

Peoples Limited

Financial statements 31 July 1998
together with directors' and auditors' reports

Registered number: SC080359

12



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Directors and advisors

Directors

Brian P Gilda (Chairman and Managing Director)

Stewart M Ramsay

J S Douglas Knowles (Non-executive) (resigned 31 July 1998)

Trevor A Jones (Non-executive) (resigned 24 July 1998)

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 fifteenth annual general meeting of the company will be held at Glenmavis Garage, Bathgate EH48 4LA on 20 November 1998 to transact the following business:

1. To receive and adopt the directors' report and financial statements for the year ended 31 July 1998 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

28 October 1998

Directors' report

For the year ended 31 July 1998

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 1998.

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.

On 6 April 1998, a subsidiary company acquired certain assets from Millars of Falkirk Limited. Details of the acquisition are shown in note 2 to the accounts.

Results

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

Profit on ordinary activities before taxation was £780,094 (1997 - £550,170).

Profit on ordinary activities after taxation was £577,222 (1997 - £364,812).

Dividends

Dividends paid and proposed are as follows:

	First preference shares £	Second preference shares £	Third preference shares £	Fourth preference shares £	Cumulative convertible participating preferred ordinary shares £	Ordinary £
Paid - 31 January 1998	77,644	55,500	25,500	-	-	-
Paid - 24 July 1998	383,168	-	-	-	430,629	-
Paid - 31 July 1998	-	185,873	39,041	2,948	-	60,009
	<u>460,812</u>	<u>241,373</u>	<u>64,541</u>	<u>2,948</u>	<u>430,629</u>	<u>60,009</u>
1998 - Dividend per share	<u>35.61p</u>	<u>26.09p</u>	<u>3.80p</u>	<u>0.07p</u>	<u>228.50p</u>	<u>31.71p</u>
1997 - Dividend per share	<u>9.86p</u>	<u>9.86p</u>	<u>2.15p</u>	<u>-</u>	<u>-</u>	<u>-</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 1998	31 July 1997	31 July 1998	31 July 1997
B P Gilda	89,398	89,398	151,070	151,070
J S D Knowles	-	21,387	-	28,703
S M Ramsay	21,387	-	38,145	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, had an interest in the share capital of the company. This interest ceased during the year.

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 group 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)

Share capital

During the year the company allotted 4,100,000 fourth preference shares with a nominal value of 1p each for a consideration of £1 each and redeemed 1,294,060 of first preference shares of 1p each at £1 each, together with 1,700,000 of third preference shares of 1p each at £1 each. In addition the holders of the CCPPO shares converted their shares into deferred shares which were then cancelled.

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.

Year 2000

The directors have considered the risks and uncertainties associated with the Year 2000 date change issue, and have established appropriate procedures to address the issue. The directors do not expect the costs specifically associated with the year 2000 date change issue to be significant, all costs being written off as incurred.

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

28 October 1998

Chairman's statement

Chairman's statement

During the period under review, the Group's turnover increased from £92.8m to £114.3m. This figure represents the highest recorded turnover of the Group since its inception.

Pre-tax profits increased by 42% to £780,094.

Whilst I am delighted our trading position has improved, I am disappointed it was not better. My disappointment can be put down to two main factors. Firstly, substantial diminution in used car values and gross profits caused by manufacturers consumer offers on new cars. Secondly, increased and sometimes uncommercial trading terms offered by competition, this was particularly noticeable in the Central Scottish belt and as a consequence, effected our companies trading there.

Current Trading and Outlook

Our first quarter trading to October is behind us and the results show us trailing the same period last year, regrettably, this is still mainly due to a continuation of the points referred to above.

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 require extra impetus during the remainder of our financial year to reach our desired results.

Our Financial People

In July of this year an opportunity was taken by all financial institutions and individuals associated with the Group to re-focus their strategies. As a consequence to this, Gresham Trust plc, Lloyds Development Capital plc and Scottish Enterprise were bought out by a Bank of Scotland Group Company. It should be noted that the companies referred to have been involved with Peoples since 1983 and I would like to record my grateful thanks to them for their support and encouragement over the last fifteen years.

This last piece of information would be incomplete without recording my deepest gratitude to both Douglas Knowles and Trevor Jones who both retired from the Board. I am delighted to pass on my very best personal wishes to them for the future and I know these feelings are reciprocated.

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 their 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 advisors associated with the Group.


Brian P. Gilda
Chairman

28 October 1998

Auditors' report

Glasgow

To the Shareholders of Peoples Limited:

We have audited the financial statements on pages 9 to 27 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 1998 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

28 October 1998

Consolidated balance sheet

31 July 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	3	5,578,326	4,538,252
Current assets			
Interest in vehicle residuals:			
- repurchases after one year		8,538,980	7,012,702
- repurchases within one year		5,449,824	5,233,731
Stocks	5	6,166,352	4,896,092
Debtors	6	4,383,276	3,369,064
Cash at bank and in hand		709,051	639,904
		25,247,483	21,151,493
Creditors: Amounts falling due within one year	7	(17,083,970)	(13,864,039)
Net current assets		8,163,513	7,287,454
Total assets less current liabilities		13,741,839	11,825,706
Creditors: Amounts falling due after more than one year	8	(11,677,758)	(9,815,626)
Net assets		2,064,081	2,010,080
Capital and reserves			
Called-up share capital	10a	968,371	992,452
Share premium	10b	761,172	-
Capital redemption reserve	10b	171,040	171,040
Special reserve	10b	576,439	576,439
Other reserves	11	(412,941)	270,149
Shareholders' funds		2,064,081	2,010,080
Represented by:			
Equity interests		364,538	619,161
Non-equity interests		1,699,543	1,390,919
		2,064,081	2,010,080

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

Company balance sheet

31 July 1998

	Notes	1998 £	1997 £
Fixed assets			
Investments	4	5,353,300	5,353,300
Current assets			
Debtors	6	200,788	121,968
Cash at bank and in hand		502,733	160,445
		703,521	282,413
Creditors: Amounts falling due within one year	7	(1,102,842)	(737,610)
Net current liabilities		(399,321)	(455,197)
Total assets less current liabilities		4,953,979	4,898,103
Creditors: Amounts falling due after more than one year	8	(2,280,000)	(2,548,000)
Net assets		2,673,979	2,350,103
Capital and reserves			
Called-up share capital	10a	968,371	992,452
Share premium	10b	761,172	-
Capital redemption reserve	10b	171,040	171,040
Special reserve	10b	576,439	576,439
Other reserves	10b	196,957	610,172
Shareholders' funds		2,673,979	2,350,103
Represented by:			
Equity interests		974,436	959,184
Non-equity interests		1,699,543	1,390,919
		2,673,979	2,350,103

Signed on behalf of the Board

Brian P Gilda

Director



28 October 1998

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

Consolidated profit and loss account

For the year ended 31 July 1998

	Notes	1998 £	1997 £
Turnover	13	114,340,258	92,844,650
Cost of sales		(111,629,689)	(90,425,691)
Gross profit		2,710,569	2,418,959
Other operating expenses (net)		(1,192,352)	(1,299,757)
Operating profit		1,518,217	1,119,202
Interest receivable and similar income		23,961	23,381
Interest payable and similar charges	14	(762,084)	(592,413)
Profit on ordinary activities before taxation	13, 15	780,094	550,170
Tax on profit on ordinary activities	17	(202,872)	(185,358)
Profit on ordinary activities after taxation		577,222	364,812
Dividends paid and proposed on equity and non-equity shares	18	(796,705)	(317,288)
Retained (loss)/profit for the financial year		(219,483)	47,524
Accumulated deficit at beginning of year		(193,458)	(240,982)
Accumulated deficit at end of year		(412,941)	(193,458)

All activity has arisen from continuing operations. The group has no recognised gains or losses other than the (loss)/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 10.

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

Consolidated cash flow statement

For the year ended 31 July 1998

	Notes	1998 £	1997 £
Net cash inflow from operating activities	19	640,278	2,672,894
Returns on investments and servicing of finance			
Interest received		23,961	23,381
Interest paid		(749,492)	(574,031)
Interest element of finance lease rentals		(12,592)	(18,382)
Non-equity dividends paid		(866,398)	(203,938)
Net cash outflow from returns on investments and servicing of finance		(1,604,521)	(772,970)
Taxation			
Corporation tax paid		(135,023)	(108,382)
ACT paid		(63,842)	(14,747)
Tax paid		(198,865)	(123,129)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,377,679)	(133,926)
Sale of tangible fixed assets		6,770	7,145
Net cash outflow for capital expenditure and financial investment		(1,370,909)	(126,781)
Equity dividends paid		(490,638)	-
Net cash (outflow)/inflow before financing		(3,024,655)	1,650,014
Financing			
Issue of new shares	10a	4,100,000	-
Redemption of share capital	10a	(3,362,909)	-
New loan		700,000	-
Repayment of loans	21	(301,334)	(242,334)
Capital element of finance lease payments	21	(66,668)	(72,727)
Increase in stock finance	21	1,600,000	150,000
Net cash inflow/(outflow) from financing		2,669,089	(165,061)
(Decrease)/increase in cash	20	(355,566)	1,484,953

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

Notes to financial statements

31 July 1998

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 has been written off against reserves.

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 £847,097 (1997 - £394,199).

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%
Computer equipment	25%
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 9.

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 12.

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.

A subsidiary company operates a company personal pension scheme on behalf of certain employees. This is a defined contribution scheme. Contributions are charged to the profit and loss accounts as incurred.

Notes to financial statements (continued)

2 Acquisition of trading assets

On 6 April 1998, a subsidiary company entered into an agreement to acquire certain assets of Millars of Falkirk Limited, for consideration in cash of £2,209,606.

The following table sets out the book value of the assets acquired:

	£
Fixed assets	1,082,254
Stocks - vehicles, parts and WIP	1,127,352
	<u>2,209,606</u>

There is no material difference between the book value of assets acquired and their fair value to the group.

3 Tangible fixed assets

The movement in the year was as follows:

Group	Freehold land and buildings £	Long leasehold buildings £	Computers, plant and equipment £	Leased assets £	Motor vehicles £	Total £
Cost						
31 July 1997	3,897,710	256,587	1,803,576	506,496	58,785	6,523,154
Additions	1,015,472	-	329,155	-	33,052	1,377,679
Disposals	-	-	-	-	(34,729)	(34,729)
31 July 1998	<u>4,913,182</u>	<u>256,587</u>	<u>2,132,731</u>	<u>506,496</u>	<u>57,108</u>	<u>7,866,104</u>
Depreciation						
31 July 1997	395,437	55,770	1,218,539	283,431	31,725	1,984,902
Charge for year	49,921	5,131	190,719	68,920	14,609	329,300
Disposals	-	-	-	-	(26,424)	(26,424)
31 July 1998	<u>445,358</u>	<u>60,901</u>	<u>1,409,258</u>	<u>352,351</u>	<u>19,910</u>	<u>2,287,778</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>
Net book value						
31 July 1998	<u>4,467,824</u>	<u>195,686</u>	<u>723,473</u>	<u>154,145</u>	<u>37,198</u>	<u>5,578,326</u>

Notes to financial statements (continued)

3 Tangible fixed assets (continued)

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 1998 was £747,359 (1997 - £766,905).

Freehold land amounting to £2,419,733 (1997 - £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 (1997 - £Nil).

4 Fixed asset investments

	Total £	Ordinary shares £	Preference shares £	Long term loan stock £
Company				
At 31 July 1997 and 1998	5,353,300	4,300	1,000,000	4,349,000

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 Falkirk Limited (formerly Total Vehicle Solutions 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
Liverpool Daily Centre Limited (formerly Peoples Advertising & Marketing Limited)	Non trading (formerly advertising and marketing agents)
Peoples Wholesale Limited	Non trading
Peoples Detroit Limited	Non trading
Peoples Edinburgh Limited	Non trading

Notes to financial statements (continued)

5 Stocks

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

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Vehicles	5,234,142	4,153,968	-	-
Spare parts	726,797	573,838	-	-
Other stocks	205,413	168,286	-	-
	<u>6,166,352</u>	<u>4,896,092</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.

6 Debtors

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

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	2,626,133	2,555,009	-	-
Due from fellow group undertakings	-	-	15,884	50,984
Prepayments and accrued income	1,337,354	789,874	111,695	18,301
Corporation tax recoverable	166,427	-	31,705	-
Value added tax	211,858	-	-	28,502
	<u>4,341,772</u>	<u>3,344,883</u>	<u>159,284</u>	<u>97,787</u>
Amounts falling due after more than one year:				
ACT recoverable	41,504	24,181	41,504	24,181
	<u>4,383,276</u>	<u>3,369,064</u>	<u>200,788</u>	<u>121,968</u>

Notes to financial statements (continued)

7 Creditors: Amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Bank overdraft	424,713	-	-	-
Obligations under finance leases	62,811	66,667	-	-
Term loan instalments	301,332	301,332	268,000	268,000
Stocking finance	3,350,000	1,750,000	-	-
Trade creditors	5,185,775	4,490,874	-	-
Due to fellow group undertakings	-	-	93,301	100
Corporation tax	73,809	137,287	49,210	20,500
Other taxes and social security costs	198,918	137,149	12,082	-
Proposed dividend	-	96,724	-	96,724
Other creditors and accruals	1,761,372	1,517,319	538,383	288,444
ACT payable	275,416	63,842	139,780	63,842
Value added tax	-	69,114	2,086	-
Obligations under vehicle repurchase agreements	5,449,824	5,233,731	-	-
	<u>17,083,970</u>	<u>13,864,039</u>	<u>1,102,842</u>	<u>737,610</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.

8 Creditors: Amounts falling due after more than one year

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Term loan not wholly repayable within five years	3,063,334	2,664,668	2,280,000	2,548,000
Obligations under finance leases	75,444	138,256	-	-
Obligations under vehicle repurchase agreements	8,538,980	7,012,702	-	-
	<u>11,677,758</u>	<u>9,815,626</u>	<u>2,280,000</u>	<u>2,548,000</u>

The company term loan of £2,548,000 is repayable by thirty seven 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. A new loan of £700,000 is repayable by thirty two quarterly instalments of £21,875 commencing 30 November 2000. At 31 July 1998 £1,667,375 (1997 - £1,476,000) was due after more than 5 years.

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

Notes to financial statements (continued)

9 Deferred taxation

a) No deferred tax has been provided by the group at 31 July 1998 (1997 - £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 crystallise in the foreseeable future.

b) Deferred taxation unprovided:

	Group		Company	
	1998 £	1997 £	1998 £	1997 £
Capital allowances in excess of depreciation	57,100	53,400	-	-

10 Share capital and reserves

a) Share capital

The authorised share capital of the company at 31 July 1998 comprised:

	Number	Par value £	1998 Capital £	1997 Capital £
Equity share capital:				
Ordinary shares	7,903,015	0.10	790,302	847,302
Deferred shares	462,185	0.10	46,218	27,372
Cumulative convertible participating preferred ordinary shares (CCPPO)	-	-	-	18,846
Total equity authorised share capital			836,520	893,520
Non-equity share capital:				
First preference shares	2,994,060	0.01	29,941	29,941
Second preference shares	1,000,000	1.00	1,000,000	1,000,000
Third preference shares	1,700,000	0.01	17,000	17,000
Fourth preference shares	5,700,000	0.01	57,000	-
Total non-equity authorised share capital			1,103,941	1,046,941
Total authorised share capital			1,940,461	1,940,461

Notes to financial statements (continued)

10 Share capital and reserves (continued)

a) Share capital (continued)

	1998 £	1997 £
<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	11,078	27,372
CCPPO shares of 10p each	-	18,846
Total equity share capital	30,000	65,140
Non-equity share capital:		
First preference shares of 1p each	-	12,941
Second preference shares of £1 each	925,000	925,000
Third preference shares of 1p each	-	17,000
Fourth preference shares of 1p each	41,000	-
Issue costs of non-equity share capital	(27,629)	(27,629)
Total non-equity share capital	938,371	927,312
Total allotted, called-up and fully-paid share capital	968,371	992,452

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:

	1998 £	1997 £
Issued non-equity shares	966,000	954,941
Less: issue costs	(27,629)	(27,629)
	938,371	927,312

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.

Notes to financial statements (continued)

10 Share capital and reserves (continued)

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.

As noted below, all first preference shares were redeemed during the year.

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 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. Third preference shares have no voting rights.

As noted below, all third preference shares were redeemed during the year.

On 24 July 1998 the company allotted 4,100,000 fourth preference shares with a nominal value of £0.01 each for a consideration of £1 each and redeemed 1,294,060 of first preference shares of £0.01 each at £1 each together with 1,700,000 of third preference shares of £0.01 each at £1 each. In addition, the holders of the CCPPO shares converted their shares into deferred shares which were then cancelled.

Notes to financial statements (continued)

10 Share capital and reserves (continued)

The fourth preference shares carry a right to a fixed cumulative dividend at 3.75% per annum, payable on the same basis as the other preference shares. On a winding up, the fourth preference shares rank *pari passu* with the second preference shares for the amount of capital contributed and any dividend arrears.

The fourth 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. The fourth preference shares are redeemable between 2004 and 2008 in equal annual amounts. As the dividend is 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 holders of the fourth preference shares have an option to acquire 12% of the enlarged ordinary share capital at par.

b) Reserves

Group	Equity Interests			Non-Equity Interests		Total other reserves
	Capital redemption reserve	Special reserve	Profit and loss account	Share premium	Other reserve	
	£	£	£	£	£	£
At 31 July 1997	171,040	576,439	(193,458)	-	463,607	270,149
Share issues	-	-	-	4,059,000	-	-
Redemption of shares	-	-	-	(3,297,828)	-	-
Retained loss for the year	-	-	(219,483)	-	-	(219,483)
Transfer from profit and loss account (note 18)	-	-	-	-	(463,607)	(463,607)
At 31 July 1998	<u>171,040</u>	<u>576,439</u>	<u>(412,941)</u>	<u>761,172</u>	<u>-</u>	<u>(412,941)</u>
Company						
At 31 July 1997	171,040	576,439	146,565	-	463,607	610,172
Share issues	-	-	-	4,059,000	-	-
Redemption of shares	-	-	-	(3,297,828)	-	-
Retained loss for the year	-	-	50,392	-	-	50,392
Transfer from profit and loss account (note 18)	-	-	-	-	(463,607)	(463,607)
At 31 July 1998	<u>171,040</u>	<u>576,439</u>	<u>196,957</u>	<u>761,172</u>	<u>-</u>	<u>196,957</u>

In order to comply with Financial Reporting Standard 4, cumulative dividends on preference shares which accrue over time but which were not due for payment under the company's Articles of Association had been accrued as an "other reserve" in the non-equity shareholders' funds (note 18). During the current year all such dividends were paid.

Notes to financial statements (continued)

10 Share capital and reserves (continued)

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 previous years which has been written off to reserves is £2,387,680 (1997 - £2,387,680).

11 Reconciliation of movements in shareholders' funds

	Group	
	1998	1997
	£	£
Profit for the financial year	577,222	364,812
Dividends paid and proposed (see note 18)	(1,260,312)	(255,368)
	(683,090)	109,444
Share issues	4,100,000	-
Redemption of shares	(3,362,909)	-
Opening shareholders' funds	2,010,080	1,900,636
Closing shareholders' funds	2,064,081	2,010,080

12 Guarantees and other financial commitments

a) Capital commitments

The group and the company had no capital commitments at 31 July 1998 (1997 - £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 (1997 - £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:

	1998		1997	
	Property £	Equipment £	Equipment £	Equipment £
Group				
Operating leases which expire				
- within 1 year	-	22,650	-	25,344
- within 2-5 years	-	1,558	-	22,426
- after 5 years	19,000	-	19,000	-
	19,000	24,208	19,000	47,770

Notes to financial statements (continued)

12 Guarantees and other financial commitments (continued)

	1998 Equipment £	1997 Equipment £
Company		
Operating leases which expire		
- within 1 year	-	13,577

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.

13 Segmental information

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

14 Interest payable and similar charges

	1998 £	1997 £
On bank overdraft and loans		
- repayable within 5 years, by instalments	10,709	16,199
- repayable within 5 years, not by instalments	413,893	314,235
On loans repayable wholly or in part		
- after 5 years, by instalments	247,593	235,521
Interest element of finance lease charges	12,592	18,382
Other interest	77,297	8,076
	<u>762,084</u>	<u>592,413</u>

15 Profit on ordinary activities before taxation

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

	1998 £	1997 £
a) Depreciation of tangible fixed assets (note 3)		
- owned	260,380	223,944
- held under finance lease	68,920	76,788
b) Auditors' remuneration	60,000	52,000
c) Staff costs (note 16)	6,366,925	5,796,882
d) Loss/(profit) on disposal of fixed assets	1,535	(1,771)
e) Operating lease rentals - plant and machinery	31,201	43,978
- other	19,000	19,000
f) Non audit services provided by the auditors	20,400	500

Notes to financial statements (continued)

16 Staff costs

	1998 £	1997 £
Employee costs during the year, including those for executive directors, amounted to:		
Wages and salaries	5,826,129	5,276,483
Social security costs	508,431	491,771
Other pension costs	32,365	28,628
	<u>6,366,925</u>	<u>5,796,882</u>

The average monthly number of employees during the year was 396 (1997 - 368).

Directors' remuneration:

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

	1998 £	1997 £
<i>Remuneration:</i>		
Emoluments	222,020	212,195
Company contributions to money purchase pension schemes	28,628	28,628
Compensation for loss of office	45,000	-
	<u>295,648</u>	<u>240,823</u>

Pensions:

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

	1998 Number	1997 Number
Money purchase 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:

	1998 £	1997 £
Emoluments	123,904	122,828
Company contributions to money purchase pension schemes	16,500	16,500
	<u>140,404</u>	<u>139,328</u>

Notes to financial statements (continued)

17 Tax on profit on ordinary activities

	1998 £	1997 £
Corporation tax is based on the profit for the year at 31% (1997 - 32%)	232,200	188,271
Adjustment of current taxation in respect of prior year	(29,328)	(2,913)
	<u>202,872</u>	<u>185,358</u>

18 Dividends

	1998 £	1997 £
Paid and proposed:		
First preference shares		
- interim of 6.0p (1997 - 6.0p) per share paid	77,644	77,644
- final of 29.61p (1997 - nil) per share paid	383,168	-
- final of nil (1997 - 3.86p) per share proposed	-	50,002
Second preference shares		
- interim of 6.0p (1997 - 6.0p) per share paid	55,500	55,500
- final of 20.09 (1997 - nil) per share paid	185,873	-
- final of nil (1997 - 3.86p) per share proposed	-	35,741
Third preference shares		
- interim of 1.5p (1997 - 1.5p) per share paid	25,500	25,500
- final of 2.3 (1997 - nil) per share paid	39,041	-
- final of nil (1997 - 0.65p) per share proposed	-	10,981
Cumulative convertible participating preferred ordinary shares		
- final of 228.50p (1997 - nil) per share paid	430,629	-
Fourth preference shares		
- final of 0.07p (1997 - £nil) per share paid	2,948	-
Ordinary shares		
- final of 31.71p (1997 - £nil) per share paid	60,009	-
	<u>1,260,312</u>	<u>255,368</u>
Accrued:		
- First preference shares	(318,714)	27,642
- Second preference shares	(130,373)	19,759
- Third preference shares	(14,520)	14,519
	<u>463,607</u>	<u>61,920</u>
	<u>796,705</u>	<u>317,288</u>

The results for the year ended 31 July 1998 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 1998 (£Nil) have been accrued in full as an "other reserve" in non-equity shareholders' funds (1997 - £463,607).

All dividends due for payment under the company's Articles of Association as at 31 July 1998 have been paid in full.

Notes to financial statements (continued)

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

	1998 £	1997 £
Operating profit	1,518,217	1,119,202
Depreciation charges	329,300	300,732
Loss/(profit) on sale of fixed assets	1,535	(1,771)
(Increase)/decrease		
- stocks	(1,270,260)	646,067
- debtors	(1,014,212)	(91,506)
Increase in creditors	1,075,698	700,170
Net cash inflow from operating activities	<u>640,278</u>	<u>2,672,894</u>

20 Reconciliation of net cash flow to movement in net debt

	1998 £	1997 £
(Decrease)/increase in cash in year	(355,566)	1,484,953
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(331,998)	315,061
Cash inflow from increase in stocking finance	<u>(1,600,000)</u>	<u>(150,000)</u>
Change in net debt resulting from cash flows	(2,287,564)	1,650,014
Net debt at beginning of year	<u>(4,281,019)</u>	<u>(5,931,033)</u>
Net debt at end of year	<u>(6,568,583)</u>	<u>(4,281,019)</u>

21 Analysis of net debt

	1997 £	Cash flow £	1998 £
Cash in hand and at bank	639,904	69,147	709,051
Overdraft	-	(424,713)	(424,713)
Debt due within 1 year	(301,332)	-	(301,332)
Debt due after 1 year	(2,664,668)	(398,666)	(3,063,334)
Finance leases	(204,923)	66,668	(138,255)
Stocking finance	<u>(1,750,000)</u>	<u>(1,600,000)</u>	<u>(3,350,000)</u>
	<u>(4,281,019)</u>	<u>(2,287,564)</u>	<u>(6,568,583)</u>

22 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 6 and 7 respectively.