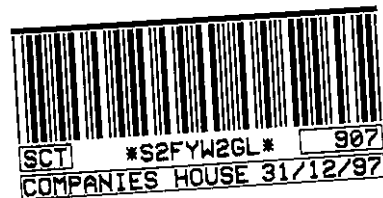


Peoples Limited

Financial statements 31 July 1997
together with directors' and auditors' reports

Registered number: SC080359



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Directors and advisors

Directors

Brian P Gilda (Chairman and Managing Director)

Stewart M Ramsay

J S Douglas Knowles (Non-executive)

Trevor A Jones (Non-executive)

Secretary

Stewart M Ramsay

Registered office

Glenmavis Garage

Bathgate

EH48 4LA

Bankers

Bank of Scotland

The Mound

Edinburgh

EH1 1YZ

Solicitors

MacLay Murray & Spens

151 St Vincent Street

Glasgow

G2 5NJ

Auditors and Tax advisors

Arthur Andersen

199 St Vincent Street

Glasgow

G2 5QD

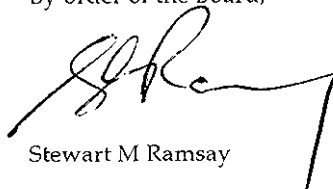
Notice of meeting

Notice is hereby given that the fourteenth annual general meeting of the company will be held at Glenmavis Garage, Bathgate EH48 4LA on 5 December 1997 to transact the following business:

1. To receive and adopt the directors' report and financial statements for the year ended 31 July 1997 together with the auditors' report.
2. To appoint auditors of the company and to authorise the directors to fix their remuneration for the ensuing year.
3. To transact any other ordinary business of the company.

Glenmavis Garage
Bathgate
EH48 4LA

By order of the Board,



Stewart M Ramsay

Secretary

25 November 1997

Directors' report

For the year ended 31 July 1997

The directors have pleasure in submitting their annual report on the affairs of the group together with the financial statements and auditors' report for the year ended 31 July 1997.

Principal activity and business review

The principal activity of the group is the sale and repair of motor vehicles and all normal activities associated therewith. A review of the group's business is provided in the Chairman's Statement.

Results

The results of the group for the year are set out in detail on page 11.

Profit on ordinary activities before taxation was £550,170 (1996 - £706,326).

Profit on ordinary activities after taxation was £364,812 (1996 - £467,396).

Dividends

Dividends paid and proposed are as follows:

	First preference shares £	Second preference shares £	Third preference shares £	Cumulative convertible participating preferred ordinary shares £
Paid - 31 July 1997	77,644	55,500	25,500	-
Proposed	50,002	35,741	10,981	-
	<u>127,646</u>	<u>91,241</u>	<u>36,481</u>	<u>-</u>
1997 - Dividend per share	<u>9.86p</u>	<u>9.86p</u>	<u>2.15p</u>	<u>-</u>
1996 - Dividend per share	<u>11.49p</u>	<u>9.83p</u>	<u>0.81p</u>	<u>6.40p</u>

Directors' report (continued)

Directors and their interests

The directors who served during the year and their beneficial interests in the shares of the company were:

	Number of 10 pence deferred shares at		Number of 10 pence ordinary shares at	
	31 July 1997	31 July 1996	31 July 1997	31 July 1996
B P Gilda	89,398	89,398	151,070	151,070
J S D Knowles	21,387	21,387	28,703	28,703
S M Ramsay	-	-	9,442	9,442
T A Jones	-	-	-	-

The group is under the ultimate control of the board of directors.

T A Jones is a director of Gresham Trust plc, whose wholly owned subsidiary, Wren Investments Limited, has an interest in the share capital of the company.

No director has any beneficial interest in the preference shares or preferred ordinary shares.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the company and group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 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 company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

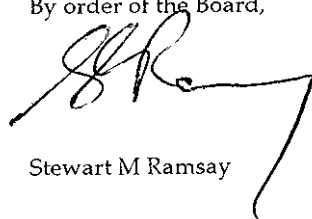
The group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Auditors

A resolution to appoint auditors for the ensuing year will be proposed at the annual general meeting.

Glenmavis Garage
Bathgate
EH48 4LA

By order of the Board,



Stewart M Ramsay

Secretary

25 November 1997

Chairman's statement

During the period under review, the Group's turnover reduced from £96.7m to £92.8m. This figure still represents the second highest recorded turnover of the Group since its inception.

Regrettably our pre-tax profits of £550,170 are a reduction of 22% from our performance of last year. The reasons behind this reduction can be mainly explained by two key actions by Ford Motor Company.

Firstly, the dramatic change in Ford's marketing strategy and the negative volume and profit reductions that followed when, for almost a quarter of the year, the strategy did not work. Secondly, the disastrous handling of the job losses and possible closure of Ford's Halewood Plant on Merseyside, these two actions negated the Liverpool dealership's profits for the year with the consequential impact on the Group. Had these two events in particular been better handled, then I am confident the Group's results would almost have matched our best year ever.

As it is, I am delighted that the Scottish companies did have their best year ever.

Current trading and outlook

Our first quarter trading to October is behind us and the results show us substantially ahead of the same period last year. November and December are traditionally the toughest months in our industry's calendar and with the intensity of the market place coupled with the pressure on margins we will still require extra impetus during the remainder of our financial year to reach the desired result.

Notwithstanding these last comments Ford have now recognised that radical change is required if they and their Dealerbody are to stand any chance of returning to acceptable profits. This change which is now encapsulated by the terminology Customer Marketing Area (CMAs) is both logical and the most strategically important development between Ford and its Dealerbody since the Franchise System was developed for the United Kingdom.

I am delighted that Peoples has been identified by both Ford and Iveco as partners for the future within the CMA concept.

Our people

We have continued our policy of working hard to retain and positively motivate key employees and I would therefore like to take this opportunity once again, to thank all the Staff for their efforts and again remind them that energy and persistence can conquer all things.

Support

As always, I record my appreciation and gratitude for the help and support given by all the institutions and advisors associated with the Group.



Brian P Gilda

25 November 1997

Auditors' report

Glasgow

To the Shareholders of Peoples Limited:

We have audited the financial statements on pages 9 to 28 which have been prepared under the historical cost convention and the accounting policies set out on pages 13 and 14.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

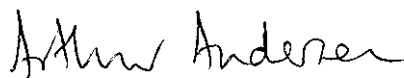
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 31 July 1997 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

199 St Vincent Street
Glasgow
G2 5QD

25 November 1997

Consolidated balance sheet

31 July 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	2	<u>4,538,252</u>	<u>4,710,432</u>
Current assets			
Interest in vehicle residuals:			
- repurchases after one year		7,012,702	8,208,945
- repurchases within one year		5,233,731	3,552,902
Stocks	4	4,896,092	5,542,159
Debtors	5	3,369,064	3,277,558
Cash at bank and in hand		639,904	459,192
		<u>21,151,493</u>	<u>21,040,756</u>
Creditors: Amounts falling due within one year	6	<u>(13,864,039)</u>	<u>(12,470,684)</u>
Net current assets		<u>7,287,454</u>	<u>8,570,072</u>
Total assets less current liabilities		<u>11,825,706</u>	<u>13,280,504</u>
Creditors: Amounts falling due after more than one year	7	<u>(9,815,626)</u>	<u>(11,379,868)</u>
Net assets		<u>2,010,080</u>	<u>1,900,636</u>
Capital and reserves			
Called-up share capital	9a	992,452	992,452
Capital redemption reserve	9b	171,040	171,040
Special reserve	9b	576,439	576,439
Other reserves	9b	270,149	160,705
Shareholders' funds	10	<u>2,010,080</u>	<u>1,900,636</u>
Represented by:			
Equity interests		619,161	571,637
Non-equity interests		1,390,919	1,328,999
		<u>2,010,080</u>	<u>1,900,636</u>

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

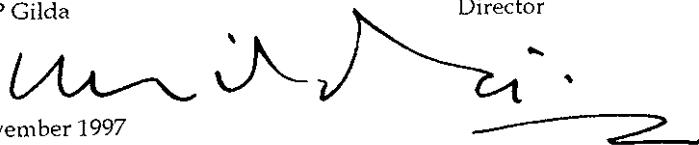
31 July 1997

	Notes	1997 £	1996 £
Fixed assets			
Investments	3	5,353,300	5,353,300
Current assets			
Debtors	5	121,968	108,011
Cash at bank and in hand		160,445	86,354
		282,413	194,365
Creditors: Amounts falling due within one year	6	(737,610)	(520,393)
Net current liabilities		(455,197)	(326,028)
Total assets less current liabilities		4,898,103	5,027,272
Creditors: Amounts falling due after more than one year	7	(2,548,000)	(2,816,000)
Net assets		2,350,103	2,211,272
Capital and reserves			
Called-up share capital	9a	992,452	992,452
Capital redemption reserve	9b	171,040	171,040
Special reserve	9b	576,439	576,439
Other reserves	9b	610,172	471,341
Shareholders' funds		2,350,103	2,211,272
Represented by:			
Equity interests		959,184	882,273
Non-equity interests		1,390,919	1,328,999
		2,350,103	2,211,272

Signed on behalf of the Board

Brian P Gilda

Director



25 November 1997

The accompanying notes are an integral part of this balance sheet.

Consolidated profit and loss account

For the year ended 31 July 1997

	Notes	1997 £	1996 £
Turnover	12	92,844,650	96,789,097
Cost of sales		(90,425,691)	(94,258,994)
Gross profit		2,418,959	2,530,103
Other operating expenses (net)		(1,299,757)	(1,254,164)
Operating profit		1,119,202	1,275,939
Interest receivable and similar income		23,381	62,566
Interest payable and similar charges	13	(592,413)	(632,179)
Profit on ordinary activities before taxation	12, 14	550,170	706,326
Tax on profit on ordinary activities	16	(185,358)	(238,930)
Profit on ordinary activities after taxation		364,812	467,396
Dividends paid and proposed on equity and non-equity shares	17	(317,288)	(451,193)
Profit for the financial year		47,524	16,203
Accumulated deficit at beginning of year		(240,982)	(257,185)
Accumulated deficit at end of year		(193,458)	(240,982)

All activity has arisen from continuing operations. The group has no recognised gains or losses other than the profit for each financial year.

The profit on ordinary activities for each year is also the historical cost profit.

A statement of movements on reserves is given in note 9.

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated cash flow statement

For the year ended 31 July 1997

	Notes	1997 £	£	1996 £	£
Net cash inflow from operating activities	18		2,672,894		1,976,973
Returns on investments and servicing of finance					
Interest received		23,381		62,566	
Interest paid		(574,031)		(619,392)	
Interest element of finance lease rentals		(18,382)		(12,787)	
Non-equity dividends paid		(203,938)		(462,263)	
Issue costs of non-equity shares		-		(27,629)	
Net cash outflow from returns on investments and servicing of finance			(772,970)		(1,059,505)
Taxation					
Corporation tax paid		(108,382)		(256,344)	
ACT paid		(14,747)		(176,548)	
Tax paid			(123,129)		(432,892)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(133,926)		(517,056)	
Sale of tangible fixed assets		7,145		15,340	
Conversion of tangible fixed assets to finance leases		-		304,827	
Net cash outflow for capital expenditure and financial investment			(126,781)		(196,889)
Equity dividends paid			-		(22,477)
Net cash inflow before financing			1,650,014		265,210
Financing					
Issue of new shares		-		1,700,000	
Redemption of share capital		-		(1,700,000)	
Repayment of loans	20	(242,334)		(183,332)	
Capital element of finance lease payments	20	(72,727)		(70,934)	
Increase (decrease) in stock finance	20	150,000		(2,309,189)	
Net cash outflow from financing			(165,061)		(2,563,455)
Increase (decrease) in cash	19		1,484,953		(2,298,245)

The accompanying notes are an integral part of this consolidated cash flow statement.

The prior year comparatives have been restated to reflect the requirements of Financial Reporting Standard 1 (revised).

Notes to financial statements

31 July 1997

1 Statement of accounting policies

A summary of the principal accounting policies all of which have been applied consistently throughout the year and the preceding year is set out below:

a) *Basis of accounting*

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. Assets and liabilities are recognised in the financial statements where, as a result of past transactions or events, the group has rights or other access to future economic benefits controlled by the group, or obligations to transfer economic benefits.

b) *Basis of consolidation*

The group financial statements consolidate the accounts of Peoples Limited and its subsidiary undertakings. Goodwill representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired is written off against reserves on acquisition.

In the company's financial statements, investments in subsidiary undertakings are stated at cost.

No profit or loss account is presented for Peoples Limited, as provided by S230 of the Companies Act 1985. The company's profit for the financial year, determined in accordance with the Act, was £ 394,199 (1996 - £510,742).

c) *Tangible fixed assets and depreciation*

Tangible fixed assets are shown at cost.

Depreciation is provided by the straight-line method calculated to write-off the cost of the fixed assets over their estimated useful lives at the following annual rates:

Buildings	2%
Plant and equipment	10% and 20%
Motor vehicles	25% and 30%
Leased assets	20%

Profits or losses on the disposal of fixed assets are included in the calculation of operating profit.

d) *Stocks*

Stocks are stated at the lower of cost and net realisable value and exclude new vehicles held on a consignment basis if the stock deposits do not directly relate to the consignment stocks held at any one time. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Notes to financial statements (continued)

1 Statement of accounting policies (continued)

e) *Repurchase arrangement*

The contractual commitment to repurchase vehicles (predominantly under the "Motability" scheme) is shown as a liability within "Creditors: amounts falling due within one year" and "Creditors: amounts falling due after more than one year" as appropriate. The asset associated with the liability being the interest in the repurchased vehicles is disclosed in the balance sheet as "Interest in vehicle residuals".

f) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate. The taxation liabilities of certain group companies are reduced wholly or in part by fellow group companies. The tax benefits arising from group relief are recognised in the financial statements of the surrendering and recipient companies.

Advance corporation tax payable on dividends paid or provided for in the year is written off except when recoverability against corporation tax payable is considered to be reasonably assured.

g) *Deferred taxation*

Provision is not made for tax liabilities arising from the allocation of items to different periods for taxation and accounting purposes, except where it is probable that a liability will crystallise. The potential amount of deferred taxation not provided for is set out in note 8.

h) *Turnover*

Turnover comprises the invoiced value of sales less value added tax and net of all credits and allowances.

i) *Leases*

The group enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Further information on charges in the year and future commitments is given in note 11.

j) *Retirement Plan*

The group operates an executive retirement plan for its executive directors. This is a defined contribution scheme. Contributions are charged to the profit and loss account as incurred.

Notes to financial statements (continued)

2 Tangible fixed assets

The movement in the year was as follows:

Group	Freehold land and buildings £	Long leasehold buildings £	Plant and equipment £	Leased assets £	Motor vehicles £	Total £
Cost						
31 July 1996	3,882,393	256,587	1,705,100	506,496	48,652	6,399,228
Additions	15,317	-	101,121	-	17,488	133,926
Disposals	-	-	(2,645)	-	(7,355)	(10,000)
31 July 1997	<u>3,897,710</u>	<u>256,587</u>	<u>1,803,576</u>	<u>506,496</u>	<u>58,785</u>	<u>6,523,154</u>
Depreciation						
31 July 1996	345,280	50,639	1,062,793	206,643	23,441	1,688,796
Charge for year	50,157	5,131	156,848	76,788	11,808	300,732
Disposals	-	-	(1,102)	-	(3,524)	(4,626)
31 July 1997	<u>395,437</u>	<u>55,770</u>	<u>1,218,539</u>	<u>283,431</u>	<u>31,725</u>	<u>1,984,902</u>
Net book value						
31 July 1996	<u>3,537,113</u>	<u>205,948</u>	<u>642,307</u>	<u>299,853</u>	<u>25,211</u>	<u>4,710,432</u>
Net book value						
31 July 1997	<u>3,502,273</u>	<u>200,817</u>	<u>585,037</u>	<u>223,065</u>	<u>27,060</u>	<u>4,538,252</u>

On 30 June 1988 certain of the freehold and leasehold properties were valued by Kenneth Ryden and Partners, Chartered Surveyors, on an existing use basis at £1,134,000. The book value of these freehold and leasehold properties at 31 July 1997 was £766,905 (1996 - £786,452).

Freehold land amounting to £1,719,733 (1996 - £1,719,733) has not been depreciated.

Leased assets consist entirely of plant and equipment.

Company

At the end of the year the company had no tangible fixed assets (1996 - £Nil).

Notes to financial statements (continued)

3 Fixed asset investments

Company	Total £	Ordinary shares £	Preference shares £	Long term loan stock £
At 31 July 1996 and 1997	<u>5,353,300</u>	<u>4,300</u>	<u>1,000,000</u>	<u>4,349,000</u>

There were no additions or disposals of fixed asset investments in the year.

Fixed asset investments relate to interests in subsidiary undertakings held directly by the company.

All of the company's subsidiary undertakings are wholly-owned and are registered in Scotland. The subsidiary undertakings comprise:

Company	Principal activity
Peoples Bathgate & Livingston Limited	Sale and repair of motor vehicles
Peoples Glasgow Limited	Sale and repair of motor vehicles
Peoples Liverpool Limited	Sale and repair of motor vehicles
Peoples Advertising & Marketing Limited	Non trading (formerly advertising and marketing agents)
Total Vehicle Solutions Limited	Provision of vehicle financing
Peoples Wholesale Limited	Non trading
Peoples Detroit Limited	Non trading

4 Stocks

The following are included in the net book value of stocks:

	Group		Company	
	1997 £	1996 £	1997 £	1996 £
Vehicles	4,153,968	4,878,809	-	-
Spare parts	573,838	488,589	-	-
Other stocks	168,286	174,761	-	-
	<u>4,896,092</u>	<u>5,542,159</u>	<u>-</u>	<u>-</u>

The directors consider that there is no material difference between the balance sheet value and replacement cost of each of the above stock categories.

Notes to financial statements (continued)

5 Debtors

The following are included in the net book value of debtors:

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	2,555,009	2,562,443	-	-
Due from fellow group undertakings	-	-	50,984	61,514
Prepayments and accrued income	789,874	643,657	18,301	12,541
Value added tax	-	60,134	28,502	22,632
	<u>3,344,883</u>	<u>3,266,234</u>	<u>97,787</u>	<u>96,687</u>
Amounts falling due after more than one year:				
ACT on proposed dividend	24,181	11,324	24,181	11,324
	<u>3,369,064</u>	<u>3,277,558</u>	<u>121,968</u>	<u>108,011</u>

6 Creditors: Amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Bank overdraft	-	1,304,241	-	-
Obligations under finance leases	66,667	72,729	-	-
Term loan instalments	301,332	242,332	268,000	209,000
Stocking finance	1,750,000	1,600,000	-	-
Trade creditors	4,490,874	4,187,468	-	-
Due to fellow group undertakings	-	-	100	328
Corporation tax	137,287	111,295	20,500	63,208
Other taxes and social security costs	137,149	131,018	-	-
Proposed dividend	96,724	45,294	96,724	45,294
Other creditors	1,517,319	1,208,658	288,444	187,816
ACT payable	63,842	14,747	63,842	14,747
Value added tax	69,114	-	-	-
Obligations under vehicle repurchase agreements	5,233,731	3,552,902	-	-
	<u>13,864,039</u>	<u>12,470,684</u>	<u>737,610</u>	<u>520,393</u>

The bank overdraft facilities and term loan are secured by floating charges over the assets, standard securities over the freehold properties and letters of offset and cross guarantees with fellow group undertakings. The stocking finance is secured over certain current assets of the company and by cross guarantees from fellow group undertakings.

Certain amounts included in other creditors are secured by second charges over certain of the freehold properties.

Notes to financial statements (continued)

7 Creditors: Amounts falling due after more than one year

	Group		Company	
	1997 £	1996 £	1997 £	1996 £
Term loan not wholly repayable within five years	2,664,668	2,966,002	2,548,000	2,816,000
Obligations under finance leases	138,256	204,921	-	-
Obligations under vehicle repurchase agreements	7,012,702	8,208,945	-	-
	<u>9,815,626</u>	<u>11,379,868</u>	<u>2,548,000</u>	<u>2,816,000</u>

The company term loan of £2,816,000 is repayable by forty one quarterly instalments of £67,000 and one final quarterly instalment of £69,000. Interest is payable at variable rates.

Other group term loans are repayable at £33,332 per annum and carry interest at variable rates.

Obligations under vehicle repurchase agreements and obligations under finance leases shown above are due in years two to five.

8 Deferred taxation

a) No deferred tax has been provided by the group at 31 July 1997 (1996 - £Nil) because the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that no part of the liability will crystallize in the foreseeable future.

b) Deferred taxation unprovided:

	Group		Company	
	1997 £	1996 £	1997 £	1996 £
Capital allowances in excess of depreciation	<u>53,400</u>	<u>55,000</u>	<u>-</u>	<u>-</u>

Notes to financial statements (continued)

9 Share capital and reserves

a) Share capital

The authorised share capital of the company at 31 July 1997 comprised:

	Number	Par value £	Capital £
Equity share capital:			
Ordinary shares	8,473,015	0.10	847,302
Deferred shares	273,726	0.10	27,372
Cumulative convertible participating preferred ordinary shares (CCPPO)	188,459	0.10	18,846
Total equity authorised share capital			<u>893,520</u>
Non-equity share capital:			
First preference shares	2,994,060	0.01	29,941
Second preference shares	1,000,000	1.00	1,000,000
Third preference shares	1,700,000	0.01	17,000
Total non-equity authorised share capital			<u>1,046,941</u>
Total authorised share capital			<u>1,940,461</u>
		1997 £	1996 £
<i>Allotted, called-up and fully-paid</i>			
Equity share capital:			
Ordinary shares of 10p each		18,922	18,922
Deferred shares of 10p each		27,372	27,372
CCPPO shares of 10p each		18,846	18,846
Total equity share capital		<u>65,140</u>	<u>65,140</u>
Non-equity share capital:			
First preference shares of 1p each		12,941	12,941
Second preference shares of £1 each		925,000	925,000
Third preference shares of 1p each		17,000	17,000
Issue costs of non-equity share capital		(27,629)	(27,629)
Total non-equity share capital		<u>927,312</u>	<u>927,312</u>
Total allotted, called-up and fully-paid share capital		<u>992,452</u>	<u>992,452</u>

Notes to financial statements (continued)

9 Share capital and reserves (continued)

a) *Share capital (continued)*

In accordance with Financial Reporting Standard 4, Accounting for Capital Instruments, costs relating to the issue of non-equity share capital have been deducted from the proceeds on allotment. The shares issued have no specified redemption date but are redeemable in certain circumstances detailed in the company's Articles of Association. As a result of this, there has been no amortisation of the issue costs under Financial Reporting Standard 4. The company's non-equity share capital can be analysed as follows:

	1997 £	1996 £
Issued non-equity shares	954,941	954,941
Less: issue costs	(27,629)	(27,629)
	<u>927,312</u>	<u>927,312</u>

The amount of the dividend which can be paid on the CCPPO shares is calculated according to a formula contained in the company's Articles of Association and is dependent on future profitability. The CCPPO shares can be converted into ordinary shares at any time.

The rights attaching to non-equity share capital are set out below:

The first preference shares are entitled to receive a fixed cumulative dividend at 12% per annum of the amount initially subscribed in priority to any other dividend on shares other than the second and third preference shares.

On a winding up, the first preference shares rank behind the second preference shares for the amount of capital contributed and any dividend arrears.

The first preference shares attract a redemption premium which is payable on redemption of £0.99 per share, being the difference between the nominal value and amount originally subscribed. These first preference shares have no specified redemption date but are redeemable in certain circumstances detailed in the company's Articles of Association. As a result of this and due to the fact that the dividend is already based on the nominal value plus the redemption premium, the redemption premium has not been accounted for as a finance cost under Financial Reporting Standard 4.

The first preference shares carry no voting rights as long as the dividend payment terms detailed in the company's Articles of Association are satisfied.

Notes to financial statements (continued)

9 Share capital and reserves (continued)

a) *Share capital (continued)*

The second preference shares carry a right to a fixed cumulative dividend at 12% per annum, payable on the same basis as the first preference shares.

The redemption of the second preference shares is due to be completed by the year 2001. The amounts and dates of redemption are subject to the future profitability of the company and the terms and conditions of the company's Articles of Association. Second preference shares are redeemable at par.

The voting rights of the second preference shares are as for those attached to the first preference shares.

The holders of the second preference shares have an option to acquire 2.5% of the as enlarged ordinary share capital at par.

The third preference shares carry a right to a fixed cumulative dividend at 3% per annum, payable on the same basis as the first and second preference shares.

On a winding up, the third preference shares rank *pari passu* with the first preference shares for the amount of capital contributed and any dividend arrears.

The third preference shares attract a redemption premium which is payable on redemption of £0.99 per share, being the difference between the nominal value and amount originally subscribed. These third preference shares have no specified redemption date but are redeemable in certain circumstances detailed in the company's Articles of Association. As a result of this and due to the fact that the dividend is already based on the nominal value plus the redemption premium, the redemption premium has not been accounted for as a finance cost under Financial Reporting Standard 4.

The third preference shares have no voting rights.

Notes to financial statements (continued)

9 Share capital and reserves (continued)

b) Reserves

Group	Equity Interests			Non-Equity Interests	Total other reserves
	Capital redemption reserve £	Special reserve £	Profit and loss account £	Other reserve £	
At 31 July 1996	171,040	576,439	(240,982)	401,687	160,705
Retained profit for the year	-	-	47,524	-	47,524
Transfer from profit and loss account (note 17)	-	-	-	61,920	61,920
At 31 July 1997	<u>171,040</u>	<u>576,439</u>	<u>(193,458)</u>	<u>463,607</u>	<u>270,149</u>
Company					
At 31 July 1996	171,040	576,439	69,654	401,687	471,341
Retained profit for the year	-	-	76,911	-	76,911
Transfer from profit and loss account (note 17)	-	-	-	61,920	61,920
At 31 July 1997	<u>171,040</u>	<u>576,439</u>	<u>146,565</u>	<u>463,607</u>	<u>610,172</u>

The other reserve is distributable. In order to comply with Financial Reporting Standard 4, cumulative dividends on preference shares which accrue over time but which are not due for payment under the company's Articles of Association as at 31 July 1997 have been accrued as an "other reserve" in the non-equity shareholders' funds (note 17).

The special reserve is non-distributable as long as any debt of the company existing as at 5 July 1989 remains outstanding and is to be used for the writing off of goodwill.

The capital redemption reserve is non-distributable.

The cumulative amount of goodwill resulting from acquisitions in the current year and previous years which has been written off to reserves is £2,387,680 (1996 - £2,387,680).

Notes to financial statements (continued)

10 Reconciliation of movements in shareholders' funds

	Group	
	1997 £	1996 £
Profit for the financial year	364,812	467,396
Dividends paid and proposed (see note 17)	(255,368)	(418,787)
	109,444	48,609
Issue costs	-	(27,629)
Opening shareholders' funds	1,900,636	1,879,656
Closing shareholders' funds	2,010,080	1,900,636

11 Guarantees and other financial commitments

a) Capital commitments

The group and the company had no capital commitments at 31 July 1997 (1996 - £Nil)

b) Contingent liabilities

The group has granted cross guarantees and indemnities in relation to the overdrafts of group companies and certain other advances and commitments, secured on the assets of group companies.

c) Lease commitments

The group has entered into non-cancellable leases in respect of workshop and office equipment. In addition the group leases land on a long term lease. The annual rental on this lease is £ 19,000 (1996 - £19,000). The rent payable under this lease is subject to renegotiation at intervals specified in the lease.

The minimum annual rentals under the foregoing leases are as follows:

	Group		Company
	Property £	Equipment £	Equipment £
Operating leases which expire			
- within 1 year	-	25,344	13,577
- within 2-5 years	-	22,426	-
- after 5 years	19,000	-	-
	19,000	47,770	13,577

Notes to financial statements (continued)

11 Guarantees and other financial commitments (continued)

d) VAT

The company is registered for VAT purposes in a group of undertakings which share a common registration number. As a result, it has jointly guaranteed the VAT liability of certain other group undertakings and failure by these other group undertakings would give rise to additional liabilities of the company. The directors are of the opinion that no liability is likely to arise from the unlikely event of failure by these other group undertakings.

12 Segmental information

All of the group's turnover and profit on ordinary activities before taxation was derived from its activities in the United Kingdom.

13 Interest payable and similar charges

	1997 £	1996 £
On bank overdraft and loans		
- repayable within 5 years, by instalments	16,199	-
- repayable within 5 years, not by instalments	314,235	343,088
On loans repayable wholly or in part		
- after 5 years, by instalments	235,521	276,304
Interest element of finance lease charges	18,382	12,787
Other interest	8,076	-
	<u>592,413</u>	<u>632,179</u>

14 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging (crediting):

	1997 £	1996 £
a) Depreciation of tangible fixed assets (note 2)		
- owned	223,944	237,985
- held under finance lease	76,788	47,191
b) Auditors' remuneration	57,500	56,000
c) Staff costs (note 15)	5,796,882	5,830,173
d) Profit on disposal of fixed assets	(1,771)	(11,731)
e) Operating lease rentals - plant and machinery	43,978	55,239
- other	19,000	19,000
f) Non audit services provided by the auditors	<u>500</u>	<u>15,300</u>

In addition, amounts in respect of non audit services provided by the auditors and not charged to profit on ordinary activities before taxation total £Nil (1996 - £12,500).

Notes to financial statements (continued)

15 Staff costs

	1997 £	1996 £
Employee costs during the year, including those for executive directors, amounted to:		
Wages and salaries	5,276,483	5,307,343
Social security costs	491,771	494,780
Other pension costs	28,628	28,050
	<u>5,796,882</u>	<u>5,830,173</u>

The average monthly number of employees during the year was 368 (1996 - 379).

Directors' remuneration:

The employee costs shown above include the following remuneration in respect of directors of the company:

	1997 £	1996 £
<i>Remuneration:</i>		
Emoluments	212,195	205,344
Company contributions to money purchase pension schemes	28,628	28,050
	<u>240,823</u>	<u>233,394</u>

Pensions:

The number of directors who were members of pension schemes was as follows:

	1997 Number	1996 Number
Money purchase schemes	2	2
Defined benefit schemes	-	-
	<u>2</u>	<u>2</u>

Highest paid director:

The directors' remuneration shown above includes the following in respect of the highest paid director:

	1997 £	1996 £
Emoluments	122,828	120,963
Company contributions to money purchase pension schemes	16,500	16,500
	<u>139,328</u>	<u>137,463</u>

Notes to financial statements (continued)

16 Tax on profit on ordinary activities

	1997 £	1996 £
Corporation tax is based on the profit for the year at 32% (1996 - 33%)	188,271	232,480
Adjustment of current taxation in respect of prior year	(2,913)	6,450
	<u>185,358</u>	<u>238,930</u>

17 Dividends

	1997 £	1996 £
Paid and proposed:		
First preference shares		
- interim of 6.0p (1996 - 6.0p) per share paid	77,644	179,644
- interim of nil (1996 - 2.59p) per share paid	-	77,523
- final of 3.86p (1996 - 1.15p) per share proposed	50,002	34,581
Second preference shares		
- interim of 6.0p (1996 - 6.0p) per share paid	55,500	55,500
- interim of nil (1996 - 2.59p) per share paid	-	24,656
- final of 3.86p (1996 - 1.15p) per share proposed	35,741	10,713
Third preference shares		
- interim of 1.5p (1996 - nil) per share paid	25,500	-
- final of nil (1996 - 0.8p) per share paid	-	13,693
- final of 0.65p (1996 - nil) per share proposed	10,981	-
Cumulative convertible participating preferred ordinary shares		
- interim of nil (1996 - 6.4p) per share paid	-	22,477
	<u>255,368</u>	<u>418,787</u>
Accrued:		
- First preference shares	27,642	12,275
- Second preference shares	19,759	20,131
- Third preference shares	14,519	-
	<u>61,920</u>	<u>32,406</u>
	<u>317,288</u>	<u>451,193</u>

The results for the year ended 31 July 1997 have been prepared in accordance with Financial Reporting Standard 4. In order to comply with this standard cumulative dividends on preference shares which accrue over time but which are not due for payment under the company's Articles of Association as at 31 July 1997 (£463,607) have been accrued in full as an "other reserve" in non-equity shareholders' funds (1996 - £401,687).

All dividends due for payment under the company's Articles of Association as at 31 July 1997 have been paid in full.

Notes to financial statements (continued)

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

	1997 £	1996 £
Operating profit	1,119,202	1,275,939
Depreciation charges	300,732	285,176
Profit on sale of fixed assets	(1,771)	(11,731)
(Increase) decrease		
- stocks	646,067	(993,106)
- debtors	(91,506)	1,257,778
Increase in creditors	700,170	162,917
Net cash inflow from operating activities	<u>2,672,894</u>	<u>1,976,973</u>

19 Reconciliation of net cash flow to movement in net debt

	1997 £	1996 £
Increase (decrease) in cash in year	1,484,953	(2,298,245)
Cash outflow from decrease in debt and lease financing	315,061	254,266
Cash (inflow) outflow from increase/decrease in stocking finance	(150,000)	2,309,189
Change in net debt resulting from cash flows	<u>1,650,014</u>	<u>265,210</u>
New finance leases	-	(304,827)
Movement in net debt in the year	<u>1,650,014</u>	<u>(39,617)</u>
Net debt at beginning of year	(5,931,033)	(5,891,416)
Net debt at end of year	<u>(4,281,019)</u>	<u>(5,931,033)</u>

20 Analysis of net debt

	1996 £	Cash flow £	1997 £
Cash in hand and at bank	459,192	180,712	639,904
Overdraft	(1,304,241)	1,304,241	-
Debt due within 1 year	(242,332)	(59,000)	(301,332)
Debt due after 1 year	(2,966,002)	301,334	(2,664,668)
Finance leases	(277,650)	72,727	(204,923)
Stocking finance	(1,600,000)	(150,000)	(1,750,000)
	<u>(5,931,033)</u>	<u>1,650,014</u>	<u>(4,281,019)</u>

Notes to financial statements (continued)

21 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose details of transactions with fellow group undertakings. Balances due from and to fellow group undertakings are disclosed at notes 5 and 6 respectively.