67863

LEEDS

GROUP PLC

Annual Report and Accounts 2005

Contents

Financial Highlights

- Group profit before tax and exceptional items was £800,000 *(2004: £399,000).*

- After an exceptional profit of £135,000 on the sale of a business operation, profit before tax was £935,000 *(2004: loss £1,632,000)* and earnings per share were 1.9 pence *(2004: loss 6.2 pence).*

- Leeds Leasing returned to profitability, and was sold to Bibby Asset Finance Limited on 31 October 2005 for a consideration of £3,700,000 plus the repayment of Group loans of £1,350,000.

- Hemmers-Itex, after a disappointing first half, matched last year's profitability in the second half-year.

- Following the sale of Leeds Leasing, Hemmers-Itex is the Group's sole trading subsidiary and cash reserves in the Parent Company amount to approximately £5.5m, equivalent to 15 pence per share.

"Hemmers-Itex is now the Group's sole trading operation, and the new financial year has begun well with results to date showing a continuation of the strong sales and incoming orders experienced in the second half of last year."

"The Board will now examine the wide range of available options to explore how best to create shareholder value from the cash and other resources at its disposal."

Vin Murria, Chairman

Directors

Vin Murria (Independent Non-Executive Chairman)*

Age 43. Vin joined the board in February 2002. She is a Director of Elderstreet Investments Limited, which is a leading UK venture capital company specialising in early stage funding for high growth businesses. Prior to joining Elderstreet, Vin was European Chief Operating Officer for Kewill Systems Plc, a $120m software company, which was focused in the key application areas of Enterprise Systems, Logistics and E-commerce.

Malcolm Wilson (Group Managing Director, Finance Director & Company Secretary)

Age 56. Malcolm was appointed as Group Managing Director in September 2002, having previously been Group Finance Director from April 1999. Following Board changes on 30 September 2004, he now combines the Managing Director and Finance Director roles. An Honours graduate in Economics and Jurisprudence, he trained and qualified as a Chartered Accountant with KPMG. Since qualification, Malcolm has worked in international manufacturing businesses, holding senior financial positions with Vickers plc and Du Pont, and was Finance Director of Yorkshire Group plc between 1991 and 1998. With the withdrawal from textile manufacture and the realisation of associated assets now completed, Malcolm will stand down from the Board at the conclusion of the forthcoming Annual General Meeting.

Carol Roberts (Executive Director and Managing Director, Leeds Leasing Limited)

Age 58. Carol has 38 years experience of the finance leasing sector. She began her career with North West Securities, a subsidiary of Bank of Scotland, where over 12 years she held various management positions. She was Operations Director, and then, from 1995, Managing Director of Pallas Industrial Finance when Pallas was owned by SG Warburg. Subsequently, when Pallas was acquired by GE Capital later that year, Carol was Managing Director of GE's Structured Finance Division until leaving in June 2000 to establish a consultancy business working with small finance companies in the Commercial Asset Finance Sector. Carol worked with Leeds Leasing for 5 months in a consultancy role until becoming Managing Director in June 2004, and she joined the Main Board in September 2004. Carol resigned from the Board on 31 October 2005, remaining as Managing Director of Leeds Leasing which was sold to Bibby Asset Finance Limited on that day.

Johan Claesson (Non-Executive Director) *

Age 54. Johan has been a major shareholder in the Group since 1999, and has extensive business interests, both private and in the public arena. Johan is Chairman of Claesson & Anderzén, a private property company, and a director of three public companies – Karo Bio AB (biotechnology) and Borås Wäfveri AB (textiles), both in Sweden, and K3 Business Technology Group plc. Johan joined the Board of Leeds Group in September 2004.

Ewen Wigley (Non-Executive Director)*

Age 44. Ewen is a Director of Union Investment Management Limited, a corporate finance house that specialises in advising companies in the small cap market sector on mergers, acquisitions and restructuring. Prior to this, he was at Union Plc for 15 years, latterly as Chief Operating Officer, where he gained broad experience in banking, leasing and corporate finance. Ewen is a Member of the Association of Corporate Treasurers. He joined the Board of Leeds Group in September 2004, and chairs the Audit and Remuneration Committees.

* Member of the Audit and Remuneration Committees

Group Information and Advisers

Principal Trading Subsidiary Companies

Leeds Leasing Limited (formerly Leeds Leasing plc)
105 Duke Street
Liverpool
L1 5JQ

Directors during the year
Carol Roberts
Malcolm Wilson
Vin Murria

Finance leasing of assets

Incorporated in Great Britain and registered in England and Wales
Registered number 588708

Sold on 31 October 2005 to Bibby Asset Finance Limited

Hemmers-Itex Textil Import Export GmbH
Twentestrasse 1
Nordhorn
Germany

Directors during the year
Jörg Hemmers
Thorsten Richter
Malcolm Wilson

Import, sale & distribution of fabric

Incorporated in Germany

Group Advisers

Solicitors	**Financial Advisers**	**Brokers**	
Walker Morris Kings Court 12 Kings Street Leeds LS1 2HL	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL	
Solicitors	**Registrars**	**Principal Bankers**	**Auditors**
DLA Piper Rudnick Gray Cary Princes Exchange Princes Square Leeds LS1 4BY	Capita Registrars Proxy Department PO Box 25 Beckenham Kent BR3 4TU	Bank of Scotland 116 Wellington Street Leeds LS1 4LT	KPMG Audit Plc 1 The Embankment Neville Street Leeds LS1 4DW

Chairman's Statement

Results
The Group's trading performance improved in 2005. Sales in the period amounted to £17,188,000 *(2004: £16,514,000)* and profit before tax and exceptional items was £800,000 *(2004: £399,000)*. After an exceptional profit of £135,000 on the sale of a business operation, profit before tax was £935,000 *(2004: loss £1,632,000)* and earnings per share were 1.9 pence *(2004: loss 6.2 pence)*.

These satisfactory results reflect the return to profitability in Leeds Leasing, where default levels were much reduced and where new business financed increased by 16%. Leasing profit before tax and exceptional items amounted to £462,000 *(2004: loss £61,000)*. After a strong second half to the year, Hemmers-Itex, the successful German-based fabric trading business, produced a full year profit before tax of £573,000 *(2004: £882,000)*. The reduction in profitability relates chiefly to the costs of changing agents and successfully relocating our multi-site activities in Nordhorn to a single facility.

Strategic Developments
Following shareholder approval at the Extraordinary General Meeting on 31 October 2005, the Group completed the sale of Leeds Leasing to Bibby Asset Finance Limited for a consideration of £3,700,000 plus the repayment of Group loans of £1,350,000.

Dividend
In view of the current low level of distributable reserves, the Directors do not propose a dividend for the year under review. Although a loss of approximately £830,000 on the disposal of Leeds Leasing will arise in the consolidated accounts for the year ending 30 September 2006, the Parent Company will record a profit on disposal of approximately £3,450,000 which will substantially improve the distributable reserves position, and the Board will take that into account in determining future dividend policy. In the meantime, at the forthcoming Annual General Meeting, the Board will seek the renewal of its authority to buy back the Group's shares for the benefit of shareholders. During the year under review the Group acquired 450,000 shares under this authority.

Directors and Employees
Carol Roberts resigned from the Board on 31 October 2005 in order to continue as Managing Director of Leeds Leasing after its sale. In view of the reduced scale of activities, Malcolm Wilson will not be seeking re-election at the forthcoming Annual General Meeting, although I am pleased that he has agreed to remain in a part-time capacity to act as Company Secretary and to manage our Head Office. On behalf of the Board, I thank both Carol and Malcolm for their commitment and valuable contributions over the last few years of considerable restructuring and change.

Outlook
Hemmers-Itex is now the Group's sole trading operation, and the new financial year has begun well with results to date showing a continuation of the strong sales and incoming orders experienced in the second half of last year. Following the sale of Leeds Leasing, cash balances in the UK currently amount to approximately £5,500,000, equivalent to 15 pence per share. The Board will now examine the wide range of available options to explore how best to create shareholder value from the cash and other resources at its disposal, keeping shareholders informed of developments as and when appropriate.

Vin Murria
Chairman
19 December 2005

Operating and financial review

Group result
Group turnover in the year amounted to £17,188,000 *(2004: £16,514,000)* with Leeds Leasing and Hemmers-Itex achieving growth of 8% and 3% respectively.

Group profit before tax and exceptional items was £800,000, double the £399,000 reported in the previous financial year. Performance by sector is analysed in note 2 to the Accounts, and discussed below.

The tax charge in the year of £236,000 relates exclusively to our German operations, as no tax charge arose on UK activities.

Earnings per share before exceptional items were 1.5 pence *(2004: loss 0.6 pence).*

Divisional performance
Leeds Leasing
After the last two years in which default problems led to losses, it has been encouraging to record a significant turnaround in Leeds Leasing's performance. Although the principal cause of the improvement was an altogether better default experience, greater volumes, increased fee income and control of overhead costs also contributed. Profit before tax and exceptional items was £462,000 *(2004: loss £61,000).*

The total value of new business financed under lease or hire purchase agreements grew by 16% to £13,118,000. Within this, there was a move away from asset or customer categories where default experience has in recent times been unsatisfactory towards higher quality business, notably in the franchised fast food sector and in commercial asset finance. Yields in these sectors are typically lower than our traditional markets, but carry a much reduced risk profile.

On 31 October 2005, one month after the end of the financial year under review, the Group completed the sale of Leeds Leasing to Bibby Asset Finance Limited in a deal that realised £5,050,000 including the repayment of a Group loan of £1,350,000. Leeds Group plc will record a profit on disposal of some £3,450,000 that will flow into distributable reserves in the financial year ending 30 September 2006. In the Consolidated Group Accounts, the sale gave rise to a loss on disposal of approximately £830,000, which will be recognised in the accounts for the year ending 30 September 2006.

Hemmers-Itex
After a disappointing first half-year, the performance of our fabric wholesaling business in Germany rebounded strongly in the second half. Taking account of the fact that the newly established KMT business in Cologne had contributed only from February 2004, like for like sales in the first half of the year were down by 10%, and consequently profits were depressed. Second half sales and profits, however, matched the impressive levels of the previous year.

The fact that Easter fell so early in 2005 considerably reduced the length of the carnival season, which remains very popular in Europe. Sales of carnival fabrics, which can account for as much as 25% of first half turnover, were considerably down in 2005. In contrast, sales throughout the year were boosted by the successful launch of our range of Disney fabrics, which contributed a little over £500,000 to turnover. For the current year, new designs are in production incorporating images from the new Disney films to be released in 2006.

Operating and financial review

Divisional performance (continued)

Our traditional customers are retailers who tend to buy from Hemmers-Itex in short lengths of about 12 metres, double folded onto a cardboard core to form a "coupon". Retailers have reported difficult trading conditions in recent times, and we have responded by increasingly focusing sales efforts towards the garment manufacturing sector, where sales typically will be of fabric in the form in which it is imported, which is to say on rolls of between 60 to 80 metres. It is a measure of the success of this strategy that sales of fabric on rolls rose in 2005 by 7%, more than offsetting the reduction of 6% in sales on coupons.

Another interesting development as we seek new sales opportunities was the decision to exhibit as a supplier at a Chinese fair. Our fashion collection comprises fabrics bought from many different manufacturers, and we shall be interested to discover the level of interest that could exist amongst Chinese and other Asian customers who would otherwise need to source fabrics individually. At the same time, we continue to strive for growth in Europe and have appointed new agents in France and certain Eastern European markets during the year. The cost of making these changes was approximately £200,000.

In July 2005, Hemmers-Itex completed its relocation from three warehouses in Nordhorn to a single, larger facility that can handle the 50% growth in volume throughput that has arisen since 2000. As well as giving management much greater ability to control daily operations, the new facility offers retail customers an excellent and popular new showroom in which they can select their purchases in the manner of a supermarket.

Although it is of course early days, we are pleased that the current financial year has opened strongly with sales in October and November 20% ahead of last year and with an order book that, at this stage of the year, is fuller than it has ever been.

Head Office costs

The table below illustrates the continuing downward trend in head office costs.

	2005 £000	2004 £000	2003 £000
Head office expenses	373	545	556
Exchange loss / (gain)	2	56	(112)
Administrative expenses	375	601	444
Interest income	(140)	(179)	(369)
Net head office costs before exceptional items and tax	235	422	75
Exceptional items (note 8)	(135)	1,431	77
Net head office costs before tax (note 2)	100	1,853	152

Textile manufacturing

Following the Group's withdrawal from textile manufacturing, there remained two outstanding matters with potential impact on future results. Both of these are now effectively resolved.

Textile manufacturing (continued)

The receipt of £135,000 from the shareholders of Langholm Dyeing Company Limited, a debt for which full provision had been made, represents the final element of the proceeds of the sale of the former UK Dyeing Division in January 2002, and is reported as an exceptional item.

Secondly, the agreement covering the sale of the Strines Textiles site in June 2002 provides for overage payments to a maximum of £1,450,000 depending on the number of acres for which the purchaser achieves planning consents in the fifteen years following completion. An initial planning application was rejected in the face of opposition from Local Authority planners and the local residents group, and a subsequent appeal at a public enquiry in early 2004 was also unsuccessful. Consequently, the purchaser submitted a planning application of reduced scope, which had the support of local planners and residents and for which consent was given in March 2005. These plans envisage residential development of fewer acres than are necessary to lead to overage payments to the Group. Although the purchaser has subsequently submitted for approval certain modifications to the plans, these do not contemplate a larger development and it appears most unlikely that a development on the scale required to result in further income to the Group will ever be possible.

Fixed assets

Capital additions in the year amounted to £134,000 *(2004: £180,000)* and related chiefly to expenditure connected with the relocation of Hemmers-Itex. Tangible fixed assets in the Balance Sheet amount to £449,000 *(2004: £561,000)*. There were no capital commitments at the year-end, and no material capital projects are contemplated for the current financial year.

Working capital

At constant exchange rates, working capital increased during the year by £432,000, exclusively in our overseas operations. Trade debtors increased reflecting sales in August and September that were 12% higher than in the previous year, while stocks are higher reflecting a considerably stronger order book.

Debt Profile

The funding policy of the Group continues to be to match its funding requirement in a cost-effective fashion with an appropriate combination of short and medium term debt. The Group's net debt at 30 September 2005 can be analysed as follows:

	Holding Companies £000	Leeds Leasing £000	Hemmers-Itex £000	Total Group £000
Cash	(731)	-	(25)	(756)
Overdrafts	-	132	584	716
Total on demand	(731)	132	559	(40)
Fixed rate loans due:				
within one year	-	7,129	1,842	8,971
after more than one year	-	7,451	-	7,451
Net external debt	(731)	14,712	2,401	16,382

Operating and financial review

Debt Profile (continued)

Bank debt in the subsidiaries is without recourse to the Parent Company and, in the case of Hemmers-Itex, it is unsecured. Leeds Leasing's loans consist of block discounting lines under which fixed interest debt is raised with an amortising profile matching that of the block of lease agreements on which the debt is secured. This debt structure provides an effective hedge against interest rate risk. The Leeds Leasing debt formed part of the net assets sold on 31 October 2005, and the elimination of this debt and the net sale proceeds resulted in the Group moving on that date to a net cash position in excess of £3,000,000.

Capital gearing

The Group's capital gearing may be presented as follows:

	Total Group £000	Leeds Leasing £000	Group Excluding Leasing £000
Net assets (note 2)	11,644	4,313	7,331
Net external debt	16,382	14,712	1,670
Net internal debt	-	1,350	(1,350)
Total debt (note 26)	16,382	16,062	320
Capital gearing			
Net external debt: net assets	141%	341%	23%
Total debt: net assets	141%	372%	4%

The Board considers that the gearing in Leeds Leasing is comfortably within the limits imposed by banking covenants whilst also modest in comparison with the norm in the sector.

Exchange Exposure

It is the Group's policy not to hedge the translation of profits or losses of its German subsidiary, nor to hedge its Balance Sheet except to the extent it is possible to match net assets with debt denominated in Euros. Transactional exposures arise in Hemmers-Itex where printed cloth purchased mainly in US dollars is subsequently sold at prices denominated in Euros. The impact of exchange rate changes is minimised by the Group's policy that requires forward exchange contracts to be used where a product is purchased in a currency other than in Euros.

Malcolm Wilson
Group Managing & Finance Director
19 December 2005

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 30 September 2005.

Principal activities

During the year, the Group's two trading subsidiaries were Leeds Leasing plc, a UK specialist finance leasing business, and Hemmers-Itex Textil Import Export GmbH, a German based business that imports fabric, chiefly from the Far East, for sale and distribution throughout Europe. Leeds Leasing plc was sold on 31 October 2005 to Bibby Asset Finance Limited, and on that day changed its name to Leeds Leasing Limited.

Business review

A review of the Group's activities and performance together with an indication of future developments is contained in the Chairman's Statement on page 4 and the Operating and Financial Review on pages 5 to 8.

Dividends

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the year were as follows:

J Claesson
V Murria
C A Roberts (Resigned 31 October 2005)
E Wigley
M J Wilson

The director retiring by rotation is Malcolm Wilson who will not offer himself for re-election, and will retire at the conclusion of the forthcoming Annual General Meeting.

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company:

	Number of shares			
	Interest at end of year		Interest at beginning of year	
	Beneficial	**Non-beneficial**	Beneficial	Non-Beneficial
Johan Claesson	7,703,050	-	7,703,050	-
Vin Murria	100,000	-	100,000	-
Malcolm Wilson	60,000	-	60,000	-

The cumulative outstanding options granted to directors in the ordinary shares of the Company are as follows:

	Number of shares at beginning and end of year	Exercise price
M J Wilson	80,000	27p

The options can be exercised between January 2003 and January 2010.

In addition to the above, there are cumulative outstanding options granted to other employees in respect of 7,000 ordinary shares of the Company which can be exercised between December 1999 and December 2006 at a price of 125 pence.

Directors' Report continued

Directors and directors' interests (continued)

No changes in directors' share interests or share options have taken place between the end of the financial year and 19 December 2005.

The market value of Leeds Group shares between 1 October 2004 and 30 September 2005 ranged between 12p and 16p and at 30 September 2005 was 13p.

Major shareholdings

The Company is aware of the following shareholders having 3% or more of the issued share capital at 19 December 2005

	% of issued share capital
Mr Johan Claesson and associates	21.0
Mr Peter Gyllenhammar and associates	18.0
Mr Richard and Mr Alasdair Emslie	4.9

Employees

Regular contact between senior management and employee representatives is maintained in order to keep employees informed of the ongoing situation and future prospects. It is the Group's policy to employ disabled persons if they are able to fill the relevant position satisfactorily and to continue to employ persons who become disabled while in the Group's employment where possible. No discrimination is made in the training, career development and promotion of disabled people.

Political and charitable contributions

The Group made no political contributions during the year *(2004: £nil)*. Donations to UK charities amounted to £200 *(2004: £600)*.

Creditor payment policy

It is Group policy to agree the terms of payment with suppliers when agreeing each transaction and to abide by the terms of payment. At 30 September 2005, the amount of trade creditors shown in the Company balance sheet represents nil days *(2004: 1 day)*.

Statement by the directors on corporate governance

The Company moved to the Alternative Investment Market on 3 March 2002. As such, the Company is not bound by the Combined Code on Corporate Governance of the Hampel Committee. The Company does, however, seek to comply with those provisions of the Code that it considers appropriate to its current strategy and size.

An audit committee and a remuneration committee have been formally constituted as sub-committees of the main Board, both with written terms of reference. The committees comprise the Group non-executive Chairman and the non-executive directors. The audit committee meets with the executive board and external auditors to review the interim and final accounts and to assess the effectiveness of the system of internal controls. The principal role of the remuneration committee is to determine the remuneration package of the executive directors.

Directors' Report **continued**

Statement of 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 of the Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and 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 a going concern basis unless it is inappropriate to presume that the Company and 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 of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and of the Group and to prevent and detect fraud and other irregularities.

Auditors

In accordance with Section 385 of the Companies Act 1985, Resolution 2 is to be proposed at the forthcoming annual general meeting for the re-appointment of KPMG Audit Plc as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting of the Company at which the accounts are laid.

By Order of the Board

Malcolm Wilson
Company Secretary
19 December 2005

Schofield House
Gateway Drive
Yeadon, Leeds
LS19 7XY

Report of the Independent Auditor to the members of Leeds Group plc

We have audited the financial statements on pages 13 to 32.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 11, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with 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 Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 30 September 2005 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds

19 December 2005

Consolidated Profit and Loss Account

for the year ended 30 September 2005

	Note	2005 Continuing operations £000	2005 Discontinued operations £000	2005 Total £000	2004 Continuing operations £000	2004 Discontinued operations £000	2004 Total £000
Turnover	2	**14,113**	**3,075**	**17,188**	13,665	2,849	16,514
Cost of sales		**(10,483)**	**(287)**	**(10,770)**	(10,194)	(318)	(10,512)
Gross profit		**3,630**	**2,788**	**6,418**	3,471	2,531	6,002
Distribution costs		**(937)**	**-**	**(937)**	(648)	-	(648)
Administrative expenses		**(2,327)**	**(1,402)**	**(3,729)**	(2,383)	(2,367)	(4,750)
Operating profit before exceptional items		**366**	**1,386**	**1,752**	440	764	1,204
Exceptional items	8	**-**	**-**	**-**	-	(600)	(600)
Operating profit		**366**	**1,386**	**1,752**	440	164	604
Exceptional profit/(loss) on sale of a business operation	8	**135**	**-**	**135**	(1,431)	-	(1,431)
Profit/(loss) before interest		**501**	**1,386**	**1,887**	(991)	164	(827)
Interest receivable and similar income	3			**32**			88
Interest payable and similar charges	3			**(984)**			(893)
Net interest payable				**(952)**			(805)
Profit/(loss) on ordinary activities before taxation				**935**			(1,632)
Taxation on profit or loss on ordinary activities	6			**(236)**			(630)
Profit/(loss) for the financial year	21			**699**			(2,262)
Basic and diluted earnings/ (loss) per share	7						
before exceptional items				**1.5p**			(0.6)p
exceptional items				**0.4p**			(5.6)p
after exceptional items				**1.9p**			(6.2)p

The notes on pages 16 to 32 form part of these financial statements.

A reconciliation of movements in equity shareholders' funds is shown in note 21 to the financial statements.

Balance Sheets
at 30 September 2005

	Note	Group		Company	
		2005	2004	**2005**	2004
		£000	£000	**£000**	£000
Fixed assets					
Intangible assets	9	**853**	951	**-**	-
Tangible assets	10	**449**	561	**-**	-
Investments	11	**-**	-	**3,731**	3,731
		1,302	1,512	**3,731**	3,731
Current assets					
Stock	12	**4,170**	3,868	**-**	-
Debtors	13	**5,062**	4,865	**1,857**	1,716
Deferred taxation	14	**875**	875	**75**	75
Finance lease debtors	15	**20,606**	18,328	**-**	-
Total debtors		**26,543**	24,068	**1,932**	1,791
Cash at bank and in hand		**756**	1,186	**730**	1,111
		31,469	29,122	**2,662**	2,902
Creditors: amounts falling due within one year	16	**(13,676)**	(13,353)	**(1,289)**	(1,305)
Net current assets		**17,793**	15,769	**1,373**	1,597
Of which:					
due within one year		**4,708**	3,970	**1,298**	1,522
due after more than one year		**13,085**	11,799	**75**	75
Total assets less current liabilities		**19,095**	17,281	**5,104**	5,328
Creditors: amounts falling due after more than one year	17	**(7,451)**	(6,250)	**-**	-
Net assets		**11,644**	11,031	**5,104**	5,328
Capital and reserves					
Called up equity share capital	19	**4,392**	4,392	**4,392**	4,392
Reserves	20	**7,252**	6,639	**712**	936
Equity shareholders' funds	21	**11,644**	11,031	**5,104**	5,328

The notes on pages 16 to 32 form part of these financial statements.

These financial statements were approved by the Board of Directors on 19 December 2005 and were signed on its behalf by:

Vin Murria
Chairman

Malcolm Wilson
Group Managing and Finance Director

Consolidated Cash Flow Statement

for the year ended 30 September 2005

	Note	**2005 £000**	2004 £000
Cash inflow from operating activities	24	**(626)**	503
Return on investments and servicing of finance	25a	**(952)**	(805)
Taxation		**(266)**	18
Capital expenditure and financial investment	25b	**(129)**	(177)
Acquisitions and disposals	25c	**135**	-
Cash outflow before financing		**(1,838)**	(461)
Financing	25d	**1,279**	1,383
(Decrease)/increase in cash in the year		**(559)**	922

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	**2005 £000**	2004 £000
(Decrease)/increase in cash in the year		**(559)**	922
Net increase in loans and hire purchase commitments	25d	**(1,340)**	(1,383)
Change in net debt resulting from cash flows	26	**(1,899)**	(461)
Foreign currency translation differences	26	**11**	28
Movement in net debt		**(1,888)**	(433)
Net debt at beginning of the year	26	**(14,494)**	(14,061)
Net debt at end of the year	26	**(16,382)**	(14,494)

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30 September 2005

	2005 £000	2004 £000
Profit/(loss) for the financial year	**699**	(2,262)
Foreign currency translation differences	**(25)**	(110)
Total recognised profit/(loss) relating to the financial year	**674**	(2,372)

The notes on pages 16 to 32 form part of these financial statements.

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention, applicable Accounting Standards in the United Kingdom, and the requirements of the Companies Act 1985. The accounts comply with the Statement of Recommended Practice "Accounting Issues in the Asset Finance and Leasing Industry" issued by the Finance and Leasing Association.

Basis of consolidation

The Group financial statements consolidate Leeds Group plc and all its subsidiary undertakings, all of which make their accounts up to 30 September.

Purchased goodwill arising on consolidation has been written off to reserves in the year of acquisition in respect of acquisitions prior to 1 October 1998, when FRS10 "Goodwill and Intangible Assets" was adopted. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill arising on consolidation in respect of acquisitions since 1 October 1998 is capitalised. Positive goodwill is amortised by equal annual instalments over its estimated useful life, not exceeding 20 years. The carrying value of goodwill is reviewed as necessary for impairments and is written down if an impairment is identified.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any provision for diminution in value. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

In accordance with Section 230(4) of the Companies Act 1985 Leeds Group plc is exempt from the requirement to present its own profit and loss account. The loss for the financial year is disclosed in note 20 to these financial statements.

Fixed assets, depreciation, and carrying values

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold land and building improvements	-	8 years
Plant and machinery	-	5 to 15 years
Motor vehicles	-	4 years

Tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value if higher. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustment for the risks associated with the relevant unit.

1. Accounting policies (continued)

Leases

Amounts receivable under finance leases are recorded as debtors at the aggregate amount of the Group's net investment in those leases after making appropriate provisions for bad and doubtful rentals receivable. Gross earnings under finance leases are allocated to accounting periods in order to give a constant rate of return on the Group's net cash investment in those leases.

Assets acquired under finance leases are recorded in the balance sheet as tangible fixed assets and depreciated over their estimated useful economic lives. The corresponding liability is recorded as a creditor with the interest element being charged to the profit and loss account over the period of the lease.

Rentals payable under operating leases are charged to the profit and loss account over the terms of the leases.

Pension Costs

The Group operates a group personal pension scheme, available to all employees in the UK. The scheme is a defined contribution type and the Group's contributions are charged against profits in the year in which contributions are made.

The Group previously operated three defined contribution company pension schemes. Two schemes were fully insured schemes and these schemes have now been wound up. The other scheme, which was a self-administered scheme, is in the process of winding up.

There are no Company pension schemes in operation in Holland or Germany, as pension benefits are provided by the respective governments.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

Turnover

The amount shown in the profit and loss account is receivable by the Group in the ordinary course of its business for goods or services rendered and excludes value added tax. The turnover figure for leasing represents gross earnings from finance leases.

Foreign currency

Assets, liabilities and profits of overseas subsidiary undertakings have been translated into sterling at the rate of exchange ruling at 30 September 2005. Exchange differences arising from the retranslation of the opening net investment in subsidiary undertakings at the closing rate are dealt with through reserves. Differences in exchange arising in the normal course of business are dealt with in the profit and loss account.

2. Segmental information

The analysis of turnover by geographical destination is as follows:

	2005	2004
	£000	£000
United Kingdom	**3,700**	3,277
Other EU	**13,283**	12,946
Non EU	**205**	291
	17,188	16,514

During the year, the Group was engaged in finance leasing in the UK, and the import and distribution of fabric with operations based in Germany and Holland.

The tables below set out a segmental and geographic analysis of the Group's operations.

2005	**Leeds Leasing £000**	**Hemmers -Itex £000**	**Unallocated central costs £000**	**Group Total £000**
Turnover	**3,075**	**14,113**	**-**	**17,188**
Cost of sales	**(287)**	**(10,483)**	**-**	**(10,770)**
Gross profit	**2,788**	**3,630**	**-**	**6,418**
Distribution costs	**-**	**(937)**	**-**	**(937)**
Administrative expenses	**(1,402)**	**(1,952)**	**(375)**	**(3,729)**
Operating profit/(loss)	**1,386**	**741**	**(375)**	**1,752**
Profit/(loss) on sale of a business operation	**-**	**-**	**135**	**135**
Profit/(loss) before interest	**1,386**	**741**	**(240)**	**1,887**
Net interest (payable)/receivable	**(924)**	**(168)**	**140**	**(952)**
Profit/(loss) before taxation	**462**	**573**	**(100)**	**935**

2004	Leeds Leasing £000	Hemmers -Itex £000	Unallocated central costs £000	Group Total £000
Turnover	2,849	13,665	-	16,514
Cost of sales	(318)	(10,194)	-	(10,512)
Gross profit	2,531	3,471	-	6,002
Distribution costs	-	(648)	-	(648)
Administrative expenses	(1,767)	(1,782)	(601)	(4,150)
Before exceptional items	764	1,041	(601)	1,204
Exceptional items	(600)	-	-	(600)
Operating profit/(loss)	164	1,041	(601)	604
Loss on sale of a business operation	-	-	(1,431)	(1,431)
Profit/(loss) before interest	164	1,041	(2,032)	(827)
Net interest (payable)/receivable	(825)	(159)	179	(805)
Profit/(loss) before taxation	(661)	882	(1,853)	(1,632)

2. Segmental information (continued)

2005	**Leeds Leasing £000**	**Hemmers -Itex £000**	**Holding companies £000**	**Group Total £000**
Intangible fixed assets	**-**	**853**	**-**	**853**
Tangible fixed assets	**129**	**320**	**-**	**449**
Finance lease debtors	**20,606**	**-**	**-**	**20,606**
Working capital	**(1,160)**	**7,018**	**(203)**	**5,655**
Trading capital employed	**19,575**	**8,191**	**(203)**	**27,563**
Current & deferred tax	**800**	**(412)**	**75**	**463**
(External debt) / cash	**(14,712)**	**(2,401)**	**731**	**(16,382)**
Internal debt (payable) / receivable	**(1,350)**	**(819)**	**2,169**	**-**
Net assets	**4,313**	**4,559**	**2,772**	**11,644**

2004	Leeds Leasing £000	Hemmers -Itex £000	Holding companies £000	Group Total £000
Intangible fixed assets	-	951	-	951
Tangible fixed assets	218	343	-	561
Finance lease debtors	18,328	-	-	18,328
Working capital	(1,227)	6,609	(128)	5,254
Trading capital employed	17,319	7,903	(128)	25,094
Current & deferred tax	800	(444)	75	431
(External debt) / cash	(13,418)	(2,188)	1,112	(14,494)
Internal debt (payable) / receivable	(850)	(1,028)	1,878	-
Net assets	3,851	4,243	2,937	11,031

3. Profit or loss on ordinary activities before taxation

	2005 £000	2004 £000
Profit or loss on ordinary activities before taxation is stated *after charging*		
Auditors' and their associates' remuneration:		
- Audit - parent company	**22**	20
- Audit - rest of Group	**42**	42
- Non audit	**17**	24
Depreciation and other amounts written off tangible fixed assets	**235**	193
Amortisation of goodwill	**93**	93
Exceptional items (see note 8)	**-**	2,031
Operating leases:		
- Land and buildings	**308**	171
Interest payable:		
- on bank loans and overdrafts	**984**	893
after crediting		
Exceptional items (see note 8)	**135**	-
Interest receivable:		
- bank	**32**	16
- other	**-**	72
Total interest receivable	**32**	88

4. Remuneration of directors

Directors' emoluments are as follows:

	Salary/fees £000	Benefits £000	Bonus £000	Total emoluments 2005 £000	Pension contributions 2005 £000	Total emoluments 2004 £000	Pension contributions 2004 £000
Executive directors:							
M J Wilson	**142**	**1**	-	**143**	**16**	143	16
C A Roberts	**84**	-	-	**84**	**5**	-	-
D H Bowler	-	-	-	-	-	90	7
Non-executive directors:							
V Murria	**32**	-	-	**32**	-	24	-
J Claesson	**10**	-	-	**10**		-	-
W M Cran	-	-	-	-	-	19	-
2005 Totals	**268**	**1**	-	**269**	**21**		
2004 Totals	274	2	-	276	23	276	23

In addition to the above, a fee of £10,000 pa is payable to Union Investment Management Limited in respect of the services of Mr E. Wigley.

The emoluments before pension contributions of Mr M J Wilson, the highest paid director, were £143,000 (*2004: £143,000).*

The share options that have been granted to the directors are set out in the directors' report on page 9 of these financial statements.

5. Staff numbers and costs

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

	Number of employees 2005	2004
Management and administration	**51**	56
Warehousing and materials handling	**62**	64
	113	120

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	**2,196**	2,320
Social security costs	**357**	343
Other pension costs (note 22)	**34**	39
	2,587	2,702

6. Taxation on profit or loss on ordinary activities

	2005	2004
	£000	£000
UK corporation tax at 30% *(2004: 30%)* on the profit or loss for the year on ordinary activities	**-**	-
Corporation tax adjustment relating to earlier years	**-**	100
Overseas tax	**(236)**	(360)
Current taxation	**(236)**	(260)
Deferred taxation (note 14)	**-**	(370)
	(236)	(630)

A reconciliation of the current tax charge for the year as compared to the expected tax charge/(credit) calculated at the standard rate in the UK is as follows:

	2005	2004
	£000	£000
Profit/(loss) on ordinary activities before taxation	**935**	(1,632)
Current tax charge/(credit) at 30% *(2004: 30%)*	**281**	(490)
Effects of:		
Non-taxable income	**(46)**	-
Expenses not deductible for tax purposes	**14**	460
Fixed asset timing differences	**(133)**	135
Utilisation of past losses	**(19)**	-
Losses unrelieved	**26**	112
Short term timing differences	**72**	48
Differences in overseas rates	**41**	95
Adjustment to tax charge in respect of prior years	**-**	(100)
Net tax charge (see above)	**236**	260

7. Earnings/(loss) per ordinary share

The calculation of basic and diluted earnings/(loss) per ordinary share is based on the profit for the year after taxation of £699,000 *(2004: loss £2,262,000).* The calculation of basic and diluted earnings/(loss) per ordinary share before exceptional items is based on a profit for the year after taxation, but before exceptional items, of £564,000 *(2004: loss £206,000).*

A reconciliation of the weighted average number of ordinary shares used in the calculations of basic and diluted earnings per share is shown as follows:

	2005	2004
	Shares	Shares
Weighted average number of ordinary shares – basic	**36,470,658**	36,598,603
Dilutive effect of ordinary shares issuable under share option schemes	**87,000**	87,000
Weighted average number of ordinary shares - diluted	**36,557,658**	36,685,603

8. Exceptional items

2005

Langholm Dyeing Company Limited

Under the terms on which the Group sold a loan note to the Directors of Langholm Dyeing Company Limited in December 2004 (see below) further payments of £50,000 remained due from the Directors of Langholm on each of the first three anniversaries of the sale. The Group had, on grounds of prudence, retained a full provision against this debt, which was discharged in full in May 2005 by a single payment of £135,000. The Group remains entitled to participate to a maximum of £375,000 in the proceeds of any sale of the Langholm business before December 2008.

2004

Leeds Leasing plc

During 2004, following the introduction of new leasing software, the Directors reviewed the basis on which bad debt provisions in Leeds Leasing plc were calculated. From the date of this review, specific provisions have been made against the Company's exposure to arrears cases with the percentage provided in each case increasing with the number of payments in arrears. The effect of adopting the new methodology was to increase the bad debt provision by £600,000, which was reported as an exceptional item within operating profit.

Langholm Dyeing Company Limited

In February 2002 the Group sold its UK Dyeing Division to Langholm Dyeing Company Limited ("Langholm"), a company established and owned by the Division's management team, on terms that included deferred consideration in the form of an interest bearing loan note of £1,550,000. The Group accounts for that year included an exceptional loss on disposal of £5,275,000. During 2004 Langholm experienced difficult trading conditions, and payments of interest to the Group on the loan note were suspended by Langholm's bank, under the terms of the inter-creditor agreement signed by the Group at the time of the divestment. It became clear that it would not be possible for Langholm to pay accrued interest in the foreseeable future, or to make the quarterly capital repayments that were scheduled to begin in February 2005. In December 2004 the Group sold the loan note to the Directors of Langholm for an initial cash payment of £155,000 as part of a capital reconstruction and re-financing scheme to strengthen Langholm's trading position. The exceptional loss of £1,431,000 on sale of a business charged in 2004 represents the aggregate of principal and accrued interest due in respect of the loan note, as reduced by the initial sale proceeds of £155,000.

9. Intangible fixed assets

	Group Goodwill £000
Cost	
At 1 October 2004	1,407
Exchange differences	(7)
At 30 September 2005	**1,400**
Amortisation	
At 1 October 2004	456
Amortisation for the year	93
Exchange differences	(2)
At 30 September 2005	**547**
Net book amount	
At 30 September 2005	**853**
At 30 September 2004	951

Intangible fixed assets comprise the goodwill arising on the acquisition of Hemmers-Itex Textil Import Export GmbH in December 1999, which is being amortised in equal monthly amounts over 15 years.

10. Tangible fixed assets

	Group			Company
	Land and buildings £000	Plant and machinery £000	Total £000	Total £000
Cost				
At 1 October 2004	60	1,256	1,316	-
Additions	43	91	134	-
Disposals	-	(32)	(32)	-
Exchange differences	-	(5)	(5)	-
At 30 September 2005	**103**	**1,310**	**1,413**	-
Depreciation and diminution in value				
At 1 October 2004	38	717	755	-
Depreciation charge for year	25	210	235	-
On disposals	-	(23)	(23)	-
Exchange differences	-	(3)	(3)	-
At 30 September 2005	**63**	**901**	**964**	-
Net book amount				
At 30 September 2005	**40**	**409**	**449**	-
At 30 September 2004	22	539	561	-

There were no assets held under finance leases at 30 September 2005 or at 30 September 2004.

Included in plant and machinery is a motor car subject to a hire purchase agreement with a net book amount of £14,000 *(2004: nil).*

11. Fixed asset investments

	Company Shares in Group undertakings £000
Cost	
At 30 September 2005 and 30 September 2004	**8,534**
Provision	
At 30 September 2005 and 30 September 2004	**(4,803)**
Net book amount	
At 30 September 2005 and 30 September 2004	3,731

The Company owns the whole of the issued share capital (comprising ordinary shares) of the companies listed on page 3. All subsidiary undertakings have been included in the consolidation.

12. Stock

	Group	
	2005 £000	2004 £000
Finished goods and goods for resale	**4,170**	3,868

13. Debtors

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Trade debtors	**4,467**	4,154	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**1,827**	1,535
Other debtors	**54**	200	**3**	159
Prepayments and accrued income	**541**	511	**27**	22
	5,062	4,865	**1,857**	1,716

14. Deferred taxation

The movement in deferred taxation for the year comprises:

	Group	Company
	£000	£000
At 1 October 2004	875	75
Charged in the year	-	-
At 30 September 2005	875	75

The amounts included in the accounts for deferred taxation are set out below:

	Group		Group	
	Recognised	**Unrecognised**	Recognised	Unrecognised
	2005	**2005**	2004	2004
	£000	**£000**	£000	£000
Accelerated capital allowances	**599**	**939**	723	843
Other timing differences	**276**	-	152	-
	875	**939**	875	843

	Company		Company	
	Recognised	**Unrecognised**	Recognised	Unrecognised
	2005	**2005**	2004	2004
	£000	**£000**	£000	£000
Accelerated capital allowances	-	-	-	-
Other timing differences	75	-	75	-
	75	-	75	-

15. Finance lease debtors

	Group	
	2005	2004
	£000	£000
Net amounts receivable under finance leases	**20,606**	18,328

Assets acquired during the year amounted to £12,369,000 *(2004: £10,855,000)*. Leasing rents receivable in the year were £12,885,000 *(2004: £12,456,000)*.

Included in finance lease debtors is an amount of £12,210,000 *(2004: £10,924,000)*, which falls due after more than one year.

16. Creditors: amounts falling due within one year

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Bank overdrafts	**716**	588	**-**	-
Bank loans (note 18)	**8,960**	8,842	**-**	-
Hire purchase creditor	**11**	-	**-**	-
Trade creditors	**632**	425	**-**	1
Amounts owed to subsidiary undertakings	**-**	-	**978**	975
Other creditors including taxation and social security:				
Overseas taxation	**412**	444	**-**	-
Other taxes and social security	**51**	145	**-**	-
Other creditors	**460**	381	**250**	259
Accruals and deferred income	**2,434**	2,528	**61**	70
	13,676	13,353	**1,289**	1,305

17. Creditors: amounts falling due after more than one year

	Group	
	2005	2004
	£000	£000
Bank loans (note 18)	**7,451**	6,250

18. Bank loans

Bank loans are repayable by instalments as follows:

	Group	
	2005	2004
	£000	£000
Within one year	**8,960**	8,842
Between one and two years	**4,816**	4,007
Between two and five years	**2,635**	2,243
Total	**16,411**	15,092

During the year, Leeds Leasing took out a number of medium term loans at fixed interest rates between 6.07% and 7.46% repayable in monthly instalments.

Hemmers-Itex has a total loan facility of £3,500,000. During the year, Hemmers-Itex took out a number of short term loans at fixed interest rates between 4.10% and 4.15%.

Leeds Leasing has loans amounting to £14,569,000 (*2004: £13,070,000*) which are secured on lease agreements written by that company. Hemmers-Itex debt is unsecured, and all debts of subsidiary undertakings are without recourse to the parent company.

19. Called up equity share capital

	2005	2004
	£000	£000
Authorised		
48,000,000 ordinary shares of 12p each		
(2004: 48,000,000 ordinary shares of 12p each)	**5,760**	5,760
Allotted, called up and fully paid		
36,598,603 ordinary shares of 12p each		
(2004: 36,598,603 ordinary shares of 12p each)	**4,392**	4,392

At 30 September 2005, options had been granted under the approved and unapproved executive share option schemes, which are exercisable between December 1999 and January 2010 at prices between 27p and 125p. Full details are given in the Directors' Report on page 9.

20. Reserves

	Group Profit and loss account £000	Company Profit and loss account £000
At 1 October 2004	6,639	936
Profit/(loss) for the financial year	699	(163)
Purchase of own shares	(61)	(61)
Foreign currency translation differences	(25)	-
At 30 September 2005	**7,252**	**712**

The cumulative amount of goodwill resulting from acquisitions which has been written off against reserves is £nil *(2004: £nil)*.

The Company loss after taxation for the financial year was £163,000 *(2004: loss £1,811,000)*.

21. Reconciliation of movements in equity shareholders' funds

	Group		**Company**	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Profit/(loss) for the financial year	**699**	(2,262)	**(163)**	(1,811)
Purchase of own shares	**(61)**	-	**(61)**	-
Foreign currency translation differences	**(25)**	(110)	-	-
Net transfer to/(from) equity shareholders' funds	**613**	(2,372)	**(224)**	(1,811)
Opening equity shareholders' funds	**11,031**	13,403	**5,328**	7,139
Closing equity shareholders' funds	**11,644**	11,031	**5,104**	5,328

22. Pension scheme

The Group operates a defined contribution pension scheme. The pension charge for the period represents contributions paid by the Group to the scheme and amounted to £34,000 *(2004: £39,000)*.

At 30 September 2005 there were employer's pension contributions outstanding of £nil *(2004: £3,095)*.

23. Commitments

i. There were no contracted capital commitments either for the Group or the Company at the end of the financial year 2005 or 2004.

ii. Annual commitments under non-cancellable operating leases relating to land and buildings are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Operating leases which expire:				
In one to two years	**10**	103	-	-
In the second to fifth years inclusive	**215**	68	-	34
	225	171	-	34

24. Reconciliation of operating profit to net cash flow from operating activities

	2005	2004
	£000	£000
Operating profit	**1,752**	604
Depreciation of fixed assets	**235**	193
Amortisation of goodwill	**93**	93
Loss on sale of tangible fixed assets	**4**	-
Increase in stocks	**(321)**	(131)
Increase in debtors	**(215)**	(13)
Increase in creditors	**104**	71
Increase in finance lease debtors	**(2,278)**	(314)
Net cash (outflow)/inflow from operating activities	**(626)**	503

Note:
The effect of exceptional items included within operating profit in 2004 was a cash flow of £nil.

25. Analysis of cash flows

	2005 £000	2004 £000
a) Returns on investments and servicing of finance		
Interest received	**32**	88
Interest paid	**(984)**	(893)
Net cash outflow for return on investments and servicing of finance	**(952)**	(805)

	2005 £000	2004 £000
b) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(134)**	(180)
Sale of tangible fixed assets	**5**	3
Net cash outflow for capital expenditure	**(129)**	(177)

	2005 £000	2004 £000
c) Acquisitions and disposals		
Net cash inflow from sale of a business operation	**135**	-

	2005 £000	2004 £000
d) Financing		
Debt due within one year:		
repayment of loans	**(10,190)**	(9,228)
new loans	**1,842**	2,022
new hire purchase commitments	**11**	-
Debt due beyond one year:		
new loans	**9,677**	8,589
Net increase in loans and hire purchase commitments	**1,340**	1,383
Purchase of own shares	**(61)**	-
Net cash inflow from financing	**1,279**	1,383

26. Analysis of net debt

	At 1 October 2004 £000	Cash flow £000	Non Cash flow £000	Exchange Movement £000	At 30 September 2005 £000
Cash in hand and at bank	1,186	(430)	-	-	756
Overdrafts	(588)	(129)	-	1	(716)
	598	(559)	-	1	40
Debt due within one year	(8,842)	8,337	(8,476)	10	(8.971)
Debt due after one year	(6,250)	(9,677)	8,476	-	(7,451)
	(14,494)	(1,899)	-	11	(16,382)

The interest rate profile of the net debt of the Group, by currency, at 30 September 2005 is as follows:

	Total £000	Floating rate £000	Fixed rate £000	Weighted average fixed interest rate %	Weighted average time for which rate is fixed Months
Sterling	13,982	(598)	14,580	6.28	27.0
Euro	2,400	558	1,842	4.15	3.0
	16,382	(40)	16,422	6.04	23.6

Floating rate borrowings comprise bank borrowings bearing interest at prevailing market rates.

27. Financial instruments

Currency exposure

Shown below are the Group's currency exposures as at 30 September 2005. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the subsidiary company or operating unit concerned. It is these exposures, which fluctuate throughout the year, that give rise to the net currency gains and losses recognised in the profit and loss account.

	Net foreign currency monetary assets			
	Danish Krone £000	US Dollars £000	Sterling £000	Total £000
Functional currency of subsidiary or operating unit				
Euro	292	370	22	684

27. Financial instruments (continued)

Currency exposure (continued)

Transactional exposures on sales and purchases are chiefly in the European subsidiaries and are minimised by the Group policy requiring forward exchange contracts to be entered into as sales are made, or orders for materials placed.

Fair values of financial assets and liabilities

Set out below is a comparison by category of book and fair values of the Group's financial assets and liabilities as at 30 September 2005. The Group held the following categories of financial instruments at 30 September 2005.

	Book value £000	Fair value £000
Cash at bank and in hand	756	756
Finance debt due within one year	(9,687)	(9,687)
Finance debt due after one year	(7,451)	(7,451)
Finance lease debtors	20,606	20,606
	4,224	4,224

In the year, Leeds Leasing wrote finance leases with an average length of 36 months and an average gross yield of 17.0 % before commissions.

28. Post Balance Sheet Event

On 31 October 2005 the entire share capital of Leeds Leasing plc was sold to Bibby Asset Finance Limited for a consideration of £3,700,000. In addition, Group loans amounting to £1,350,000 were repaid on completion.

This transaction resulted in a loss on disposal of approximately £830,000. There was a profit on disposal in the books of the Parent Company of approximately £3,450,000. Both the consolidated loss and the Parent Company's profit will be reflected in the accounts for the year ending 30 September 2006.

As a consequence of the sale of Leeds Leasing plc, the results of that Company are reported in the Consolidated Profit and Loss Account on page 13 as discontinued operations.

A fee of £90,000 became payable to Union Investment Management Limited on completion of the sale of Leeds Leasing. Mr. Ewen Wigley is a director of both Leeds Group plc and Union Investment Management Limited.

Five Year Summary of Results and Capital Employed

	2001 £000	2002 £000	2003 £000	2004 £000	**2005** **£000**
Profit before depreciation and exceptional items	1,605	545	1,714	592	**1,035**
Depreciation	(2,207)	(858)	(312)	(193)	**(235)**
(Loss) / profit before exceptional items	(602)	(313)	1,402	399	**800**
Exceptional items	(14,609)	(6,300)	(13,509)	(2,031)	**135**
(Loss) / profit before taxation	(15,211)	(6,613)	(12,107)	(1,632)	**935**
Taxation	3,320	710	(81)	(630)	**(236)**
(Loss) / profit after taxation	(11,891)	(5,903)	(12,188)	(2,262)	**699**
Distributions:					
Ordinary dividends	(366)	-	-	-	-
Retained in the business	(12,257)	(5,903)	(12,188)	(2,262)	**699**
Capital employed:					
Ordinary shares	9,150	9,150	4,392	4,392	**4,392**
Reserves	14,712	12,788	9,011	6,639	**7,252**
	23,862	21,938	13,403	11,031	**11,644**
Basic earnings / (loss) per ordinary share before exceptional items (pence)	0.7	(0.7)	3.1	(0.6)	**1.5**
Diluted earnings / (loss) per ordinary share before exceptional items (pence)	0.7	(0.7)	3.1	(0.6)	**1.5**
Dividend per ordinary share (pence)	1.0	-	-	-	-

The year 2001 has been re-stated in accordance with Financial Reporting Standard 19, Deferred Taxation.

Notice of Annual General Meeting

The one hundred and fifth annual general meeting of the Company will be held at the offices of KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW on 26 January 2006 at 11.30 am for the following purposes:

Ordinary business

1. To receive the report of the directors, the financial statements for the year ended 30 September 2005 and the report of the auditors thereon.

2. To re-appoint KPMG Audit Plc as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which the financial statements are laid before the Company and to authorise the directors to fix their remuneration.

Special business

To consider, and if thought fit, pass the following resolution, which will be proposed as a special resolution:

3. In accordance with Article 52 of the Articles of Association of the Company and Part V of the Companies Act 1985 ("the Act") the Company be and is hereby granted general and unconditional authority (pursuant to section 166 of the Act) to make market purchases (as defined in section 163 of the Act) of any of its own ordinary shares of 12 pence each on such terms and in such manner as the board of directors of the Company may from time to time determine provided that:

   3.1 the maximum number of shares authorised to be purchased is 3,659,860 being 10 per cent of the current issued ordinary share capital;

   3.2 the maximum price that may be paid for a share is an amount equal to not more than 105 per cent of the average middle market quotations for a share taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase;

   3.3 the minimum price that may be paid for a share is 5 pence; and

   3.4 the authority conferred by this resolution shall expire on the conclusion of the next annual general meeting of the Company held after the passing of this resolution or the date which falls 15 months from the date of passing of this resolution (whichever shall first occur) except that the Company may, before such expiry, enter into a contract for the purchase of its own shares which may be completed by or executed wholly or partly after the expiration of this authority.

By Order of the Board
Malcolm Wilson
Company Secretary

Schofield House
Gateway Drive
Yeadon
Leeds
LS19 7XY

19 December 2005

Notes

1. A member entitled to attend and vote may appoint a proxy to attend and, on a poll, to vote in his or her stead. A proxy need not be a member of the Company. A form of proxy is included at the end of this document.

2. To be valid, the form of proxy and any power of attorney or the authority under which it is signed (or a notarially certified or office copy of it) must be completed and lodged at the Registrars of the Company, Capita Registrars, Proxy Department, PO Box 25, Beckenham, Kent, BR3 4BR not later than 48 hours before the time of the meeting or the adjourned meeting.

3. Completion and return of a form of proxy does not preclude a member from subsequently attending and voting at the meeting.

4. The Register of Directors' Interests, together with copies of the directors' service contracts will be available for inspection at the registered office of the Company during normal business hours until the date of the annual general meeting and on that day, at the place of the meeting from at least 15 minutes prior to the meeting until its conclusion.

5. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company at 5.00 pm on 24 January 2006 as holders of ordinary shares of 12p each in the capital of the Company shall be entitled to vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members of the Company after 24 January 2006 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Explanation of resolutions

At each annual general meeting, one third of the directors of the Company for the time being (other than those appointed since the last annual general meeting) are required to retire. If the number of relevant directors is not a multiple of three, the number nearest to but not greater than one third of the directors are required to retire. If in any year there is only one director subject to retirement, that director will retire. At this annual general meeting, Mr Malcolm Wilson is the only director subject to retirement. Mr Wilson does not offer himself for re-election and will retire as a director with effect from the close of this annual general meeting.

Resolution number 1

The directors must present to shareholders the report of the directors and the accounts for the Company for the financial year ended 30 September 2005. That report and those accounts, and the report of the Company's auditors on those accounts, are set out on pages 9 to 32 of this document.

Resolution number 2

The auditors of the Company must be re-appointed at each meeting at which accounts are presented. Resolution 2 proposes the re-appointment of KPMG Audit Plc. The resolution also follows past practice in giving the directors authority to agree the remuneration to be paid to the auditors.

Resolution number 3

The directors are seeking authority to enable the Company to purchase ordinary shares in the capital of the Company by utilising some of the Company's available distributable profits. The directors will effect purchases under this authority, if granted, where to do so would improve the Company's earnings per share and would be in the best interests of shareholders generally. The authority would allow purchases of up to 3,659,860 ordinary shares, being approximately 10 per cent of the Company's ordinary share capital in issue as at 19 December 2005, at a minimum price per share of 5 pence and a maximum price per share of no more than 5 per cent above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any purchases are made. Again, this authority expires at the conclusion of the next annual general meeting of the Company or 15 months from the date of passing of the resolution, whichever is the earlier.

Companies legislation now enables certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares. Shares held in treasury may be subsequently cancelled, sold for cash or used to satisfy share options and share awards under employee share schemes. Accordingly, if the directors exercise this authority to purchase shares, the Company will have the option of holding those shares in treasury.

LEEDS

GROUP PLC

Registered Number 00067863

Schofield House
Gateway Drive
Yeadon
Leeds
LS19 7XY

Tel: 0113 391 9000
Fax: 0113 202 9612
Email: enquiries@leedsgroup.plc.uk

Website: www.leedsgroup.plc.uk