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CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

Operating profit for 1995 showed a marginal increase at £629,000 (1994, £622,000) on turnover of £7,472,000 (1994, £7,543,000). Profit before taxation was £594,000 (1994, £585,000) and after taxation the profit increased to £441,000 (1994, £425,000). Earnings per share improved by 3.5% to 3.59p (1994, 3.47p).

REVIEW OF THE YEAR

Sales of components to footwear manufacturers increased by 2.5%. Improvements in production efficiency arising from investment in new machinery and changes in working practices helped to offset increases in the price of raw materials and margins were maintained despite severe pressure on selling prices.

By contrast, sales of shoe repair products have been disappointing with turnover down by 6.2%. Margins, too, have suffered owing to increases in raw material prices. Against a generally weak demand for shoe repair products it has not proved possible to pass on these increases to our customers.

Tight control has been exercised over cash, resulting in the company having net bank balances at the year end of £135,000 compared with net borrowings at the end of 1994 of £129,000.

DIVIDENDS

An increased final dividend of 1.0p a share (1994, 0.9p) is proposed. Taken together with the interim dividend already paid this makes a total for the year of 1.5p a share (1994, 1.4p), an overall increase of 7.1%.

The final dividend, if approved at the annual general meeting, will be paid on 17 May 1996 to shareholders registered on 30 April 1996.

PROSPECTS

Sales to footwear manufacturers continue to provide the best opportunities for organic growth. Selling prices are certainly under pressure but it also seems that the raw material price spiral may have peaked providing some optimism that 1996 will not suffer from the cost increases experienced in 1995. Furthermore, considerable effort and investment made during 1995 to extend the product range into new areas is expected to bear fruit in the latter half of 1996 and into 1997.

The shoe repair market has been in decline over many years in the UK and worldwide. The company has not been able to gain sufficient market share to counter the decline although there is some evidence that margins are recovering a little in 1996.

Your Board will maintain its policy of investing to improve manufacturing efficiency and to extend the product range, whilst also seeking appropriate acquisition opportunities to provide growth and to strengthen the company's market position.

ARTICLES OF ASSOCIATION

Your Board has decided to enable shareholders who wish to do so to take advantage of the new CREST arrangements. CREST is the Bank of England initiated electronic settlement system which will replace the historic system of share certificates and share transfers. This requires a change in the company's Articles of Association.

Your company's Articles of Association are still substantially in the form used at the original registration of the company in 1952 and, in reviewing them for the purpose of CREST, the opportunity is being taken to bring them up to date. A summary of the differences between the old and the new Articles is enclosed with the Notice of Meeting and a Special Resolution will be proposed at the annual general meeting to adopt the new format.

POWER TO ISSUE SHARES

Under Stock Exchange requirements, your Board is required to seek power annually, by ordinary resolution, to issue shares in accordance with Section 80 of the Companies Act 1985. Your Board is also seeking power to disapply, by special resolution, Section 89(1) of the Act which requires shares always to be issued proportionately to existing shareholdings and would, for example, prevent your company from issuing shares as consideration, in part or in whole, for a suitable acquisition. Subject to possible use for the purpose of making small acquisitions for shares, your directors have no present intention of using the authority to allot shares. Appropriate resolutions will be put to shareholders to deal with these matters at the annual general meeting.

STAFF

My thanks go to the management and staff at all our locations for their dedication, hard work and goodwill throughout another tough year for manufacturing industry.

David M Parkes
Chairman

Directors' Report

Your directors have pleasure in submitting their annual report and the audited financial statements of the company for the year ended 31 December 1995.

PRINCIPAL ACTIVITY

The principal activity of the company is the production and supply of components for the footwear manufacture and repair industries, including safety steel toe caps and a wide range of rubber and other components.

RESULTS

	£'000	£'000
The profit for the year after providing for all expenses amounts to		594
Taxation provisions absorb		153
Leaving a balance of		441
The directors have declared an interim dividend of 0.5p per share	61	
and recommend a final dividend of 1.0p per share	123	184
Leaving a balance to be added to reserves of		257

DIRECTORS

The directors' beneficial interests in shares of the company, including those of their families, are shown in note 8 to the accounts on page 12.

The company has six executive directors. C R Ball PhD (54) was appointed Managing Director in 1981. He joined the business, which his grandfather had founded in 1939, after a career in science. He is supported by G C Martin (51) who is a Chartered Accountant and Financial Director. R J Mitchell (49) and E Tickle (63) are the Directors and General Managers of our Rushden and Manchester factories. M J Stowey (42) is Production Director at Bristol and A J Stowey (39) is the Director and Manager of the Unit Sole Division.

The non-executive directors are D M Parkes (65), Chairman and a Chartered Accountant with substantial knowledge gained in professional practice and as a non-executive director of a number of other companies, and D R Evans (64), an experienced manager in the rubber and plastics industry.

The directors retiring by rotation in accordance with Articles 87 and 96(b) are A J Stowey and M J Stowey who, being eligible, offer themselves for re-election. Both directors have service contracts requiring not less than one year's notice.

C R Ball and G C Martin have service contracts with the company requiring not less than two years' notice of termination. Other executive directors have service contracts requiring not less than one year's notice. The directors have no other interests in any contract with the company.

SUBSTANTIAL SHAREHOLDINGS

The following shareholders held more than 3% of the company's ordinary shares at 31 March 1996:

	Shares
L S Stowey	610,000
State Street Nominees Limited	542,027
E V Charlish	437,500

CORPORATE GOVERNANCE

The financial aspects of corporate governance, including the company's compliance with the Code of Best Practice, are considered on page 17.

FIXED ASSETS

The movement in fixed assets is included in note 12.

COMPANY STATUS

In the opinion of the directors the company is not a close company as defined by the Income and Corporation Taxes Act 1988.

AUDITORS

Price Waterhouse are willing to continue in office and a resolution proposing their re-appointment will be submitted to the annual general meeting.

On behalf of the Board
G C Martin
Secretary
28 March 1996

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 1995

PROFIT AND LOSS ACCOUNT

	Note	1995 £'000	1994 £'000
Turnover			
Continuing operations	2	**7,472**	7,543
Cost of sales		**(6,297)**	(6,376)
Gross profit		**1,175**	1,167
Net operating expenses	3	**(546)**	(545)
Operating profit			
Continuing operations		**629**	622
Interest payable	6	**(35)**	(37)
Profit on ordinary activities before taxation	7	**594**	585
Taxation	9	**(153)**	(160)
Profit for the financial year		**441**	425
Dividends	10	**(184)**	(172)
Retained profit for the year	19	**257**	253

EARNINGS

	Note	1995	1994
Earnings per share	11	**3.59p**	3.47p

Movements in reserves are shown in note 19 to the financial statements. The company has no recognised gains or losses other than the profit for the financial year as set out above. In the opinion of the directors the results on a historical cost basis are not materially different from the results as set out above.

The notes on pages 9 to 16 form an integral part of these financial statements.

BALANCE SHEET

31 DECEMBER 1995

		Note	1995 £'000	1994 £'000
NET ASSETS EMPLOYED	**Fixed assets**			
	Tangible assets	12	**2,374**	2,313
	Current assets			
	Stocks	13	**1,049**	1,227
	Debtors	14	**1,445**	1,378
	Property held for resale		**106**	106
	Cash at bank and in hand		**403**	279
			3,003	2,990
	Creditors: amounts falling due within one year	15	**(1,662)**	(1,705)
	Net current assets		**1,341**	1,285
	Total assets less current liabilities		**3,715**	3,598
	Creditors: amounts falling due after more than one year	16	**(214)**	(354)
	Provisions for liabilities and charges	17	**(211)**	(211)
			3,290	3,033
CAPITAL AND RESERVES	Called up share capital	18	**613**	613
	Reserves	19	**2,677**	2,420
		20	**3,290**	3,033

The notes on pages 9 to 16 form an integral part of these financial statements.

These accounts were approved by the Board of Directors on 28 March 1996.

D M Parkes

C R Ball

Directors

Cash Flow Statement

YEAR ENDED 31 DECEMBER 1995

		Note	1995 £'000	1994 £'000
CASH FLOWS	**Operating activities**			
	Net cash inflow	22	**914**	913
	Servicing of finance			
	Interest paid	6	**(35)**	(37)
	Dividends paid		**(172)**	(171)
	Cash outflow		**(207)**	(208)
	Taxation			
	Corporation tax paid, including ACT		**(132)**	(180)
	Investing activities			
	Tangible fixed assets bought	12	**(316)**	(354)
	Tangible fixed assets sold		**5**	18
	Net cash outflow		**(311)**	(336)
	Net cash inflow before financing		**264**	189
	Financing			
	Bank loan repaid	16	**(140)**	(92)
	Share capital issued		**-**	9
CASH AND CASH EQUIVALENTS	Increase in cash and cash equivalents	23	**124**	106

NOTES TO THE ACCOUNTS

31 DECEMBER 1995

1. ACCOUNTING POLICIES

(a) Accounting convention:
These accounts have been prepared under the historical cost convention modified by the revaluation of land and buildings and in accordance with applicable accounting standards.

(b) Depreciation:
No depreciation is provided on freehold land. Other fixed assets are depreciated on a straight line basis over the following periods:

Freehold and leasehold buildings	50 years or, if shorter, the life of the lease
Plant and machinery	Between 5 and 10 years
Motor vehicles	5 years
Tools and moulds	7 years or over the period of the contract

(c) Stocks:
Stocks are valued at the lower of cost and net realisable value. Stocks of raw materials are valued on a first in first out basis at net invoice values charged by suppliers. The value of work in progress and finished goods includes the direct cost of materials and labour together with an appropriate proportion of factory overheads.

(d) Deferred taxation:
Provision is made for deferred taxation where it is considered that there is a reasonable probability that a liability will arise within the foreseeable future.

(e) Foreign currencies:
Items in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Differences arising from changes in exchange rates during the year are taken to the profit and loss account.

(f) Acquisitions:
Net tangible assets acquired are included in the accounts at their fair value to the company. Differences arising between the purchase consideration and the net tangible assets acquired are dealt with through reserves.

(g) Pensions:
Pension costs charged against profits for the defined contribution scheme are the amount of contributions payable to the pension scheme in respect of the accounting period. For the defined benefit scheme the charge is the amount derived by spreading the cost of pensions over the estimated remaining service lives of employees.

(h) Operating leases on land and buildings:
The annual costs of operating leases are charged to the profit and loss account.

2. TURNOVER

The geographical analysis of turnover by destination is:	**1995 £'000**	1994 £'000
United Kingdom	**5,111**	5,227
Rest of Europe	**473**	366
The Americas	**600**	764
Australasia	**256**	238
Africa	**1,032**	948
	7,472	7,543

The United Kingdom is the source of turnover and operating profit and the principal location of the net assets of the company. The directors consider that the company operates in one business segment, serving various markets.

3. NET OPERATING EXPENSES

	1995	1994
	£'000	£'000
Distribution costs	**245**	263
Administrative expenses	**301**	282
	546	545

4. STAFF NUMBERS AND COSTS

The average number of persons employed by the company during the year was:

	1995	1994
Management and administration	**14**	17
Production and sales	**147**	150
	161	167

The aggregate payroll costs of these persons were:

	1995	1994
	£'000	£'000
Wages and salaries	**2,194**	2,214
Social security costs	**185**	189
Other pension costs	**68**	56
	2,447	2,459

5. PENSION COSTS

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the funds and amounted to **£50,000** (1994, £40,000).

The company also operates a defined benefits scheme which was closed to new employees on 26 August 1988. The assets of the scheme are held separately from those of the company in a Deposit Administration insurance contract underwritten by an insurance company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 July 1995 and the most significant assumptions were that the investment returns would be 9% per annum and salary increases would average 7% per annum. That valuation also showed that the market value of the scheme assets was £1,006,250 and that the actuarial value of those assets was sufficient to cover 122% of the benefits that had accrued to members after allowing for expected future increases in earnings. The pension charge for the year was **£18,000** (1994, £16,000) which is after deducting **£18,000** (1994, £19,000) for the amortisation of the actuarial surplus over 11 years, the average remaining service lives of members.

6. INTEREST PAYABLE

	1995 £'000	1994 £'000
On bank overdrafts and loans repayable within 5 years	**32**	26
On other loans	**3**	11
	35	37

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1995 £'000	1994 £'000
is stated after charging:		
Depreciation of tangible fixed assets	**250**	231
Auditors' remuneration and expenses:		
for audit	**14**	14
for non-audit	**4**	2
Provision for employee share scheme	**15**	15
Operating leases on land and buildings	**40**	40

8. DIRECTORS' EMOLUMENTS AND INTERESTS

	1995 £'000	1994 £'000
The aggregate remuneration of the directors was:		
Fees	**12**	11
Salaries and benefits	**254**	239
Pension contributions	**7**	7
Total	**273**	257

The remuneration of the Chairman, D M Parkes, and the other directors was:

	Salaries and fees		Benefits		Total		Pension contributions	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Executive								
C R Ball	**53**	52	**9**	8	**62**	60	**2**	2
G C Martin	**41**	40	**7**	4	**48**	44	**1**	1
R J Mitchell	**31**	31	**1**	1	**32**	32	**1**	1
A J Stowey	**28**	26	**6**	4	**34**	30	**1**	1
M J Stowey	**36**	32	**–**	1	**36**	33	**1**	1
E Tickle	**32**	31	**4**	3	**36**	34	**1**	1
Non-executive								
D R Evans	**6**	6	**–**	–	**6**	6	**–**	–
D M Parkes	**12**	11	**–**	–	**12**	11	**–**	–
	239	229	**27**	21	**266**	250	**7**	7

Benefits represent the value attributed to company cars, fuel, medical insurance and telephones. Pension contributions are the amounts paid by the company to secure future pension benefits.

8. DIRECTORS' EMOLUMENTS AND INTERESTS continued

The emoluments of the directors, including benefits in kind but excluding pension contributions, were within the ranges:

	1995 no.	1994 no.		1995 no.	1994 no.
£ 5,001–£10,000	**1**	1	£40,001–£45,000	–	1
£10,001–£15,000	**1**	1	£45,001–£50,000	**1**	–
£30,001–£35,000	**2**	4	£55,001–£60,000	–	1
£35,001–£40,000	**2**	–	£60,001–£65,000	**1**	–

The directors' beneficial interests, including those of their families, in shares of the company were:

	31 December 1995 shares	31 December 1995 options	31 December 1994 shares	31 December 1994 options
Executive				
C R Ball	**491,253**	**140,000**	491,253	140,000
G C Martin	**2,500**	**100,000**	2,500	100,000
R J Mitchell	**2,000**	**40,000**	2,000	40,000
A J Stowey	**1,085,936**	**30,000**	1,095,936	30,000
M J Stowey	**1,109,500**	**30,000**	1,119,500	30,000
E Tickle	**2,000**	**50,000**	2,000	30,000
Non-executive				
D R Evans	**214,500**	–	264,500	–
D M Parkes	**283,000**	–	253,000	–

There have been no changes in the interests of any director up to 31 March 1996.

D M Parkes, C R Ball and G C Martin were holders of **305,727** shares at 31 December 1995 (1994, 279,177 shares) in their capacity as trustees of The Dinkie Heel 1979 Profit Sharing Scheme.

During the year an option expiring on 13 April 2005 was granted to E Tickle to acquire 20,000 shares at 31.5p per share. No options lapsed or were exercised. Share options for C R Ball and G C Martin are at 24.5p per share and expire on 16 February 1999. All other options are at 32.5p and expire on 12 May 1999. The market price of the shares at 31 December 1995 was 36p and the range during 1995 was 30p to 41p.

The register of directors' interests, which is open to inspection, contains full details of directors' shareholdings and options to subscribe for shares.

9. TAXATION

	1995 £'000	1994 £'000
UK corporation tax on the profits of the year	**167**	160
Overprovision in prior years	**(14)**	-
	153	160

Corporation tax payable has been calculated at 33%. It has been reduced by small companies relief in each accounting year.

10. DIVIDENDS

	1995 £'000	1994 £'000
Interim paid 0.5p (1994, 0.5p)	**61**	61
Final proposed 1.0p (1994, 0.9p)	**123**	111
	184	172

11. EARNINGS PER SHARE

Earnings per share are calculated on earnings of **£441,000** (1994, £425,000) and on **12,270,000** (1994, 12,257,500) ordinary shares, being the weighted average number in issue during the year.

There is no material dilution of earnings per share as a result of the existence of share options.

12. TANGIBLE FIXED ASSETS

	Land & Buildings £'000	Plant & Machinery £'000	Tools & Moulds £'000	Motor Vehicles £'000	Total £'000
Cost or Valuation					
1 January 1995	1,373	2,127	1,313	170	4,983
Additions	–	204	81	31	316
Disposals	–	(71)	(118)	(23)	(212)
31 December 1995	1,373	2,260	1,276	178	5,087
Depreciation					
1 January 1995	122	1,371	1,094	83	2,670
Charge for the year	21	139	67	23	250
Disposals	–	(71)	(118)	(18)	(207)
31 December 1995	143	1,439	1,043	88	2,713
Net Book Amount					
31 December 1995	**1,230**	**821**	**233**	**90**	**2,374**
31 December 1994	1,251	756	219	87	2,313

Certain land and buildings were valued in 1988 at £1,250,000. Subsequent additions and other land and buildings are included at a cost of £123,000.

If land and buildings were stated at historic cost the cumulative cost at 31 December 1995 would be **£840,000** and the net book amount **£739,000**.

The net book value of land and buildings is comprised of freehold properties **£930,000** (1994, £944,000) and long leasehold properties **£300,000** (1994, £307,000).

13. STOCKS

	1995 £'000	1994 £'000
Raw materials and consumables	**250**	304
Work in progress	**174**	186
Finished goods and goods for resale	**625**	737
	1,049	1,227

14. DEBTORS

	1995 £'000	1994 £'000
Trade debtors	**1,326**	1,238
Other debtors	**24**	45
Prepayments	**22**	25
ACT	**43**	42
Falling due after more than one year:		
ACT	**30**	28
	1,445	1,378

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1995 £'000	1994 £'000
Bank loan	**54**	54
Trade creditors	**926**	961
Tax and social security	**190**	201
Corporation tax and ACT	**241**	217
Other creditors	**31**	28
Accruals	**97**	133
Proposed dividend	**123**	111
	1,662	1,705

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

	1995 £'000	1994 £'000
Bank loan due:		
between one and two years	**54**	54
between two and five years	**160**	162
after five years	**-**	138
	214	354

The loan is repayable in equal instalments ending in 2000 and carries interest at 1.125% over Base Rate. It is secured by a fixed charge over book debts and certain properties and a floating charge over the other assets of the company. The amount of £54,000 repayable in 1996 is shown in creditors falling due within one year.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Reorganisation Costs £'000
At 1 January 1995 and 31 December 1995	211

There is a contingent liability of **£264,000** (1994, £236,000) for deferred taxation at 33% not provided on accelerated capital allowances. No estimate has been made of any tax liability that might arise on the sale of the revalued properties as it is the intention of the directors to retain the properties for the foreseeable future.

18. SHARE CAPITAL

	1995 £'000	1994 £'000
Ordinary shares of 5p per share		
Authorised: **15,525,000** shares (1994, 15,525,000)	**776**	776
Allotted, called and fully paid: **12,270,000** shares (1994, 12,270,000)	**613**	613

Options granted in accordance with the Executive Share Option Scheme remain unexercised at 31 December 1995 as follows:

No of shares	Latest date for exercise	Price per share to be paid
240,000	16 February 1999	24.5p
250,000	12 May 1999	32.5p
20,000	13 April 2005	31.5p

19. RESERVES

	Share Premium £'000	Revaluation Reserve £'000	Retained Profits £'000	Total £'000
At 1 January 1995	425	574	1,421	2,420
Revaluation surplus released	–	(8)	8	–
Retained profit for the year	–	–	257	257
At 31 December 1995	**425**	**566**	**1,686**	**2,677**

The cumulative amount of goodwill arising from acquisitions in earlier years which has been written off through reserves is £580,000.

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1995 £'000	1994 £'000
Profit for the financial year	**441**	425
Dividends	**(184)**	(172)
Share capital issued	**-**	9
Net additions to shareholders' funds	**257**	262
Shareholders' funds at 1 January	**3,033**	2,771
Shareholders' funds at 31 December	**3,290**	3,033

21. COMMITMENTS

Capital expenditure contracted for at 31 December 1995 and for which no provision has been made in these accounts is **£60,000** (1994, £54,000).

Commitments for operating lease payments on land and buildings due in the next year for leases expiring between two and five years are **£28,000** (1994, nil) and after five years **£12,000** (1994, £40,000).

22. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1995 £'000	1994 £'000
Operating profit	**629**	622
Depreciation charges	**250**	231
Decrease in stocks	**178**	134
(Increase) in debtors	**(64)**	(28)
(Decrease) in creditors	**(79)**	(46)
Net cash inflow from continuing operating activities	**914**	913

23. ANALYSIS OF CASH AND CASH EQUIVALENTS

	1995 £'000	1994 £'000	change in year £'000
Cash at bank and in hand	**403**	279	**124**

CORPORATE GOVERNANCE

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are required to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the results for the year. In preparing the financial statements, suitable accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made. The financial statements are prepared on a going concern basis and in compliance with applicable accounting standards and with the Companies Act 1985. The directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

CODE OF BEST PRACTICE

The company has complied throughout the year with the Code of Best Practice recommended by the Committee on the Financial Aspects of Corporate Governance, the Cadbury Committee, subject to the exceptions below.

For many years the company has had two non-executive directors whose calibre and independent judgement have carried significant weight in the Board's decisions. They have retired by rotation in accordance with the company's Articles. The Board does not consider that the imposition of fixed terms of office or the appointment of additional non-executive directors would enhance the standard of its corporate governance.

The Audit and Remuneration Committees are comprised of the two non-executive directors. Each Committee meets at least once a year and executive directors attend when appropriate.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal financial control which is designed with regard to the size of the company to provide reasonable but not absolute assurance against material mis-statement or loss. The full Board meets regularly and has a formal schedule of matters reserved to it. The organisational structure of the company gives clear management responsibilities in relation to internal financial control. Financial risks are controlled through clearly laid down authorisation levels. There is an annual budget which is approved by the directors. The results of operating locations are reported monthly and compared to the budget. On behalf of the Board, the audit committee reviews the effectiveness of the internal control environment and receives reports from the external auditors on a regular basis.

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee sets the remuneration and other terms of employment of executive directors. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved.

Directors' contracts are designed to provide the assurance of continuity which the company desires. C R Ball and G C Martin have service contracts giving not less than two years' notice of termination. Other executive directors have service contracts giving not less than one year's notice. There are no provisions for pre-determined compensation on termination.

Pensions for directors are based on salary alone and are provided by either the company defined contribution scheme or defined benefits scheme. Contributions are paid to these schemes in accordance with independent actuarial recommendations or funding rate determined by the Remuneration Committee as appropriate to the type of scheme.

Non-executive directors have no service contracts, are not eligible for participation in share schemes and no pension contributions are made on their behalf.

Full details of directors' remuneration and benefits are given in note 8 to the financial statements on pages 11 and 12.

Auditors' Reports

To the shareholders of Dinkie Heel plc

We have audited the financial statements on pages 6 to 16 which have been prepared under the historical cost convention as modified by the revaluation of certain properties and the accounting policies set out on page 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 17, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, 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 the company's affairs as at 31 December 1995 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse, Bristol
Chartered Accountants and Registered Auditors
28 March 1996

To the directors of Dinkie Heel plc on corporate governance matters

In addition to our audit of the financial statements we have reviewed your statements on page 17 concerning the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

BASIS OF OPINION

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion of the effectiveness of either the company's system of internal financial control or corporate governance procedures nor on the ability of the company to continue in operational existence.

OPINION

In our opinion, your statements on internal financial control and on going concern on page 17 have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the company and examination of relevant documents, your statement on page 17 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.

Price Waterhouse

Price Waterhouse, Bristol
Chartered Accountants and Registered Auditors
28 March 1996

NOTICE OF MEETING

DINKIE HEEL PLC
COMPANY NUMBER 507461

Notice is hereby given that the forty-fourth annual general meeting of Dinkie Heel plc will be held at the Forte Crest Hotel, Filton Road, Hambrook, Bristol on Friday 17 May 1996 at 12 noon.

To conduct the following ordinary business:

1 To receive the directors' report and financial statements for the year ended 31 December 1995.

2 To declare a dividend.

3 To re-elect A J Stowey as a director of the company.

4 To re-elect M J Stowey as a director of the company.

5 (a) To re-appoint Price Waterhouse, Chartered Accountants and Registered Auditors, as auditors.

(b) To authorise the directors to fix the remuneration of the auditors.

6 To transact any other ordinary business of the company.

To conduct the following special business by proposing the following resolutions as ordinary or special resolutions as indicated below:

ORDINARY RESOLUTION

1 THAT the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ('the Act') and in substitution for any existing power to allot relevant securities to exercise all the powers of the company to allot relevant securities (within the meaning of the said Section 80) up to an aggregate nominal amount of £162,750 (representing 26.5% of the total ordinary share capital in issue as at the date of this notice) during the period commencing on the date of the passing of this resolution and expiring on 16 May 2001 (both dates inclusive), but so that this authority shall allow the company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of such offers or agreements;

SPECIAL RESOLUTIONS

2 THAT subject to the passing of resolution 1 set out above:

(a) the directors be and they are hereby empowered, pursuant to Section 95 of the Act, to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority given by resolution 1 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(i) in connection with or the subject of an offer or invitation, open for acceptance for a period fixed by the directors, to holders of ordinary shares and such other equity securities of the company as the directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings (subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever); or

(ii) pursuant to the terms of any share scheme for employees approved by the members in general meeting; or

DINKIE HEEL PLC
COMPANY NUMBER 507461

SPECIAL RESOLUTIONS continued

(iii) (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £30,675 representing 5% of the total ordinary share capital in issue as at the date of this notice,

and shall expire on 16 August 1997 or, if earlier, at the conclusion of the annual general meeting of the company in 1997, except that the company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the directors may allot equity securities in pursuance of such offers or agreements; and

(b) all authorities previously conferred under Section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

3 THAT the new Articles of Association produced to the meeting and initialled for the purpose of identification by the Chairman of the meeting be and they are hereby adopted as the Articles of Association of the company in substitution for all previous Articles of Association.

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not also be a member.

Copies of the proposed new Articles of Association will be available for inspection at the offices of Norton Rose, Kempson House, Camomile Street, London, EC3A 7AN and of the Articles and the directors' service contracts at St Ivel Way between 9.00am and 5.00pm on any weekday (Saturdays excepted) from 29 April 1996 until the date of the meeting and at the place of the meeting on 17 May 1996 from 11.45am until its conclusion.

The dividend will be paid to shareholders registered in the books of the company at the close of business on 30 April 1996.

On behalf of the Board
G C Martin
Secretary

St Ivel Way
Warmley
Bristol BS15 5TY
24 April 1996

ARTICLES OF ASSOCIATION

This note explains the effect of adopting the proposed new Articles of Association. Two general differences which should be borne in mind are:

1 The existing Articles do not comply with the requirements of the Stock Exchange (chapter 13 (appendix 1) of the 'Yellow Book'). The new Articles do comply with these requirements.

2 The Articles have been modernised generally. This includes replacing references to repealed Companies Acts with references to the current legislation (mostly the Companies Act 1985), deleting references to shillings and old pence and adopting more modern provisions.

The numbered paragraphs below refer to Articles in the proposed new Articles of Association.

SHARE CAPITAL

7.1 The company may issue redeemable ordinary shares (not just redeemable preference shares).

9 This Article gives power to issue share warrants (a right to acquire shares in the company).

11 The company does not have to recognise any rights of beneficiaries under trusts and can deal with the trustees in the same way as other shareholders.

12 Share certificates will not have to be issued if arrangements have been made to enter the CREST system. Where members still require share certificates, the company will not be entitled to charge for the certificate (payment is prohibited by the Stock Exchange). The same applies to replacement share certificates in new Article 13.

LIEN ON SHARES

14-16 The new provisions have a similar effect – the company has a lien for unpaid money on shares and may sell the shares if the money is not paid.

CALLS ON SHARES

17-24 Provisions are similar to the existing Articles, although more modern.

19 Interest on unpaid calls runs at a higher rate (15% as opposed to 10%).

20 Members who have not paid calls are not entitled to receive dividends or attend and vote at shareholders' meetings.

24 The Board may delegate the power to make calls.

FORFEITURE OF SHARES

25 Members must be given 14 days to pay money outstanding on the shares before their shares can be forfeited (not seven days). Fourteen days is now more usual then seven days.

TRANSFER OF SHARES

34 Shares need not be transferred by way of a written instrument. This is to give effect to the CREST system. Article 34.2 is the Article which specifically relates to CREST.

35 The Board may not require a fee to be paid on the transfer of any shares. The Stock Exchange prohibits any transfer fee. In addition, transfers of partly paid shares must be registered unless refusal would prevent dealings from taking place on an orderly and proper basis. This is required by the Stock Exchange. Also, up to four persons may be registered as joint members (the existing Articles only allow three, which is in breach of the Stock Exchange requirements).

38 No fee can be charged for registering grants of probate, etc – again a Stock Exchange requirement.

DESTRUCTION OF DOCUMENTS	43	Power has been given to destroy certain old documents which the Stock Exchange and the Companies Act permit the company to destroy.
ALTERATION OF SHARE CAPITAL	47	The company has been given power to purchase its own shares.
PROCEEDINGS AT GENERAL MEETINGS	58	The Chairman only has to wait 10 minutes (as opposed to 30 minutes) before deciding to adjourn a general meeting if a quorum is not present. He can wait longer if he wishes.
	64	The Board has additional powers to deal with unruly and difficult shareholders.
	65	Resolutions do not need to be seconded – the Chairman alone can propose them to the meeting.
	74	Written authority from corporate members can be required before that corporate member is entitled to vote.
	79	A corporate member can appoint more than one representative. This could be relevant where a company holds shares for several beneficiaries and the beneficiaries wish to appoint different representatives.
	80	This Article takes advantage of Section 212 of the Companies Act. Section 212 allows companies to send out notices requiring the shareholder to state who the beneficial owner of the share is. This type of notice is particularly useful in a contested takeover situation. If the notice is not complied with, then certain rights relating to the shares can be taken away. The Article complies with the Stock Exchange requirements on the rights which can be taken away following a failure to comply with a Section 212 notice. This power is not in the existing Articles of Association.
UNTRACED MEMBERS	81	This gives the company power to sell the shares of untraced members to the extent permitted by the Stock Exchange. Put simply, the right of sale will arise if dividends sent to the shareholder in the past 12 years have been uncashed (provided that three cash dividends have been paid), and the company has given notice of its intention to sell in two newspapers and informed the Stock Exchange. Money in respect of the shares sold needs to be kept in a separate account, but may be employed in the business of the company.
APPOINTMENT, RETIREMENT AND REMOVAL OF DIRECTORS	88	A director is not required to hold any shares of the company. The existing Articles state that directors must hold shares with a nominal value of £100. Although this is a small shareholding, it is unusual for directors to be required to hold shares.
	91	This is the same as the existing Articles in that the Managing Director and Joint Managing Director need not retire by rotation, but all other directors are required to retire by rotation.
	96	The existing Articles provide that a director will cease to be a director if he 'becomes of unsound mind', whereas the new Articles provide that a court order must be made with regard to a director's insanity and the Board must resolve that his office be vacated.
DIRECTORS' REMUNERATION, EXPENSES AND PENSIONS	103	The new Articles provide that the Board of directors decides the level of any directors' fees.
	112	This Article provides as Greenbury recommends, that the Remuneration Committee consists only of non-executive directors.
POWERS AND DUTIES OF THE BOARD	111	The Board has power to delegate to committees where not all members of the committee are directors – only a majority need be directors.

PROCEEDINGS OF DIRECTORS AND COMMITTEES	119	Any director (not just the Chairman) may call a Board meeting.
	123	Specific provision has been made for holding Board meetings on the telephone or by fax.
	128-130	The circumstances in which a director may vote at Board meetings on a contract in which he is interested have been slightly modified to comply with Stock Exchange requirements.
DIVIDENDS	147	A modern Article permitting scrip dividends has been included.
ACCOUNTS	154	This Article caters for the situation where the company sends out summary financial statements to shareholders rather than full accounts.
NOTICES	158	Notices (of meetings, etc) are deemed to be served the day after they were posted (not the day on which they were posted). This means the notice period for meetings is extended by one day, but avoids problems with allegations that notice was not properly given of a shareholders' meeting.

FINANCIAL RECORD

FIVE YEAR SUMMARY

	1991 £'000	1992 £'000	1993 £'000	1994 £'000	1995 £'000
Turnover					
Continuing operations	6,246	6,674	7,400	7,543	7,472
Discontinued operations	1,043	-	-	-	-
Total turnover	7,289	6,674	7,400	7,543	7,472
Profit before taxation	259	201	649	585	594
Profit after taxation	222	160	469	425	441
Net assets employed	2,429	2,473	2,771	3,033	3,290
Earnings per share	1.82p	1.31p	3.84p	3.47p	3.59p
Dividends per share	0.95p	0.95p	1.40p	1.40p	1.50p