to H M Customs & Excise in respect of deferred duty amounting to £175,000 (2006 £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. The ultimate controlling parties are J R Hinchliffe and J H Hinchliffe

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

Registrar of Companies
Companies House
Crown Way
Cardiff
CF14 3UZ