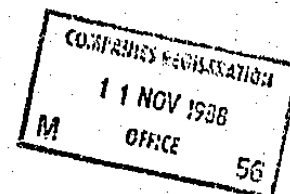


MUTUAL MILLS LIMITED 1160300
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED
26 MARCH 1988

PEAT MARWICK McLINTOCK
City Square House 7 Wellington Street
LEEDS LS1 4DW



MUTUAL MILLS LIMITED

DIRECTORS' REPORT

The directors present their sixty-sixth annual report and the audited accounts for the year ended 26 March 1988.

PRINCIPAL ACTIVITIES

The principal activity of the company has continued to be the spinning of natural and man-made fibres.

BUSINESS REVIEW

The buoyant demand for yarn apparent in the second half of the 1986/87 financial year continued well into 1987 and has resulted in a further increase in profitability. The stock market collapse and subsequent increase in the value of the pound sterling has had an adverse effect on our business, and resultant changes in purchasing patterns mean that alternative yarn developments and market opportunities are having to be explored. Further large scale investment in new plant has been authorised as a continuation of the long term objects of cost reduction and efficiency improvement.

TAX STATUS

The directors are of the opinion that the close company provisions of the Income and Corporation Taxes Act 1970, as amended, do not apply to the company.

FORMAT OF ACCOUNTS

In accordance with section 229 Companies Act 1985 group accounts have not been prepared as the company is a wholly owned subsidiary of another body corporate incorporated in Great Britain. In the opinion of the directors the aggregate value of the assets of the company consisting of shares in, and amounts owing from, the company's subsidiaries is not less than the aggregate of the amounts at which those assets are included in the company's balance sheet.

PROPOSED DIVIDEND

The directors recommend the payment of a dividend of £326,000 for the year ended 26 March 1988.

PROPOSED TRANSFERS TO RESERVES

The directors propose to transfer £31,024 from reserves being the loss for the year after tax and dividends (1987: £2,604).

MUTUAL MILLS LIMITEDDIRECTORS' REPORT

(continued)

LAND AND BUILDINGS

The company's freehold land and buildings were revalued at 31 March 1979, on the basis of open market value for existing use which resulted in a revaluation surplus of £510,959. Subsequent additions have been included in fixed assets at cost.

The directors are of the opinion that there is no significant difference between the present market value of land and buildings and the amounts at which they are stated in the accounts.

DIRECTORS AND DIRECTORS' INTERESTS

The directors of the company during the year were:

Mr D Babbs
Mr H F Openshaw
Mr M Jones
Mr D Oxley (appointed 1 December 1987)

Mr D Babbs was granted options of 19,600 ordinary shares in Lister & Co. plc on 8 February 1988. Options may be exercised between February 1991 and 1998 at a price of £1.39.

No other director had any interest in the shares of either Mutual Mills Limited or the parent company at any time during the year.

Mr H F Openshaw retires by rotation and, being eligible, offers himself for re-election.

Mr D Oxley having been appointed since the last annual general meeting retires and being eligible offers himself for re-election.

EMPLOYEES

Although no formal reporting procedures have been established by the Company, regular contact, between senior management and union representatives, is maintained in order to keep employees informed of the Company's ongoing situation and future prospects.

It is company policy, when recruiting, to consider each vacancy as to its suitability for a disabled person. Regular contact is maintained with local Disablement Resettlement Officers to ensure that people with the necessary skills are given every consideration for employment.

Whilst promotion and career development opportunities are open to all employees, special attention is given to the needs of the disabled, or those employees who become disabled, to facilitate their continued employment within the company.

MUTUAL MILLS LIMITED

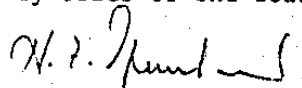
DIRECTORS' REPORT

(continued)

AUDITORS

A resolution to reappoint the auditors, Peat Marwick McLintock will be proposed at the forthcoming annual general meeting.

By order of the board



H F OPENSHAW

Secretary

Aspinall Street
Heywood

27 June 1988

Peat Marwick McLintock

REPORT OF THE AUDITORS TO THE MEMBERS OF

MUTUAL MILLS LIMITED

We have audited the accounts on pages 5 to 16 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the company's affairs at 26 March 1988 and of its profit and source and application of funds for the year to that date and have been properly prepared in accordance with the Companies Act 1985.

Peat Marwick McLintock

PEAT MARWICK McLINTOCK

Chartered Accountants

City Square House
7 Wellington Street
Leeds
LS1 4DW

27 June 1988

MUTUAL MILLS LIMITEDPROFIT AND LOSS ACCOUNTFOR THE YEAR ENDED 26 MARCH 1988

	<u>Note</u>	<u>1988</u>	<u>1987</u>
TURNOVER	2	£ 9,368,149	£ 8,794,522
Cost of sales		<u>(8,144,851)</u>	<u>(7,639,755)</u>
GROSS PROFIT		1,223,298	1,154,767
Distribution costs		(280,119)	(266,128)
Administrative expenses		(263,234)	(245,862)
Income from other fixed asset investments		1,458	1,540
Interest payable and similar charges	4	<u>(221,759)</u>	<u>(240,408)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	459,644	403,909
Tax on profit on ordinary activities	7	<u>(164,668)</u>	<u>(226,513)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		294,976	177,396
Proposed dividend		<u>(326,000)</u>	<u>(180,000)</u>
RETAINED LOSS FOR THE FINANCIAL YEAR	16	£ (31,024) =====	£ (2,604) =====

MUTUAL MILLS LIMITEDBALANCE SHEET AT 26 MARCH 1988

	<u>Note</u>	<u>1988</u>	<u>1987</u>
FIXED ASSETS			
Tangible assets	8	£ 1,409,125	£ 1,277,300
Investments	9	<u>34,080</u>	<u>34,080</u>
		£ 1,443,205	£ 1,311,380
CURRENT ASSETS			
Stocks	10	1,404,447	1,210,060
Debtors	11	1,767,168	1,531,312
Cash and bank		<u>420,427</u>	<u>-</u>
		3,592,042	2,741,372
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	12	<u>(3,816,875)</u>	<u>(2,782,734)</u>
NET CURRENT LIABILITIES		<u>(224,833)</u>	<u>(41,362)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,218,372	1,270,018
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
	13	<u>(2,958)</u>	<u>(23,580)</u>
NET ASSETS		£ 1,215,414 =====	£ 1,246,438 =====
CAPITAL AND RESERVES			
Called up share capital	15	£ 450,000	£ 450,000
Revaluation reserve	16	361,710	369,882
Profit and loss account	16	<u>403,704</u>	<u>426,556</u>
		£ 1,215,414 =====	£ 1,246,438 =====

These accounts were approved
by the board of directors on
27 June 1988

D BABBS)
) DIRECTORS
H F OPENSHAW)

D. Babbs
H. F. Openshaw

The notes on pages 8 to 16 form part of these accounts.

MUTUAL MILLS LIMITEDSTATEMENT OF SOURCE AND APPLICATION OF FUNDSFOR THE YEAR ENDED 26 MARCH 1988

	<u>1988</u>	<u>1987</u>
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	£ 459,644	£ 403,909
Adjustments for items not involving the movement of funds:		
Depreciation and amortisation	£ 189,456	£ 161,429
Deficit/(surplus) on sale of tangible fixed assets	<u>9</u>	<u>(1,675)</u>
	<u>189,465</u>	<u>159,754</u>
FUNDS GENERATED FROM OPERATIONS	649,109	563,663
FUNDS FROM OTHER SOURCES		
Proceeds of sale of tangible fixed assets	2,635	3,515
Increase in creditors: amounts falling due after more than one year	<u>-</u>	<u>23,580</u>
	651,744	590,758
APPLICATION OF FUNDS		
Purchase of fixed assets	£ 318,438	£ 200,542
Transfer of fixed assets	5,487	5,363
Dividend paid	180,000	225,000
Payments for group relief surrendered	226,513	248,804
Decrease in creditors: amounts falling due after more than one year	<u>20,622</u>	<u>-</u>
	<u>(751,060)</u>	<u>(679,909)</u>
DECREASE IN WORKING CAPITAL	£ (99,316)	£ (89,151)
COMPONENTS OF DECREASE IN WORKING CAPITAL		
Stocks	£ 194,387	£ (84,385)
Debtors	235,856	(87,401)
Creditors falling due within one year	(1,330,056)	70,517
Movement in net liquid funds:		
Decrease in overdraft	£ 380,070	£ 12,118
Increase in cash	<u>420,427</u>	<u>-</u>
	<u>800,497</u>	<u>12,118</u>
	£ (99,316)	£ (89,151)

The notes on pages 8 to 16 form part of these accounts.

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's accounts:-

(a) Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings.

(b) Depreciation and amortisation

Depreciation is provided on the straight line basis at rates estimated to write-off the cost or value of fixed assets, other than freehold land, over their anticipated useful lives:

Plant and machinery	:	Varying between 5% and 20% per annum
Freehold buildings	:	2½% per annum

(c) Stocks and work in progress

Stock and work in progress has been valued at the lower of cost and net realisable value. Cost is defined as follows:

Raw materials	-	invoice price
Work in progress and finished goods	-	cost of raw materials plus direct wages and appropriate overheads related to production

(d) Deferred taxation

The policy followed in accounting for deferred taxation accords with Statement of Standard Accounting Practice No. 15 and provision is made for only those timing differences which may result in a taxation liability in the foreseeable future.

The full potential liability for deferred taxation is set out in Note 15.

(e) Turnover

Turnover of the company for the year is the net amount receivable by the company for goods supplied and rents, exclusive of value added tax.

(f) Group finance charge

As from 1 April 1977 the parent company, Lister & Co. plc, has undertaken to stand all interest charges on bank borrowings and to charge the company an amount equal to 1% above Barclays Bank plc base rate based on the total stocks together with trade debtors.

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS

(continued)

1. PRINCIPAL ACCOUNTING POLICIES (continued)(g) Investment income

Investment income is shown including the tax credit applicable to United Kingdom shareholders.

(h) Accounting date

The accounts of the company are made up to the Saturday nearest to the 31 March.

(i) Leases under hire purchase agreements

Assets held under financial agreements that give rights approximating to ownership are treated as if they had been purchased outright at the present value of the total amount payable during the primary period of the agreements. The corresponding financial commitments are shown as creditors. The interest element of payments under these agreements and depreciation on the relevant assets are charged to the profit and loss account.

The rentals arising under operating lease agreements are charged to the profit and loss account over the terms of the leases.

2. TURNOVER

The analysis of external turnover by geographical area is as follows:

	<u>1988</u>	<u>1987</u>
UK	£7,268,077	£ 7,260,870
Other European countries	190,171	495,194
Other worldwide countries	<u>-</u>	<u>14,087</u>
	£7,458,248	£ 7,770,151
	=====	=====

The sales to parent company and fellow subsidiaries during the year were £1,909,901 (1987: £1,024,371).

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS

(continued)

3. STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:-

	<u>1988</u> <u>Number</u>	<u>1987</u> <u>Number</u>
Production	315	297
Distribution	9	8
Administration	<u>30</u>	<u>30</u>
	354	335
	===	===

The aggregate payroll costs of these persons were as follows:

	<u>1988</u>	<u>1987</u>
Wages and salaries	£2,237,954	£1,983,272
Social security costs	159,590	158,376
Other pension costs	<u>26,820</u>	<u>24,327</u>
	£2,424,364	£2,165,975
	=====	=====

4. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>1988</u>	<u>1987</u>
On finance from group companies	£ 221,759	£ 240,408
	=====	=====

5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging or crediting the following:-

	<u>1988</u>	<u>1987</u>
Depreciation of tangible fixed assets:		
Owned assets	£ 173,893	£ 147,965
Leased assets	17,434	13,464
Directors' emoluments (see note 6):		
Remuneration as executives	115,823	99,250
Hire of plant and machinery	12,741	13,810
Auditors' remuneration and expenses	5,000	4,500
Finance charges payable on finance leases and hire purchase contracts	<u>5,139</u>	<u>6,109</u>
	=====	=====

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS

(continued)

6. EMOLUMENTS OF DIRECTORS

Excluding pension contributions, the emoluments of the highest paid director were £40,455 (1987: £37,800); the emoluments of the other directors were within the following ranges:-

	<u>1988</u> <u>Number</u>	<u>1987</u> <u>Number</u>
£ 5,001 - £10,000	1	-
£20,001 - £25,000	2	2
	===	===

7. TAXATION

Payment to fellow subsidiary companies
for group relief calculated at 35%:

	<u>1988</u>	<u>1987</u>
In relation to current year	£ 164,668	£ 133,126
In relation to previous years	-	115,678
Over provision in previous years	-	(22,291)
	<u>£ 164,668</u>	<u>£ 226,513</u>
	=====	=====

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS

(continued)

8. TANGIBLE FIXED ASSETS

	Freehold land and Buildings	Plant and Machinery	Total
(a) COST			
At 29 March 1987	600,998	2,868,353	3,469,351
Additions	26,708	291,730	318,438
Disposals	-	(37,151)	(37,151)
Transfers in	-	78,603	78,603
At 26 March 1988	£ 627,706	£3,201,535	£3,829,241
	=====	=====	=====
DEPRECIATION AND AMORTISATION			
At 29 March 1987	83,561	2,108,490	2,192,051
Charge for the year	11,235	178,221	189,456
Disposals	-	(34,507)	(34,507)
Transfers in	-	73,116	73,116
At 26 March 1988	£ 94,796	£2,325,320	£2,420,116
	=====	=====	=====
NET BOOK VALUE			
At 26 March 1988	£ 532,910	£ 876,215	£1,409,125
	=====	=====	=====
At 28 March 1987	£ 517,437	£ 759,863	£1,277,300
	=====	=====	=====
(b) COST comprises:			
Cost	£ 56,406	£3,161,928	£3,218,334
Professional valuation at 31 March 1979	571,300	-	571,300
Net book value	-	39,607	39,607
	£ 627,706	£3,201,535	£3,829,241
	=====	=====	=====

The net book value of leased assets at 26 March 1988 was £112,084
(1987: £129,518)

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS

(continued)

8. TANGIBLE FIXED ASSETS (continued)

- (c) The amount of land and buildings (including those revalued at 31 March 1979) determined according to the historical cost accounting rules is as follows:

	<u>1988</u>	<u>1987</u>
Cost	£ 270,135	£ 243,427
Depreciation	<u>(98,983)</u>	<u>(95,721)</u>
Net book value	£ 171,152 =====	£ 147,706 =====

- (d) Freehold industrial land included above at cost or valuation, not being subject to depreciation, amounts to £121,000.

- (e) Contracts for capital expenditure at 26 March 1988 not provided for in the accounts totalled £393,000 (1987: £17,000). Expenditure which had been authorised by the Board at 26 March 1988 for which contracts had not been placed amounted to £48,000 (1987: £Nil).

9. INVESTMENTS

The company has the following wholly owned subsidiaries incorporated in Great Britain.

Adelaide Engineering Co. Limited
The English Knitting Co. Limited (dormant company)

In addition the company holds 24.7% of the equity share capital of E. Walters (Ludlow) Limited, an unquoted company incorporated in Great Britain. E Walters (Ludlow) Limited is not regarded as being within the definition of an associated company of this company and its results have not been treated as such in these accounts.

	<u>1988</u>	<u>1987</u>
Ordinary shares in subsidiaries at cost, less amounts written off	£ 15,988	£ 15,988
Less: loan and current accounts of dormant company	<u>(11,908)</u>	<u>(11,908)</u>
	4,080	4,080
Unquoted shares in E Walters (Ludlow) Limited	<u>30,000</u>	<u>30,000</u>
	£ 34,080 =====	£ 34,080 =====

At 26 March 1988 the directors valuation of the unquoted shareholding in E Walters (Ludlow) Limited was £680,000 (1987: £590,000).

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS

(continued)

10. STOCKS AND WORK IN PROGRESS

	<u>1988</u>	<u>1987</u>
Raw materials and consumables	£ 436,262	£ 348,019
Work in progress	173,636	149,529
Finished goods and goods for resale	<u>794,549</u>	<u>712,512</u>
	£ 1,404,447	£ 1,210,060
	=====	=====

11. DEBTORS

	<u>1988</u>	<u>1987</u>
Trade debtors	£ 1,146,358	£ 1,352,731
Amounts owed by group companies:		
Holding and fellow subsidiary companies	-	173,077
Subsidiary companies	613,544	-
Amounts owed by related companies	1,093	1,093
Other debtors	<u>6,173</u>	<u>4,411</u>
	£ 1,767,168	£ 1,531,312
	=====	=====

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1988</u>	<u>1987</u>
Bank loans and overdrafts	£ -	£ 380,070
Trade creditors	558,169	732,348
Amounts owed to group companies:		
Holding and fellow subsidiary companies	£ 2,472,759	£ 1,035,572
Subsidiary companies	-	<u>240,410</u>
	2,472,759	1,275,982
Obligations under finance leases	20,622	50,753
Other creditors including taxation and social security	235,393	15,487
Accruals and deferred income	203,932	148,094
Proposed dividend	<u>326,000</u>	<u>180,000</u>
	£ 3,816,875	£ 2,782,734
	=====	=====

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS

(continued)

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1988</u>	<u>1987</u>
Obligations under finance leases payable within 5 years	£ 2,958 =====	£ 23,580 =====

14. PROVISIONS FOR LIABILITIES AND CHARGES

No provision for deferred tax has been made as, in the opinion of the Directors, no liability is likely to arise in the foreseeable future. The potential liability for deferred taxation, calculated on the liability method at a corporation tax rate of 35% (1987: 35%), is as follows:

	<u>1988</u>
Difference between accumulated depreciation and capital allowances	£ 121,060
Revaluation of freehold properties	75,000 =====
	£ 196,060 =====

15. SHARE CAPITAL

	<u>1988</u>	<u>1987</u>
Authorised shares of £1 each	£ 750,000 =====	£ 750,000 =====
Share capital allotted, called up and fully paid	£ 450,000 =====	£ 450,000 =====

16. RESERVES

	<u>Revaluation reserve</u>	<u>Profit and loss account</u>
At 29 March 1987	£ 369,882	£ 426,556
Transfer to profit and loss account: re depreciation	(8,172)	8,172
Retained loss for the financial year	-	(31,024)
At 26 March 1988	£ 361,710 =====	£ 403,704 =====

MUTUAL MILLS LIMITEDNOTES TO THE ACCOUNTS

(continued)

17. OPERATING LEASE COMMITMENTS

Annual commitment of leases which terminate:

Within one year
2nd to 5th years

Plant and
machinery

£ 1,197
9,373

=====

18. ULTIMATE HOLDING COMPANY

The ultimate holding company is Lister & Co plc, which is incorporated in Great Britain.