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# LEEDS

GROUP PLC

**Annual Report and Accounts 2010**



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## Financial Highlights

- Group profit before tax was £307,000 (2009 loss £24,000)
- Hemmers-Itex sales were £27,655,000 (2009 £25,685,000) and pre-tax profit was £586,000 (2009 £128,000)
- 340,000 shares were bought back in the year at a cost of £49,000 and 375,000 shares were cancelled
- Net asset value per share (excluding treasury shares) was 43.2 pence (2009 45.2 pence).
- Earnings per share were 0.5 pence (2009 loss of 0.5 pence)
- No dividend proposed while Board continues search for suitable investment opportunities

## Directors

### **Ewen Wigley (Independent Non-Executive Chairman)**

Born 1961, Ewen is a businessman who has over 20 years' experience in the City. Prior to his recent work with private and AIM listed companies, Ewen was a director of a corporate finance boutique that specialised in advising companies in the small cap market sector on mergers, acquisitions and restructuring. Before that, 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 Fellow of the Association of Corporate Treasurers. He joined the Board of Leeds Group in September 2004 and became Chairman in March 2007.

### **Johan Claesson (Non-Executive Director)**

Born 1951, 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 K3 Business Technology Group plc, an AIM-listed Group specialising in business software. Johan joined the Board of Leeds Group in September 2004.

### **Peter Gyllenhammar (Non-Executive Director)**

Born 1953, Peter is a professional investor and has been a major shareholder in Leeds Group since 1999. He is an active investor both in Sweden and in the UK, and has previously been a director of several public companies in the UK in which he had a substantial interest. Peter joined the Board of Leeds Group in March 2007.

## Group Information and Advisers

### Principal Trading Subsidiary Company

#### **Hemmers-Itex Textil Import Export GmbH**

Twentestrasse 1  
48527 Nordhorn  
Germany

#### ***Director during the year***

Jörg Hemmers

#### ***Principal activity***

Import, sale & distribution of fabric  
Incorporated in Germany

#### ***Subsidiary companies of Hemmers-Itex Textil Import Export GmbH***

KMT Stoffe GmbH (*incorporated in Germany*)  
Itex Brummen BV (*incorporated in Holland*)  
Chinoh-Tex Ltd (*incorporated in China*)

## Group Advisers

### **Solicitors**

Walker Morris  
Kings Court  
12 Kings Street  
Leeds  
LS1 2HL

Tel 0113 283 2500

### **Financial Advisers And Brokers**

Seymour Pierce Limited  
20 Old Bailey  
London  
EC4M 7EN

Tel 020 7107 8000

### **Auditors**

BDO LLP  
1 Bridgewater Place  
Water Lane  
Leeds  
LS11 5RU

0113 244 3839

### **Solicitors**

DLA Piper UK LLP  
Princes Exchange  
Princes Square  
Leeds  
LS1 4BY

Tel 08700 111111

### **Registrars**

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0GA

Tel 0871 664 0300\*

### **Principal Bankers**

Bank of Scotland  
116 Wellington Street  
Leeds  
LS1 4LT

Tel 0113 388 3200

\* Calls to the Capita shareholder helpline cost 10p a minute plus network extras. Lines are open 8.30am-5.30pm Mon-Fri

## Chairman's Statement

### Results

Leeds Group made a profit after tax of £131,000 in the financial year ending 30 September 2010, compared with a loss of £144,000 in 2009. After an extremely positive first six months, the second half of the financial year proved more challenging and the pronounced movement of the Euro currency has had a material impact on the results of the Group. Earnings per share for the financial year were 0.5 pence (2009 loss 0.5 pence). Net Asset Value per share at 30 September 2010 was 43.2 pence (30 Sep 2009 45.2 pence), with the reduction primarily caused by the fall in the Euro against Sterling.

### Hemmers-Itex

Material sales in Hemmers (both Europe and China) increased by 6.1% to 13.9 million linear metres during the financial year (2009 13.1 million linear metres), whilst sales revenue increased by 7.7% to £27,655,000 (2009 £25,685,000). Profit before tax of the operating subsidiaries in the financial year was £586,000 (2009 £128,000). However profitability was held back by a loss on valuation of financial derivatives of £228,000 (2009 loss £208,000). In addition the business incurred both a finance charge of £75,000 (2009 nil) as it took the opportunity to negotiate favourable amendments to the terms of its long term debt, and non-recurring reorganisation costs of £89,000 (2009 nil).

Working capital increased by £1,516,000 during the financial year (2009 decrease of £884,000) primarily due to purchases of cotton stock late in the financial year in anticipation of price increases. It is expected that the stock levels will reduce over the coming months, as your Board continues to focus on working capital reduction.

### Investments

Leeds Group continues to hold approximately 29% of Dawson International PLC ("Dawson"). Dawson's latest results show that it is now a debt-free company, but where there is a significant potential liability in a defined benefit pension scheme. Leeds Group Board believes that any growth in the value of Dawson's shares will be subject to a satisfactory resolution of the pension scheme issues.

Although Leeds Group has no power to participate in the operating and financial policies of Dawson, the Directors will manage the Group's investment in a proactive manner that will encourage the management team to focus on realising the perceived incremental shareholder value that was at the root of the investment decision.

### Share Buy-back

The Group has continued to use the authority granted by shareholders to purchase its own shares and, during a year when share trading volumes were low, 340,000 shares were acquired. Following the cancellation of 375,000 shares the company now has 32,100,000 shares in issue, of which 3,190,658 are held in treasury.

Your Board intends to continue to buy back shares whenever the appropriate opportunity arises and will be seeking Shareholder approval of the necessary resolution at the forthcoming Annual General Meeting. In buying back the Company's shares, the Board is returning capital to those shareholders who wish to sell their shares whilst improving the net asset value per share of the remaining shareholders.

### Dividend

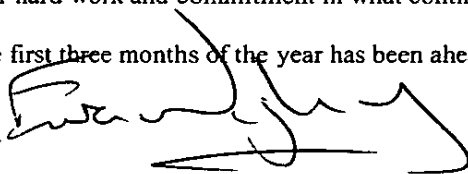
It remains the intention of the Board to seek further opportunities to maximise the long-term value of the Group by identifying appropriate investments that will strengthen the Group and benefit all shareholders. In the light of such policy, the Directors do not propose a dividend.

### Board changes

I joined the Board of Leeds Group in 2004 and have been Chairman since March 2007. Following an increase in my other work commitments I have decided to step down from the Leeds Board with immediate effect. The Company is actively seeking new candidates to add to and strengthen the existing Board and will update the market shortly regarding new appointments. I would like to take this opportunity to thank all of the staff at Leeds for their hard work and commitment in what continues to be challenging economic times.

Trading in the first three months of the year has been ahead of budget.

Ewen Wigley  
Chairman  
12 January 2011



## Operating and financial review

### Group Result

Group revenue increased by £1,970,000 (7%) in the year to £27,655,000 (2009 £25,685,000), as the result of organic growth of £2,010,000 partly offset by a small translation difference of £40,000

Group profit before tax was £307,000 (2009 loss £24,000), and an analysis of pre-tax profit in each year is as follows

Profit before tax	2010 £000	2009 £000
Hemmers Europe	506	118
Hemmers China	75	41
Unrealised profit in stock	5	(31)
<b>Total operating segments (local GAAP)</b>	<b>586</b>	<b>128</b>
IFRS financial derivatives adjustment	(228)	(208)
IFRS goodwill adjustment	118	118
Unrealised exchange (losses)/gains in holding companies	(33)	91
Other net costs of holding companies	(136)	(153)
<b>Group profit/(loss) before tax</b>	<b>307</b>	<b>(24)</b>

After an encouraging first half-year in which profit before tax amounted to £744,000, the second half-year proved extremely challenging. Second half sales were 7% below the level of the first half, and margins were squeezed as the value of the Euro fell against the US dollar as the mounting debt crisis in Greece and elsewhere in the Eurozone shook confidence.

However, the most significant feature contributing to the poor second half result was the requirement under IAS 39 to fair value the Group's forward exchange contracts. This requirement had led to an unrealised gain of £193,000 being reported in the first half, but in the second half there was an unrealised loss of £421,000. Of this, £297,000 arose in September alone when there was a large swing in exchange rates. The Directors regard the financial derivatives liability of £402,000 included in the balance sheet at 30 September 2010 as a timing difference that will reverse over the next few months as the forward contracts mature. Compliance with IFRS does not impact on aggregate profits over the long term, but has introduced a considerable degree of volatility in reported profit from one period to the next.

The tax charge in the year was £176,000 (2009 £120,000). Earnings per share were 0.5 pence (2009 loss 0.5 pence).

### Hemmers Europe

This German-based business is engaged in the import, warehousing and wholesaling of fabrics. Despite difficult market conditions, the business achieved growth of 4.4% in fabric sales to 12.9 million linear metres, and an increase of £1,365,000 (5.5%) in sales revenue to £26,301,000 (2009 £24,936,000).

Gross profit improvement of £563,000 was achieved over the 2009 level, of which £307,000 was attributable to volume growth and £256,000 to improved margins. This margin improvement occurred chiefly in the first half year as fabric costs fell as result of a favourable exchange rate, and as the Euro weakened in the second half there was some success in winning sales price increases in compensation. Overhead expenditure remained well controlled, growing by a modest 3% and overall, profit before tax improved by £388,000 to £506,000 (2009 £118,000).

Until 30 September 2010 the business segment Hemmers Europe comprised Hemmers-Itex Textil Import Export GmbH and its two European subsidiaries KMT Stoffe GmbH and Itex Brummen B.V. These three entities have now been merged to form a single, more cost-effective business structure for the future, which involved non-recurring restructuring costs of £89,000 in the financial year just ended.

## Operating and financial review (continued)

### **Hemmers China**

Chnoh-Tex is based in Shanghai and has been trading for a little over two years. Sales to external customers increased by 80.8% to £1,354,000 (2009 £749,000). Pre-tax profit grew more modestly to £75,000 (2009 £41,000) after taking a provision of approximately £60,000 against a trade receivable which is currently the subject of litigation in New York.

### **Holding Companies' Costs**

Although Holding Companies' operating costs were contained a little below the level of 2009, there was nevertheless an increase in net costs from £62,000 last year to £169,000 in 2010 as an unrealised exchange gain of £91,000 on translating loans receivable from subsidiaries in 2009 reversed, and an unrealised loss of £33,000 was recognised in 2010.

### **Available-for-sale investments**

The Group's investment in Dawson International PLC fell in value during the year by £324,000, and this unrealised loss has been taken directly to the available-for-sale reserve. Despite this setback, subject to a satisfactory resolution of the pension issues referred to in the Chairman's statement, the Directors continue to believe that the current share price of Dawson does not fully reflect its long-term value.

### **Fixed Assets**

Capital additions in the year amounted to £224,000 (2009 £200,000). Tangible fixed assets in the Consolidated Balance Sheet amount to £2,197,000 (2009 £2,350,000).

### **Property at Haw Lane, Yeadon**

The Group owns the freehold title to a plot of land of approximately 5 acres in Haw Lane, Yeadon, adjacent to the site of the former Scott & Rhodes factory, and in February 2007 Leeds City Council resolved to register this land as a town or village green. During the year a judicial review upheld that registration, a decision that the directors decided to appeal. This appeal was heard on 24 and 25 November 2010 and the two-to-one majority decision of the court was against the Group. The Directors are currently taking advice as to what further course of action may be open, and meanwhile they are of the opinion that, in its current use, the value of the land is negligible.

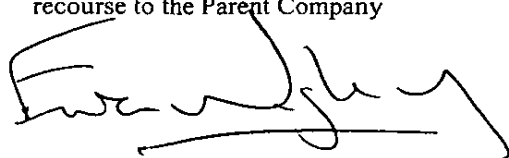
### **Working Capital**

Working capital comprises inventories, trade and other receivables, and trade and other payables and increased during the year by £1,516,000 (2009 decrease £884,000). The majority of this growth was caused by an increase in inventories of £1,088,000, partly as a result of the early purchase of certain basic items to beat the recent large increases in the cost of cotton. The directors anticipate that stock will now fall to more usual levels over the next few months.

### **Debt Profile**

The funding policy of the Group continues to be to match its funding requirement in trading subsidiaries in a cost-effective fashion with an appropriate combination of short and longer-term debt. As part of this strategy, the warehouse constructed in 2008 in Germany was financed by a 20-year loan at fixed interest of 5.1%. When that loan was drawn down, a fee of €100,000 was paid to enable the terms of the loan to be subsequently renegotiated if an advantageous opportunity arose, and during the year revised terms were indeed agreed, and are detailed in note 20 to the accounts. Having negotiated revised terms, it is no longer appropriate to amortise the fee paid on original draw-down over the life of the loan, and the unamortised portion of €86,000 (£75,000) has been written off in the year to finance expense.

Bank debt in the subsidiaries is secured by charges on inventories, receivables and property and is without recourse to the Parent Company.



Ewen Wigley  
Chairman  
12 January 2011

## Directors' Report

The directors present their annual report and the audited financial statements for the year ended 30 September 2010

### Principal activities

The principal activity of the Parent Company is that of an investment holding Company and the provision of management services to subsidiaries. The principal activities of Group undertakings are set out in note 14 to the financial statements

### Business review

The Companies Act 2006 requires the directors to set out in this report a fair review of the business of the Group during the financial year ended 30 September 2010, including an analysis of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as the "Business Review"). The information that fulfils the Business Review requirements can be found in the Chairman's Statement on page 5, and the Operating and Financial Review on pages 6 and 7. This information includes a discussion of the Key Performance Indicators used by the directors to monitor the business which are

- revenue
- gross profit margin
- fabric sales volumes, measured in linear metres
- operating overheads and central costs
- profit before tax
- profit after tax
- earnings per share
- working capital levels
- borrowing requirements

### Principal risks and uncertainties

The market for fabric in Europe remains highly competitive. The risks of operating in this market are identified in note 3 to the accounts, which also deals with the way in which the directors manage those risks. This includes the use of financial instruments, details of which are set out in note 17.

### Dividends

The directors do not recommend the payment of a dividend.

### Major shareholdings

The Company is aware of the following shareholders having 3% or more of the issued share capital at 12 January 2011

	% of issued share capital	% of issued share capital excluding shares held in treasury
Mr Johan Claesson and associates	24.9	27.6
Mr Peter Gyllenhammar and associates	21.0	23.3

### 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.

### Directors' and officers' liability insurance

The Group maintains directors' and officers' liability insurance that gives appropriate cover for any legal actions brought against its directors or senior managers. This policy remained in force on the date on which the financial statements of the Group were approved by the board.

### Directors and directors' interests

The directors who held office during the year were Mr Ewen Wigley, Mr Johann Claesson, and Mr Peter Gyllenhammar.

The director retiring by rotation is Peter Gyllenhammar who, being eligible, offers himself for re-appointment at the forthcoming Annual General Meeting.

## Directors' Report (continued)

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	7,978,050	-	7,978,050	-
Peter Gyllenhammar	6,732,499	-	6,732,499	-
Ewen Wigley	-	-	-	-

There are no outstanding share options granted to directors or employees of the Company

No changes in directors' share interests or share options have taken place between the end of the financial year and 12 January 2011

The market value of Leeds Group shares between 1 October 2009 and 30 September 2010 ranged between 17 75p and 12 25p. The average market value for the year was 15 6p, and at 30 September 2010 the market value was 17p

### Political and charitable contributions

The Group made no political contributions during the year (2009 £nil). Donations to UK charities amounted to £nil (2009 £nil)

### 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 2010, the amount of trade creditors shown in the consolidated balance sheet represents 8 days (2009 14 days) while trade creditors shown in the Company balance sheet represents 5 days (2009 3 days)

### Going Concern

After making enquiries, and notwithstanding the present downturn in the global economy, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they have adopted the going concern basis in preparing the financial statements

### Treasury shares

During the year the Company purchased 340,000 of its own ordinary shares with a nominal value of 12p, for a total consideration of £49,000, and 375,000 ordinary shares held in treasury were cancelled. In buying back the Company's ordinary shares, the Board is returning capital to those shareholders who wish to sell their shares whilst improving the net asset value per share of the remaining shareholders

### Statement by the directors on corporate governance

The Company moved to the Alternative Investment Market on 3 March 2002, and therefore is not bound by the Combined Code on Corporate Governance issued in June 2008. The Company does, however, seek to comply with those provisions of the Code that it considers appropriate to its current strategy and size

For many years an audit committee and a remuneration committee had been formally constituted as sub-committees of the main Board, both with written terms of reference. These committees comprised the Group non-executive Chairman and the two non-executive directors. Since these people now constitute the entire Board, matters previously dealt with by these sub-committees are now dealt with by the Board as a whole

### Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

## Directors' Report (continued)

### Directors' responsibilities (continued)

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Parent Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Website publication

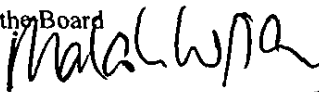
The directors are responsible for ensuring that the annual report and the financial statements are available on a website, and these documents are published on the Group's website ([www.leedsgroupplc.uk](http://www.leedsgroupplc.uk)) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### Auditors

All of the current directors have taken all the steps necessary to make themselves aware of any information needed by the Group's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

In accordance with Section 489 of the Companies Act 2006, Resolution 3 is to be proposed at the forthcoming annual general meeting for the re-appointment of BDO LLP 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  
12 January 2011

Schofield House  
Gateway Drive  
Yeadon, Leeds  
LS19 7XY

## Independent Auditor's Report to the Shareholders of Leeds Group plc

We have audited the financial statements of Leeds Group plc for the year ended 30 September 2010, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and the Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company'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 Company and the Company'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**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 30 September 2010 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent Company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report  
to the Shareholders of Leeds Group plc (continued)

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**Ian Beaumont (senior statutory auditor)**

For and on behalf of BDO LLP, statutory auditor  
1 Bridgewater Place, Water Lane, Leeds, LS11 5RU  
United Kingdom  
12 January 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

**Consolidated Statement of Comprehensive Income**  
for the year ended 30 September 2010

	Note	2010 £000	2009 £000
<b>Revenue</b>	6	27,655	25,685
Cost of sales		(21,378)	(20,114)
<b>Gross profit</b>		6,277	5,571
Distribution costs		(2,064)	(2,000)
Administrative expenses		(3,632)	(3,365)
<b>Profit from operations</b>	4	581	206
Finance expense	7	(289)	(270)
Finance income	7	15	40
<b>Profit/(loss) before tax</b>		307	(24)
Tax expense	8	(176)	(120)
<b>Profit/(loss) for the year, attributable to the equity holders of the Parent Company</b>		131	(144)
<b>Other comprehensive income</b>			
Translation differences on foreign operations		(498)	1,201
Unrealised (loss)/gain taken to available-for-sale reserve	13	(324)	240
<b>Other comprehensive income for the year</b>		(822)	1,441
<b>Total comprehensive income for the year, attributable to the equity holders of the Parent Company</b>			
		(691)	1,297

The results shown in the consolidated statement of comprehensive income derive wholly from continuing operations

There is no tax effect relating to other comprehensive income for the year

**Earnings/(loss) per share for profit attributable to the equity holders of the Company**

	Note	2010	2009
<b>Basic and diluted (pence)</b>	9	0.5p	(0.5)p

The notes on pages 17 to 40 form part of these financial statements

# Consolidated Balance Sheet

at 30 September 2010

Company number 00067863	Note	2010 £000	2009 £000
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment	11	2,197	2,350
Goodwill	12	959	1,014
Available-for-sale investments	13	971	1,295
<b>Total non-current assets</b>		<b>4,127</b>	<b>4,659</b>
<i>Current assets</i>			
Inventories	15	7,377	6,660
Trade and other receivables	16	7,240	6,973
Corporation tax recoverable		-	52
Cash available on demand	18	2,192	2,574
<b>Total current assets</b>		<b>16,809</b>	<b>16,259</b>
<b>Total assets</b>		<b>20,936</b>	<b>20,918</b>
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Loans and borrowings	20	(2,150)	(2,273)
<b>Total non-current liabilities</b>		<b>(2,150)</b>	<b>(2,273)</b>
<i>Current liabilities</i>			
Trade and other payables	19	(1,469)	(1,350)
Loans and borrowings	20	(4,394)	(3,823)
Corporation tax liability		(29)	(54)
Derivative financial liabilities	17	(402)	(186)
<b>Total current liabilities</b>		<b>(6,294)</b>	<b>(5,413)</b>
<b>Total liabilities</b>		<b>(8,444)</b>	<b>(7,686)</b>
<b>TOTAL NET ASSETS</b>		<b>12,492</b>	<b>13,232</b>
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	21	3,852	3,897
Capital redemption reserve		540	495
Treasury share reserve		(572)	(605)
Available-for-sale reserve		(10)	314
Foreign exchange reserve		1,768	2,266
Retained earnings		6,914	6,865
<b>TOTAL EQUITY</b>		<b>12,492</b>	<b>13,232</b>

The financial statements on pages 13 to 40 were approved and authorised for issue by the board of directors on 12 January 2011 and were signed on behalf of the board by -

Ewen Wigley  
Chairman

The notes on pages 17 to 40 form part of these financial statements

**Consolidated Cash Flow Statement**  
for the year ended 30 September 2010

	Note	2010 £000	2009 £000
<b>Cash flows from operating activities</b>			
Profit/(loss) for the period		131	(144)
<i>Adjustments for:</i>			
Depreciation		221	198
Reversal of impairment of available-for-sale investments		-	(231)
Loss on sale of available-for-sale investment		-	269
Foreign exchange differences		228	214
Translation (loss)/gain on cash and cash equivalents		(19)	18
Finance expense		289	270
Finance income		(15)	(40)
Loss on sale of property, plant and equipment		10	7
Income tax expense		176	120
<b>Cash flows from operating activities before changes in working capital and provisions</b>			
		1,021	681
(Increase)/decrease in inventories		(1,088)	859
(Increase)/decrease in trade and other receivables		(642)	649
Increase/(decrease) in trade and other payables		214	(624)
<b>Cash generated from operating activities</b>			
		(495)	1,565
Income taxes (paid)/ recovered		(147)	20
<b>Net cash flows from operating activities</b>			
		(642)	1,585
<b>Investing activities</b>			
Purchase of property, plant and equipment		(224)	(200)
Sale of property, plant and equipment		21	3
Purchase of available-for-sale investments		-	(200)
Sale of available-for-sale investments		-	207
Bank interest received		15	40
<b>Net cash used in investing activities</b>			
		(188)	(150)
<b>Financing activities</b>			
Purchase of treasury shares		(49)	(78)
Proceeds from bank borrowings		790	-
Repayment of bank borrowings		-	(884)
Bank interest paid		(289)	(270)
<b>Net cash generated/(used) in financing activities</b>			
		452	(1,232)
<b>Net (decrease)/increase in cash and cash equivalents</b>	18	(378)	203
Cash and cash equivalents at beginning of the period	18	2,570	2,367
<b>Cash and cash equivalents at end of the period</b>	18	2,192	2,570

The notes on pages 17 to 40 form part of these financial statements

**Consolidated Statement of Changes in Equity**  
for the year ended 30 September 2010

	Share capital £000	Capital redemption reserve £000	Treasury share reserve £000	Available - for- sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
<b>At 1 October 2008</b>	<b>3,972</b>	<b>420</b>	<b>(667)</b>	<b>74</b>	<b>1,065</b>	<b>7,149</b>	<b>12,013</b>
Total comprehensive income*	-	-	-	240	1,201	(144)	1,297
Purchase of treasury shares	-	-	(78)	-	-	-	(78)
Cancellation of treasury shares	(75)	75	-	-	-	-	-
Cost of shares cancelled	-	-	140	-	-	(140)	-
<b>At 30 September 2009</b>	<b>3,897</b>	<b>495</b>	<b>(605)</b>	<b>314</b>	<b>2,266</b>	<b>6,865</b>	<b>13,232</b>
Total comprehensive income*	-	-	-	(324)	(498)	131	(691)
Purchase of treasury shares	-	-	(49)	-	-	-	(49)
Cancellation of treasury shares	(45)	45	-	-	-	-	-
Cost of shares cancelled	-	-	82	-	-	(82)	-
<b>At 30 September 2010</b>	<b>3,852</b>	<b>540</b>	<b>(572)</b>	<b>(10)</b>	<b>1,768</b>	<b>6,914</b>	<b>12,492</b>

\* The components of total comprehensive income are disclosed on page 13

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Capital redemption reserve	Amounts transferred from share capital on redemption of issued shares
Treasury share reserve	Cost of own shares held in treasury
Available-for-sale reserve	Gains/losses arising on financial assets classified as available-for-sale
Foreign exchange reserve	Gains/losses arising on retranslation of the net assets of overseas operations into sterling
Retained earnings	Cumulative net gains/losses recognised in the consolidated statement of comprehensive income

The notes on pages 17 to 40 form part of these financial statements

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 1 Accounting policies

#### Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements have been prepared under the historical cost convention subject to fair valuing of financial instruments.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("adopted IFRS"), and with the Companies Act 2006 applicable to companies reporting under IFRS.

#### Changes in accounting policies

*In the current year the following new and revised Standards and Interpretations have been adopted:*

- *IAS 1, Presentation of Financial Statements A Revised Presentation* This amendment affects the presentation of owner changes in equity and of comprehensive income. The Group has presented a consolidated statement of changes in equity, showing all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). The Group has elected to present this information in a single statement. The standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS.

- *IFRS 8, Operating Segments* This standard sets out requirements for the disclosure of information about the Group's operating segments and also about the Group's products and services, the geographical areas in which it operates, and its major customers. The impact of the adoption of this standard is disclosed in note 6.

*In the current year the following new and revised Standards and Interpretations have been adopted which have not resulted in any significant impact on the results or net assets of the Group:*

*IAS 23- Borrowing Costs*

*IAS 27 - Consolidated and Separate Financial Statements*

*IAS 32- Financial Instruments Presentation – Puttable financial instruments*

*IAS 39 – Financial Instruments Recognition and Measurement Eligible Hedged Items*

*Improvements to IFRSs (May 2008)*

*IFRS 2 - Share-based Payment Vesting Conditions and Cancellations*

*IFRS 2 - Share-based Payment Group Cash-settled Share-based Payment Arrangements*

*IFRS 3 - Business Combinations (revised 2008)*

*IFRS 7 - Improving Disclosures about Financial Instruments*

*IFRIC 9 – Embedded Derivatives*

*IFRIC 12 - Service Concession Arrangements*

*IFRIC 15 - Agreements for the Construction of Real Estate*

*IFRIC 16 – Amendment to Hedges of a Net Investment in a Foreign Operation*

*IFRIC 17 - Distributions of Non-cash Assets to Owners*

*IFRIC 18 – Transfer of Assets from Customers*

*The Group has decided against early adoption of the following new and amended IFRS, IAS and IFRIC interpretations which are mandatory for future accounting periods and which are potentially relevant to the Group:*

*Improvements to IFRS (April 2009) (effective for periods commencing on or after 1/1/10)*

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 1 Accounting policies (continued)

*The following new and amended IFRS, IAS and IFRIC interpretations are mandatory for future accounting periods and are not expected at this stage to be relevant to the Group or have any anticipated significant impact on the results or net assets of the Group:*

*IAS 24 - Related Party Disclosures (effective for periods commencing on or after 1 1 12)*

*IAS 32 – Rights Issues (Amendment) (effective for periods commencing on or after 1 2 10)*

*IFRIC 14 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods on or after 1 1 11)*

*IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (effective for periods commencing on or after 1 7 10)*

*The following IFRS, IAS and IFRIC interpretations, which are potentially relevant to the Group, are not currently endorsed for use in the EU but are expected to be mandatory for future accounting periods.*

*IFRS 9, Financial Instruments Recognition and Measurement (effective for periods commencing on or after 1 January 2013)*

*Improvements to IFRS (May 2010) (effective for periods commencing on or after 1 January 2011)*

Where future new and amended standards have been identified as potentially relevant management are assessing their future impact

#### Revenue

Revenue is shown in the consolidated statement of comprehensive income net of VAT and returns, and is based on the fair value of consideration receivable by the Group in the ordinary course of its business for the sale of fabric and the provision of purchasing services to external customers. Revenue on sale of goods is recognised in the consolidated statement of comprehensive income when the significant risks and rewards of ownership have been transferred, which is typically upon delivery of goods to the customer. Revenue on the provision of services is recognised in the period in which the services are rendered.

#### Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

#### Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquired entity's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

#### Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

## Notes

*forming part of the financial statements for the year ended 30 September 2010*

### 1 Accounting policies (continued)

#### Segment reporting

The board considers that the Group's business comprises two operating segments, namely Hemmers Europe and Hemmers China. The remainder of Group activities comprise holding companies.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who is identified as the Board of Directors who are responsible for allocating resources, assessing performance of the operating segments and making strategic decisions.

#### Impairment of non-financial assets (excluding inventories, investment properties and deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest Group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the consolidated statement of comprehensive income, except to the extent they reverse gains previously recognised in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed.

#### Foreign currency

The consolidated financial statements are presented in Sterling, which is the functional currency of the Parent Company and the presentational currency of the Group.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve").

Exchange differences recognised in the income statement of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

#### Financial assets

The Group classifies its financial assets into one of the three categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 1 Accounting policies (continued)

#### Financial assets (continued)

(i) *Fair value through profit or loss:* This category comprises only in-the-money derivatives (see financial liabilities section for out-of-the-money derivatives). They are carried in the balance sheet at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the cost of sales line. Other than these derivative financial instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

(ii) *Loans and receivables:* Group loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest rate less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counter-party or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and bank overdrafts. Cash and cash equivalents have maturities of three months or less. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.

(iii) *Available-for-sale:* Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in a separate component of equity (available-for-sale reserve). Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the consolidated statement of comprehensive income. On sale, the amount held in the available-for-sale reserve associated with that asset is removed from equity and recognised in the consolidated statement of comprehensive income.

The Group does not engage in hedge accounting.

#### Financial liabilities

The Group classifies its financial liabilities into one of the two categories below, depending on the purpose for which the liability was incurred. The Group's accounting policy for each category is as follows:

(i) *Fair value through profit or loss:* This category comprises only out-of-the-money derivatives (see financial assets for in-the-money derivatives). They are carried in the balance sheet at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the cost of sales line. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 1 Accounting policies (continued)

#### Financial liabilities (continued)

(ii) *Other financial liabilities:* Other financial liabilities include the following items, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method

- Bank borrowings
- Trade payables

#### Share capital

The Group's ordinary shares are classified as equity instruments

#### Retirement benefits

The Group operates no defined benefit pension schemes. The Group operates a defined contribution pension scheme for its UK employees, and contributions are charged to the consolidated statement of comprehensive income in the year to which they relate. The Group does not operate pension schemes in either Germany or Holland where pension arrangements are provided by the state.

#### Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

#### Taxation

The charge for taxation is based on the results for the year, and takes into account deferred taxation.

#### Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on

- the initial recognition of goodwill,
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either

- the same taxable Group company, or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### Dividends

Interim dividends are recognised when paid and final dividends are recognised when approved by the shareholders at the AGM.

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 1 Accounting policies (continued)

#### Property, plant and equipment

Other than freehold land, all items of property, plant and equipment are carried at depreciated cost. Freehold land is not depreciated. Depreciation is provided on all other items of property, plant and equipment is to write off the carrying value of items on a straight line basis over their expected useful economic lives as follows:

Freehold buildings	33 years
Leasehold improvements	8 years
Plant and machinery	5 – 15 years
Motor vehicles	6 years

#### Treasury shares

Consideration paid/(received) for the purchase/(sale) of treasury shares is recognised directly in equity. The cost of treasury shares held is presented as a separate component of equity (the "treasury share reserve"). Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares sold is credited to the share premium account.

#### Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinarily interchangeable items.

#### Government grants

Government grants received on capital expenditure are generally deducted in arriving at the carrying amount of the asset purchased. Grants for revenue expenditure are netted against the cost incurred by the Group. Where retention of a government grant is dependent on the Group satisfying certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the consolidated statement of comprehensive income or netted against the asset purchased.

#### Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

Where the buyer has the right to return the goods the Group estimates the return rate based on past experience with similar sales and recognises revenue on this transaction with a corresponding provision against revenue for estimated returns.

### 2 Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (i) Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary.

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 2 Critical accounting estimates and judgements (continued)

#### *(ii) Useful lives of property, plant and equipment*

Property, plant and equipment are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

#### *(iii) Impairment of trade receivables*

The management team of Hemmers-Itex manages the credit risk in its customer base by taking credit references before dealing with new customers, by closely monitoring customer payments against agreed terms, and by taking credit risk insurance wherever possible. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of the Hemmers-Itex managing director. The main board directors review the Hemmers-Itex debtor profile on a quarterly basis.

#### *(iv) Inventory*

The Company reviews the net realisable value of, and demand for, its inventory on a regular basis to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends. If actual inventory losses differ by 1% from the provision established by management, the Group's consolidated net income in the year ended 30 September 2010 would have improved or declined by an estimated £5,152 depending upon whether the actual inventory losses were lower or higher than the provision.

#### *(v) Classification of available-for-sale investments*

During the year ended 30 September 2008 the Group acquired a stake of 28.8% in the ordinary share capital of Dawson International PLC and details of this investment are set out in note 13. This holding has not been accounted for as an associate undertaking on an equity basis as the Group does not have day-to-day involvement, nor the power to participate in the operating and financial policies of Dawson International PLC. On this basis, the directors consider that it is appropriate to classify the investment on an available-for-sale basis, the accounting treatment for which is set out in note 1.

### 3 Financial instruments - Risk Management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Market risk in the form of -
  - Fair value or cash flow interest rate risk
  - Foreign exchange risk
  - Other market price risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 3 Financial instruments - Risk Management (continued)

#### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows

- Trade receivables
- Cash at bank
- Bank overdrafts
- Investments in quoted and unquoted securities (UK or overseas)
- Trade and other payables
- Floating rate bank loans
- Fixed rate bank loans
- Forward currency contracts

#### General objectives, policies and processes

The directors have overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, they have delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Hemmers-Itex management team and, to the limited extent that risk arises in the UK, to the company secretary. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

#### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

A credit policy has been established under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from senior management. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

The Group does not enter into derivatives to manage credit risk, but does take credit risk insurance wherever it is available.

The directors monitor the utilisation of the credit limits regularly and at the reporting date do not expect losses from non-performance by the counterparties to exceed amounts that have been provided. Details of the provisions held against trade receivables are given in note 16.

#### Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 3 Financial instruments - Risk Management (continued)

#### *(i) Cash flow interest rate risk*

The Group manages its cash flow interest rate risk by borrowing at fixed interest rates wherever possible. Working capital is financed by short or medium term bank debt at fixed rates, leaving a small residual overdraft at variable rates.

The borrowings of overseas subsidiaries are denominated in Euros, their functional currency, in order to avoid those subsidiaries being exposed to unnecessary foreign exchange risk. By reducing the Group's net assets denominated in Euros, this also serves as a partial hedge against differences arising on the re-translation of the opening balance sheet of these subsidiaries. Bank borrowings or cash deposits of the Parent Company are denominated in Sterling.

#### *(ii) Foreign exchange risk*

Foreign exchange risk arises because the Group has European operations located in Germany and Holland whose functional currency is the Euro. The Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into Sterling. The Group does not hedge its net investments in overseas operations as the directors do not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging.

Foreign exchange risk also arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. It is Group policy that such transactions should be commercially hedged locally by entering into forward contracts with reputable banks wherever appropriate.

At the balance sheet date, a 10% strengthening of Sterling against the Euro, all other variables held constant, would have resulted in an estimated decrease of £814,000 in the reported net asset value of the Group. A 10% weakening of Sterling against the Euro at the balance sheet date, on the same basis, would have resulted in an estimated increase of £998,000 in the reported net asset value of the Group.

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The board monitors and manages the Group's net indebtedness by reference to cash flow forecasts prepared in their functional currencies by subsidiary companies. These forecasts are regularly updated, allowing the board to ensure that the Group will always be able to meet its liabilities when they become due by maintaining adequate cash balances and committed loan facilities. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further discussed in the 'interest rate risk' section above.

#### Capital policy

The Group's capital comprises equity as shown in the consolidated balance sheet plus net debt, which is set out in note 20. The board's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain a capital structure that optimises the cost of capital. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets or reduce debts.

## Notes

forming part of the financial statements for the year ended 30 September 2010

<b>4</b>	<b>Profit from operations</b>		
	<b>Profit from operations is stated after charging/(crediting):</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	Auditors' fees		
	<i>Statutory audit services</i>		
	- Audit of the Parent Company and the consolidated accounts	16	16
	- Audit of subsidiary companies	22	22
	<i>Non-audit related services</i>		
	- Tax compliance and VAT services	4	3
	<b>Total auditor's fees</b>	<b>42</b>	<b>41</b>
	Staff costs	3,441	3,372
	Depreciation of property, plant and equipment	221	198
	Reversal of impairment of available-for-sale investments	-	(231)
	Loss on sale of available-for-sale investments	-	269
	Foreign exchange differences	228	214
	Operating lease expense		
	- Plant and machinery	93	123
	- Property	273	278
	Write-down of inventory to net realisable value	82	49
	Loss on disposal of property, plant and equipment	10	7

## 5 Staff costs

The average number of persons employed in the year by the Group (including directors) was as follows

	Management	Sales and customer service	Warehousing	Administration	Group total
<b>2010</b>	<b>9</b>	<b>40</b>	<b>46</b>	<b>29</b>	<b>124</b>
2009	9	41	48	26	124

		<b>2010</b>	<b>2009</b>
	<b>Staff costs, including directors, comprise</b>	<b>£000</b>	<b>£000</b>
	Wages, salaries and directors' fees	2,926	2,836
	Defined contribution pension cost	244	284
	Employer's national insurance contributions and similar taxes	271	252
	<b>Total staff costs</b>	<b>3,441</b>	<b>3,372</b>

	<b>Directors' emoluments comprise exclusively directors' fees, as follows:</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	Mr J Claesson	10	10
	Mr P Gyllenhammar	10	10
	Mr E Wigley	25	25
	<b>Total directors' emoluments</b>	<b>45</b>	<b>45</b>

Outstanding share options granted to employees or directors at 30 September 2010 were nil (2009 nil)

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 5 Staff costs (continued)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, and comprise the directors of the Group listed on page 3 and Mr Jörg Hemmers, the managing director of Hemmers-Itex Textil Import Export GmbH. 2009 comparative information includes staff costs relating to Mr Thorsten Richter, who resigned as a director of Hemmers-Itex Textil Import Export GmbH in May 2009.

	2010 £000	2009 £000
Salary and fees	209	323
Bonuses	-	14
Defined contribution pension cost	7	12
Employer's national insurance contributions and similar taxes	7	14
<b>Total remuneration of key management personnel</b>	<b>223</b>	<b>363</b>

### 6 Segmental information

The Group's sole trading business is Hemmers-Itex Textil Import Export GmbH, which is engaged in the import and distribution of fabric. The company's principal place of business is Nordhorn, Germany and it has a subsidiary, Chinoh-Tex Ltd, which is incorporated in China.

The chief operating decision maker is the Board, which considers that the Hemmers business comprises two operating segments, namely Hemmers Europe and Hemmers China. These two segments report to the board under local GAAP, and the adjustments required to permit the Group to report under IFRS are made centrally.

The following tables set out a segmental analysis of the Group's operations. The Holding Companies are not in themselves operating segments, but their net costs are shown in order that the segmental information presented to the Board can be reconciled to the Consolidated Statement of Comprehensive Income.

#### Analysis of revenue by category

	Hemmers Europe 2010 £000	Hemmers China 2010 £000	Group Total 2010 £000	Hemmers Europe 2009 £000	Hemmers China 2009 £000	Group Total 2009 £000
Sale of goods	26,235	1,354	27,589	24,852	749	25,601
Provision of services	66	-	66	84	-	84
<b>Total revenue</b>	<b>26,301</b>	<b>1,354</b>	<b>27,655</b>	<b>24,936</b>	<b>749</b>	<b>25,685</b>

Since sales to no customer amount to more than 3.5% of total revenue, the directors hold the opinion that the Group is not reliant upon trade with any major customer.

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 6 Segmental information (continued)

Year ended 30 September 2010	Hemmers Europe £000	Hemmers China £000	Inter segmental £000	Total Hemmers £000	Holding companies £000	IFRS adjustments		Group total £000
						Financial derivatives £000	Goodwill amortisation £000	
External revenue	26,301	1,354	-	27,655	-	-	-	27,655
Inter-segmental revenue	4	326	(330)	-	-	-	-	-
Cost of sales	(20,155)	(1,330)	335	(21,150)	-	(228)	-	(21,378)
Gross profit	6,150	350	5	6,505	-	(228)	-	6,277
Distribution costs	(1,980)	(84)	-	(2,064)	-	-	-	(2,064)
Administrative expenses	(3,245)	(191)	-	(3,436)	(314)	-	118	(3,632)
Profit from operations	925	75	5	1,005	(314)	(228)	118	581
Finance expense	(289)	-	-	(289)	-	-	-	(289)
Finance income	-	-	-	-	15	-	-	15
Internal interest	(130)	-	-	(130)	130	-	-	-
Profit before tax	506	75	5	586	(169)	(228)	118	307

At 30 September 2010	Hemmers Europe £000	Hemmers China £000	Inter segmental £000	Total Hemmers £000	Holding companies £000	IFRS adjustments		Group total £000
						Financial derivatives £000	Goodwill amortisation £000	
Property, plant & equipment	2,170	27	-	2,197	-	-	-	2,197
Goodwill	491	-	-	491	-	-	468	959
A-f-s investments	-	-	-	-	971	-	-	971
Inventories	7,332	71	(26)	7,377	-	-	-	7,377
Trade receivables	6,373	161	-	6,534	-	-	-	6,534
Other receivables	619	74	-	693	13	-	-	706
Cash	320	20	-	340	1,852	-	-	2,192
Total assets	17,305	353	(26)	17,632	2,836	-	468	20,936
Group loans & current accounts	(1,907)	(143)	-	(2,050)	2,050	-	-	-
Derivative financial liabilities	-	-	-	-	-	(402)	-	(402)
Non-current liabilities	(2,150)	-	-	(2,150)	-	-	-	(2,150)
Trade payables	(722)	(51)	-	(773)	(7)	-	-	(780)
Other payables	(596)	(9)	-	(605)	(84)	-	-	(689)
Corporation tax	(29)	-	-	(29)	-	-	-	(29)
Loans & borrowings	(4,394)	-	-	(4,394)	-	-	-	(4,394)
Total liabilities	(9,798)	(203)	-	(10,001)	1,959	(402)	-	(8,444)
Net assets	7,507	150	(26)	7,631	4,795	(402)	468	12,492

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 6 Segmental information (continued)

Year ended 30 September 2009	Hemmers Europe £000	Hemmers China £000	Inter segmental £000	Total Hemmers £000	Holding companies £000	IFRS adjustments		Group total £000
						Financial derivatives £000	Goodwill amortisation £000	
External revenue	24,936	749	-	25,685	-	-	-	25,685
Inter-segmental revenue	-	388	(388)	-	-	-	-	-
Cost of sales	(19,349)	(914)	357	(19,906)	-	(208)	-	(20,114)
Gross profit	5,587	223	(31)	5,779	-	(208)	-	5,571
Distribution costs	(1,926)	(74)	-	(2,000)	-	-	-	(2,000)
Administrative expenses	(3,147)	(108)	-	(3,255)	(228)	-	118	(3,365)
Profit from operations	514	41	(31)	524	(228)	(208)	118	206
Finance expense	(270)	-	-	(270)	-	-	-	(270)
Finance income	-	-	-	-	40	-	-	40
Internal interest	(126)	-	-	(126)	126	-	-	-
Profit before tax	118	41	(31)	128	(62)	(208)	118	(24)

At 30 September 2009	Hemmers Europe £000	Hemmers China £000	Inter segmental £000	Total Hemmers £000	Holding companies £000	IFRS adjustments		Group total £000
						Financial derivatives £000	Goodwill amortisation £000	
Property, plant, & equipment	2,320	30	-	2,350	-	-	-	2,350
Goodwill	643	-	-	643	-	-	371	1,014
A-f-s investments	-	-	-	-	1,295	-	-	1,295
Inventories	6,678	15	(33)	6,660	-	-	-	6,660
Trade receivables	6,628	25	-	6,653	-	-	-	6,653
Other receivables	229	66	-	295	25	-	-	320
Corporation tax	52	-	-	52	-	-	-	52
Cash	353	81	-	434	2,140	-	-	2,574
Total assets	16,903	217	(33)	17,087	3,460	-	371	20,918
Group loans & current accounts	(1,961)	(97)	-	(2,058)	2,058	-	-	-
Derivative financial liabilities	-	-	-	-	-	(186)	-	(186)
Non-current liabilities	(2,273)	-	-	(2,273)	-	-	-	(2,273)
Trade payables	(575)	(16)	-	(591)	(3)	-	-	(594)
Other payables	(642)	(15)	-	(657)	(99)	-	-	(756)
Corporation tax	(54)	-	-	(54)	-	-	-	(54)
Loans & borrowings	(3,823)	-	-	(3,823)	-	-	-	(3,823)
Total liabilities	(9,328)	(128)	-	(9,456)	1,956	(186)	-	(7,686)
Net assets	7,575	89	(33)	7,631	5,416	(186)	371	13,232

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 6 Segmental information (continued)

#### Analysis of revenue by destination

	Hemmers Europe 2010 £000	Hemmers China 2010 £000	Group Total 2010 £000	Hemmers Europe 2009 £000	Hemmers China 2009 £000	Group Total 2009 £000
Germany	13,897	198	14,095	13,850	199	14,049
Netherlands	2,215	-	2,215	2,460	1	2,461
France	1,517	-	1,517	1,135	-	1,135
Spain	1,093	20	1,113	921	63	984
Austria	838	85	923	556	-	556
Denmark	642	-	642	813	-	813
Switzerland	557	6	563	480	14	494
Sweden	514	-	514	394	-	394
Portugal	431	-	431	338	-	338
Greece	428	-	428	596	-	596
Belgium	428	-	428	554	-	554
Croatia	412	-	412	321	-	321
USA	125	242	367	142	28	170
Finland	328	-	328	409	-	409
Serbia	321	-	321	87	-	87
Bulgaria	269	-	269	21	-	21
China	36	209	245	29	131	160
35 other countries	1,419	225	1,644	1,097	98	1,195
	25,470	985	26,455	24,203	534	24,737
UK	831	369	1,200	733	215	948
<b>Total revenue</b>	<b>26,301</b>	<b>1,354</b>	<b>27,655</b>	<b>24,936</b>	<b>749</b>	<b>25,685</b>

#### Other information

	Hemmers Europe 2010 £000	Hemmers China 2010 £000	Group Total 2010 £000	Hemmers Europe 2009 £000	Hemmers China 2009 £000	Group Total 2009 £000
Additions to property, plant & equipment	220	4	224	198	2	200
Depreciation	213	8	221	194	4	198

### 7 Finance income and expense

	2010 £000	2009 £000
<b>Finance income</b>		
Interest received on bank deposits	15	40
<b>Finance expense</b>		
Interest paid on bank overdrafts and loans	(214)	(270)
Re-financing cost (see note 20)	(75)	-
<b>Net finance expense recognised in comprehensive income</b>	<b>(274)</b>	<b>(230)</b>

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 8 Tax expense

	2010 £000	2009 £000
<b>Current tax expense</b>		
UK corporation tax and income tax of overseas operations on profits for the year	173	72
Adjustments for under provision in prior periods	3	48
<b>Total current tax expense</b>	<b>176</b>	<b>120</b>
Deferred tax expense	-	-
<b>Total tax expense</b>	<b>176</b>	<b>120</b>

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to the profit/(loss) for the year are as follows

	2010 £000	2009 £000
Profit/(loss) on ordinary activities before taxation	307	(24)
Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 28% (2009 28%)	86	(7)
Expenses not deductible for tax purposes	76	98
Income not subject to tax	(33)	(33)
Unrelieved losses	74	43
Utilisation of previously unrecognised tax losses	(26)	(53)
Recovery of tax paid in previous years	-	(3)
Underprovided in previous years	3	51
Different tax rates applied in overseas jurisdictions	(4)	24
<b>Total tax expense (see above)</b>	<b>176</b>	<b>120</b>

The Group has capital losses carried forward of £12,105,000 in the UK and unrelieved trading losses of £546,000 (UK) and £1,350,000 (Holland) No recognition has been made of deferred tax assets in respect of these losses carried forward as the directors believe it unlikely that there will be suitable profits to reverse these timing differences in the foreseeable future

### 9 Earnings/(loss) per share

	2010	2009
<b>Numerator</b>		
Profit/(loss) for the year from continuing operations, being the earnings/(loss) used in basic and diluted earnings/(loss) per share	£131,000	£(144,000)
<b>Denominator</b>		
Weighted average number of shares used in basic and diluted earnings/(loss) per share (excluding treasury shares)	29,033,616	29,514,410
<b>Basic and diluted earnings/(loss) per share</b>	<b>0 5p</b>	<b>(0 5) p</b>

### 10 Dividend

The directors have not proposed a dividend in respect of the years ended 30 September 2010 and 30 September 2009

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 11 Property, plant and equipment

	Land and buildings £000	Plant and machinery £000	Total £000
<b>Cost</b>			
Balance at 1 October 2008	1,768	988	2,756
Additions	73	127	200
Disposals	-	(36)	(36)
Effect of movements in foreign exchange rates	268	149	417
<b>Balance at 30 September 2009</b>	<b>2,109</b>	<b>1,228</b>	<b>3,337</b>
Additions	-	224	224
Disposals	(34)	(185)	(219)
Effect of movements in foreign exchange rates	(115)	(61)	(176)
<b>Balance at 30 September 2010</b>	<b>1,960</b>	<b>1,206</b>	<b>3,166</b>
<b>Accumulated depreciation</b>			
Balance at 1 October 2008	127	576	703
Depreciation charge for the year	76	122	198
Disposals	-	(26)	(26)
Effect of movements in foreign exchange rates	23	89	112
<b>Balance at 30 September 2009</b>	<b>226</b>	<b>761</b>	<b>987</b>
Depreciation charge for the year	59	162	221
Disposals	(34)	(154)	(188)
Effect of movements in foreign exchange rates	(12)	(39)	(51)
<b>Balance at 30 September 2010</b>	<b>239</b>	<b>730</b>	<b>969</b>
<b>Net book amount</b>			
At 1 October 2008	1,641	412	2,053
At 30 September 2009	1,883	467	2,350
At 30 September 2010	1,721	476	2,197

Bank borrowings are secured on the inventories, trade receivables and freehold land and buildings of Hemmers-Itex Textil Import Export GmbH (see note 20)

### 12 Goodwill

	Goodwill £000
Balance at 1 October 2008	883
Effect of movements in foreign exchange rates	131
<b>Balance at 30 September 2009</b>	<b>1,014</b>
Effect of movements in foreign exchange rates	(55)
<b>Balance at 30 September 2010</b>	<b>959</b>

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 12 Goodwill (continued)

Goodwill arose in 1999 on the acquisition of the cash-generating unit Hemmers-Itex Textil Import Export GmbH, whose recoverable amount has been determined from value-in-use calculations based on expected cash flows over a five-year period and extrapolated through to 30 September 2020. Principal assumptions underlying this calculation are a zero growth rate, operating margins and expenses based on past experience and future expectations that reflect anticipated economic and market conditions, and a discount rate of 15%. On this basis, the recoverable amount of the cash-generating unit exceeds its carrying value by 53%. In view of this excess, the Directors do not consider the impairment calculation to be sensitive to changes to the above assumptions, and are of the opinion that no provision for impairment is required.

### 13 Available-for-sale investments

	2010 £000	2009 £000
<b>At 1 October</b>	<b>1,295</b>	1,100
Additional investment in European Equity Tranche Income Limited	-	200
Impairment released to consolidated statement of comprehensive income	-	231
Proceeds of sale of holding in European Equity Tranche Income Limited	-	(207)
Realised loss on disposal charged to statement of comprehensive income	-	(269)
Unrealised (loss)/gain transferred to equity	<b>(324)</b>	240
<b>At 30 September</b>	<b>971</b>	1,295

Available-for-sale investments at 30 September 2010 comprised a holding of 64,750,000 ordinary shares in Dawson International PLC, an AIM listed company, representing approximately 28.8% of the total issued ordinary share capital of that company. This holding is not accounted for as an associated undertaking on an equity basis as the Group does not have the power to participate in the operating and financial policies of Dawson International PLC. The investment is stated at the closing bid price on 30 September 2010 as published by the AIM market and, in the opinion of the directors, its carrying value at 30 September 2010 approximates to its fair value.

The most recently published financial reports of Dawson International PLC disclose

	6 months ended 3 July 2010 £000	Year ended 2 January 2010 £000
Aggregate (deficit)/amount of capital and reserves	(1,143)	1,494
Loss after tax for the period	(3,067)	(5,843)

### 14 Subsidiaries

The subsidiaries of Leeds Group plc, all of which were wholly owned in both 2010 and 2009, and which have been included in these consolidated statements, are as follows:

Name	Country of Incorporation	Nature of business
* CLG Holding B V	Holland	Holding company
* Hemmers-Itex Textil Import Export GmbH	Germany	Import, sale, and distribution of textiles
** KMT Stoffe GmbH	Germany	Import, sale, and distribution of textiles
** Itex Brummen B V	Holland	Sale of textiles
** Chinoh-Tex Ltd	China	Textile trading

\* Wholly owned subsidiaries of Leeds Group plc

\*\* Wholly owned subsidiaries of Hemmers-Itex Textil Import Export GmbH

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 15 Inventories

	2010 £000	2009 £000
<b>Finished goods and goods for resale</b>	<b>7,377</b>	<b>6,660</b>

The amount of inventories recognised as an expense during the year was £18,682,000 (2009 £17,586,000)

### 16 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	7,260	7,279
Less provision for impairment of trade receivables	(726)	(626)
<b>Net trade receivables</b>	<b>6,534</b>	<b>6,653</b>
Other receivables	680	211
Prepayments	26	109
<b>Total trade and other receivables</b>	<b>7,240</b>	<b>6,973</b>
Non-current portion	-	-
<b>Current portion</b>	<b>7,240</b>	<b>6,973</b>

	2010 £000	2009 £000
Net trade receivables	6,534	6,653
Other receivables	680	211
Cash available on demand (note 18)	2,192	2,574
<b>Total financial assets classified as loans and receivables</b>	<b>9,406</b>	<b>9,438</b>

In the opinion of the directors, the book value of assets classified as loans and receivables approximates to their fair value

Management monitors trade receivable accounts, and provisions for bad and doubtful debts are raised where it is deemed appropriate

As at 30 September 2010 trade receivables of £5,556,000 were not due for payment (2009 £5,683,000)

As at 30 September 2010 trade receivables of £938,000 were past due but not impaired (2009 £870,000) They relate to customers that have not been able to pay to agreed terms in what are difficult trading conditions but that the directors regard as good for their debts. In many cases these debts are covered by trade insurance. The ageing analysis of these receivables is as follows

	2010 £000	2009 £000
Up to 3 months overdue	714	663
Overdue by 3 to 6 months	154	156
Overdue by 6 to 12 months	30	25
Overdue by more than 12 months	40	26
<b>Total trade receivables past due but not impaired</b>	<b>938</b>	<b>870</b>

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 16 Trade and other receivables (continued)

Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated and, due to this, the directors believe there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables set out above

As at 30 September 2010 trade receivables of £919,000 were past due and impaired (2009 £726,000) The amount of the provision was £726,000 (2009 £626,000) These receivables relate to customers who have not been able to pay to agreed terms in what are difficult trading conditions In determining the amount of the impairment, the directors have taken into account their knowledge of the customer base, the extent to which receivables relate to goods delivered on terms that include retention of title, and the extent to which credit insurance is in place The ageing of these receivables is as follows

	2010 £000	2009 £000
Up to 3 months overdue	-	13
Overdue by 3 to 6 months	20	54
Overdue by 6 to 12 months	133	79
Overdue by more than 12 months	766	580
<b>Total trade receivables past due and impaired</b>	<b>919</b>	<b>726</b>

The carrying values of the Group's trade and other receivables are denominated in the following currencies

	2010 £000	2009 £000
Euro	6,406	6,693
Sterling	182	110
US Dollar	554	98
Chinese Yuan	98	72
<b>Total trade and other receivables</b>	<b>7,240</b>	<b>6,973</b>

Movements on the Group provision for impairment of trade receivables are as follows

	2010 £000	2009 £000
<b>At 1 October</b>	<b>626</b>	<b>468</b>
Effect of movements in foreign exchange rates	(34)	73
Provided during the year	171	106
Unused amounts reversed	(6)	-
Receivables written off during the year	(31)	(21)
<b>At 30 September</b>	<b>726</b>	<b>626</b>

The movement on the provision for impaired receivables has been included in the administrative expenses line in the consolidated statement of comprehensive income

Other classes of financial assets included within trade and other receivables do not contain impaired assets

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set out above

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 17 Derivative financial instruments

#### *Cash flow forward exchange contracts at fair value through profit and loss*

Foreign exchange risk arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. Where the risk to the Group is considered to be significant, the operation makes use of currency derivatives in order to provide an economic hedge over future transactions and cash flows. The Group does not, however, engage in hedge accounting.

At 30 September 2010 the maximum notional principal amount of outstanding forward exchange contracts and options was £6,490,000 (2009 £3,663,000)

At 30 September 2010, the fair value for the currency derivatives used as economic cash flow hedges was determined by market price as advised by the third party banks with whom the instruments are held as follows

	Asset		Liability	
	2010	2009	2010	2009
	£000	£000	£000	£000
<b>Forward foreign exchange contracts</b>	-	-	402	186

Changes in fair values are recorded on the cost of sales line in the consolidated statement of comprehensive income.

The maturity dates of the maximum notional principal amounts are as follows

	2010	2009
	£000	£000
Up to 3 months	2,836	1,708
3 to 6 months	2,142	1,334
7 to 9 months	1,512	621
<b>Notional principal amounts of forward exchange contracts</b>	<b>6,490</b>	<b>3,663</b>

### 18 Cash available on demand

	2010	2009
	£000	£000
<b>Cash available on demand</b>	<b>2,192</b>	<b>2,574</b>

Cash available on demand is held predominantly by the Parent Company and is placed on short-term deposit earning interest at fixed rates ruling on the day of deposit. In the opinion of the directors, the carrying value of cash available on demand approximates to its fair value.

#### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprises

	2010	2009
	£000	£000
Cash available on demand	2,192	2,574
Overdrafts	-	(4)
<b>Total cash and cash equivalents</b>	<b>2,192</b>	<b>2,570</b>

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 19 Trade and other payables

	2010 £000	2009 £000
Trade payables	780	594
Other tax and social security taxes	38	39
Accruals	382	417
Other payables	269	300
<b>Total trade and other payables</b>	<b>1,469</b>	<b>1,350</b>

Trade creditors and accruals are non-interest bearing and principally comprise amounts outstanding for trade purchases and continuing overhead expense. The average credit period taken is 16 days (2009 14 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

### 20 Loans and borrowings

The book value of loans and borrowings are as follows	2010 £000	2009 £000
<b>Current</b>		
Overdrafts	-	4
Secured bank loans and bill discounting facilities	4,394	3,819
	<b>4,394</b>	<b>3,823</b>
<b>Non - current</b>		
Secured bank loans	2,150	2,273
<b>Total loans and borrowings</b>	<b>6,544</b>	<b>6,096</b>

Since all short-term loans have less than three months to maturity, and the fixed interest rate attaching to long-term loans is in line with market rates, it is the opinion of the directors that the fair value of loans and borrowings approximates to their book values.

The Group's loans and borrowings are exclusively within the accounts of Hemmers-Itex Textil Import Export GmbH (Hemmers). They are denominated in Euro, and their principal terms are as follows:

#### *Current loans and borrowings*

Current loans and borrowings amount to €5,109,000 (2009 €4,200,000) and comprise short term loans and bill discounting facilities from Commerzbank attracting interest at the balance sheet date at rates between 1.86% and 2.3% (2009 1.79% - 1.95%). Current loans and borrowings are secured on the inventories and trade receivables of Hemmers-Itex Textil Import Export GmbH.

Overdrafts are repayable on demand and were £nil at 30 September 2010 (2009 £4,000, attracting variable interest at rates in the range 6 - 8%). Overdrafts in overseas operations are secured on the inventories and trade receivables of Hemmers-Itex Textil Import Export GmbH.

The current loans and borrowings of €5,109,000 are drawn down by Hemmers-Itex Textil Import Export GmbH against short term borrowing facilities of €7,500,000. Neither the Parent Company nor any of its subsidiaries other than Hemmers have borrowing facilities. Following the usual annual review of facilities with Commerzbank in October 2010, the directors have a reasonable expectation that these facilities will remain available for the foreseeable future.

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 20 Loans and borrowings (continued)

#### *Non-current loans and borrowings*

Non-current loans of €1,250,000 (2009 €1,250,000) were drawn down in 2007 from each of Commerzbank and Kreissparkasse to finance the warehouse extension in Nordhorn that was completed in 2008. On the initial draw-downs, interest was fixed at 5.1% for the full 20 year term of these loans, but a fee of €50,000 was paid to each bank to permit the renegotiation of terms if it was advantageous to the Group. These fees totalling €100,000 were to be amortised over the life of the loans.

During the year ended 30 September 2010 the terms of the non-current loans were renegotiated, and the unamortised portion of the fees paid (€86,000, equivalent to £75,000) was written off to finance expense.

The Commerzbank loan now attracts payments of interest only until March 2011 when the first of 34 semi-annual repayments of principal and interest falls due. Interest is fixed quarterly at Euribor + 0.9%, which for the quarter ending 31 December 2010 equated to 1.779%. The final repayment falls due in September 2027.

The Kreissparkasse loan now attracts payments of interest only until January 2011 when the first of 204 monthly repayments of principal and interest falls due. Interest is fixed at 4.07% except for the last 24 months of the term, in which Hemmers may continue to pay at this fixed rate but also has the option to repay outstanding principal early, or move to variable rates if advantageous to do so. The final repayment falls due in December 2027.

Non-current bank loans are secured on the inventories, trade receivables and freehold land and buildings of Hemmers-Itex Textil Import Export GmbH.

The carrying values of assets that the Group has pledged as collateral for liabilities or contingent liabilities are as follows:

	2010 €000	2009 €000
Inventories	7,332	6,678
Trade receivables	6,373	6,628
Freehold land and buildings	1,721	1,883
<b>Total carrying value of assets pledged as collateral</b>	<b>15,426</b>	<b>15,189</b>

The maturity profile of anticipated cash flows, including interest, in respect of loans and borrowings is as follows:

	2010 €000	2009 €000
Not later than one year	4,574	3,949
Later than one year and not later than five years	717	731
Later than five years	1,812	2,557
	<b>7,103</b>	<b>7,237</b>
Less interest included in above cash flows	(559)	(1,141)
<b>Total loans and borrowings</b>	<b>6,544</b>	<b>6,096</b>

#### Reconciliation of movements in net debt

	2010 €000	2009 €000
(Decrease)/increase in cash and cash equivalents in the year	(378)	203
Net (increase)/decrease in loans	(790)	884
Foreign currency translation differences on loans	338	(874)
Movement in net debt	(830)	213
Net debt at beginning of the year	(3,522)	(3,735)
<b>Net debt at end of the year</b>	<b>(4,352)</b>	<b>(3,522)</b>

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 20 Loans and borrowings (continued)

Classification of financial liabilities	2010 £000	2009 £000
Trade payables	780	594
Accruals	382	417
Other payables	269	300
Loans and borrowings	6,544	6,096
<b>Total of financial liabilities at amortised cost</b>	<b>7,975</b>	<b>7,407</b>

### 21 Share capital

Authorised	2010 £000		2009 £000	
48,000,000 ordinary shares of 12p each (2009 48,000,000 ordinary shares of 12p each)	5,760		5,760	
<b>Issued and fully paid</b>	<b>2010 Number</b>	<b>2010 £000</b>	<b>2009 Number</b>	<b>2009 £000</b>
At beginning of the year	32,475,000	3,897	33,100,000	3,972
Cancellation of treasury shares	(375,000)	(45)	(625,000)	(75)
<b>At end of year</b>	<b>32,100,000</b>	<b>3,852</b>	<b>32,475,000</b>	<b>3,897</b>

At 30 September 2010, no options over ordinary shares of the Company were outstanding (2009 nil)

The Group has made purchases of its own ordinary shares of 12 pence each to be held in treasury as follows -

	Number of shares	Cost £000
Shares purchased in year ending 30 September 2005	450,000	61
Shares purchased in year ending 30 September 2006	1,390,000	289
Shares purchased in year ending 30 September 2007	3,325,618	735
Shares purchased in year ending 30 September 2008	1,633,643	300
Shares purchased in year ending 30 September 2009	550,000	78
Shares purchased in year ending 30 September 2010	340,000	49
	<b>7,689,261</b>	<b>1,512</b>
Shares cancelled in year ending 30 September 2007	(1,698,603)	(319)
Shares cancelled in year ending 30 September 2008	(1,800,000)	(399)
Shares cancelled in year ending 30 September 2009	(625,000)	(140)
Shares cancelled in year ending 30 September 2010	(375,000)	(82)
<b>Shares held in treasury at 30 September 2010</b>	<b>3,190,658</b>	<b>572</b>

The cost of cancelled shares has been calculated on a "first in, first out" basis, and is shown as a separate component of equity

## Notes

forming part of the financial statements for the year ended 30 September 2010

### 22 Leases

The Group holds no assets under finance leases

The Group owns the freehold title to the new warehouse completed in 2008 at Nordhorn, Germany, and occupies leased properties in Germany, UK, Holland and China. The lease on the German property runs until in May 2015, while all other property leases fall due for renewal in 2011. The Group holds operating leases in respect of plant and machinery used in Germany.

The total future values of minimum lease payments in respect of all operating leases are due as follows

	2010 £000	2009 £000
Not later than one year	342	280
Later than one year and not later than five years	800	124
<b>Total future values of minimum lease payments</b>	<b>1,142</b>	<b>404</b>

### 23 Pension Scheme

Pension provision in Germany and Holland is by state schemes, to which the Group is obliged to contribute. The Group operates a defined contribution pension scheme for its employees in the UK. The pension charge for the year represents contributions paid by the Group to these schemes as follows

	2010 £000	2009 £000
Overseas state schemes	238	278
UK defined contribution scheme	6	6
<b>Total pension charge for the year</b>	<b>244</b>	<b>284</b>

At 30 September 2010 there were employer's pension contributions outstanding of £nil (2009 £nil)

### 24 Commitments

At 30 September 2010, contracted capital commitments for the Group for which no provision has been made in these accounts were £nil (2009 £nil)

### 25 Related party transactions

Mr Jörg Hemmers is a director of Hemmers-Itex Textil Import Export GmbH and during the year ended 30 September 2010 this subsidiary company

- (i) paid rental of €230,000 (2009 €230,000) in respect of a warehouse to a company in which Mr Hemmers has a financial interest,
- (ii) made sales of fabric amounting to €415,000 (2009 €382,000) to retail shops in which Mr Hemmers had a financial interest. In this regard, €188,000 (2009 €216,000) forms part of the Group's trade receivables as shown in the consolidated balance sheet. Mr Hemmers sold his interest in these shops on 24 September 2010.

Mr Hemmers is considered to be part of the key management of the Group

The directors consider that the above transactions have been made on an arm's length basis

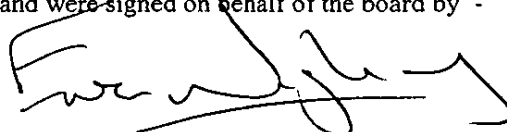
## Company balance sheet at 30 September 2010 (prepared using UK GAAP)

Company number 00067863

	Note	2010 £000	2009 £000
<b>Fixed assets</b>			
Investments	4	5,490	5,490
<b>Total fixed assets</b>		<b>5,490</b>	<b>5,490</b>
<b>Current assets</b>			
Debtors	5	1,128	1,204
Cash at bank and in hand		1,833	2,108
		<b>2,961</b>	<b>3,312</b>
Creditors – amounts falling due within one year	6	(581)	(620)
<b>Net current assets</b>		<b>2,380</b>	<b>2,692</b>
<b>NET ASSETS</b>		<b>7,870</b>	<b>8,182</b>
<b>Capital and reserves</b>			
Called up equity share capital	7	3,852	3,897
Capital redemption reserve	8	540	495
Profit & loss account	9	3,478	3,790
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<b>10</b>	<b>7,870</b>	<b>8,182</b>

The financial statements on pages 41 to 45 were approved and authorised for issue by the board of directors on 12 January 2011 and were signed on behalf of the board by -

**Ewen Wigley**  
Chairman



The notes on pages 42 to 45 form part of these financial statements

## Notes

### forming part of the financial statements for the Company

#### 1 Accounting policies

##### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

##### Investments

Investments in subsidiary undertakings and investments in other entities are stated at cost less any impairment for permanent diminution in value.

##### Leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the profit and loss account on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

##### Dividends

Dividends are recognised when they become legally payable.

#### 2 Profit after tax

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The loss after tax recognised in the profit and loss account for the Company was £263,000 (2009 loss £150,000).

The Company audit fee for 2010 amounted to £16,000 (2009 £16,000).

#### 3 Staff costs

The average number of persons employed in the year by the Company (including directors) was 5 (2009 5).

<b>Staff costs, including directors, comprise</b>	<b>2010 £000</b>	<b>2009 £000</b>
Wages and salaries	92	93
Defined contribution pension cost	6	6
Employer's national insurance contributions and similar taxes	10	8
<b>Total staff costs</b>	<b>108</b>	<b>107</b>

<b>Directors' emoluments comprise exclusively directors' fees, as below</b>	<b>2010 £000</b>	<b>2009 £000</b>
Mr J Claesson	10	10
Mr P Gyllenhammar	10	10
Mr E Wigley	25	25
<b>Total directors' emoluments</b>	<b>45</b>	<b>45</b>

Outstanding share options granted to employees or directors at 30 September 2010 were nil (2009 nil).

## Notes

forming part of the financial statements for the Company

### 4 Investments

	2010 £000	2009 £000
Investments in subsidiary undertakings	4,509	4,509
Investments in other entities	981	981
<b>Total investments</b>	<b>5,490</b>	<b>5,490</b>

	2010 £000	2009 £000
Cost	6,316	6,316
Provision	(1,807)	(1,807)
<b>Net book amount</b>	<b>4,509</b>	<b>4,509</b>

Details of the principal subsidiary undertakings are given in the Group Information section on page 4 and in note 14 to the consolidated financial statements

	2010 £000	2009 £000
<b>Investments in other entities</b>		
Cost		
At 1 October	981	1,257
Additions in year	-	200
Disposals in year	-	(476)
<b>At 30 September</b>	<b>981</b>	<b>981</b>
Provision		
At 1 October	-	231
Released to profit & loss account	-	(231)
<b>At 30 September</b>	<b>-</b>	<b>-</b>
<b>Net book amount</b>	<b>981</b>	<b>981</b>

At 30 September 2010, the investments in other entities comprised holdings of ordinary shares of Dawson International PLC. Details of this investment, and of investments disposed of in the previous year, are set out in note 13 to the consolidated financial statements

### 5 Debtors

	2010 £000	2009 £000
Other debtors	1	5
Prepayments and accrued income	12	20
Amounts receivable from subsidiary undertakings	1,115	1,179
<b>Total debtors</b>	<b>1,128</b>	<b>1,204</b>

## Notes

forming part of the financial statements for the Company

### 6 Creditors

	2010 £000	2009 £000
Trade creditors	7	3
Accruals and deferred income	80	99
Other payables	4	-
Amounts payable to subsidiary undertakings	490	518
<b>Total creditors</b>	<b>581</b>	<b>620</b>

### 7 Share capital

Authorised	2010 £000	2009 £000
48,000,000 ordinary shares of 12p each (2009 48,000,000 ordinary shares of 12p each)	5,760	5,760
<b>Issued and fully paid</b>	<b>2010 Number</b>	<b>2010 £000</b>
	<b>2009 Number</b>	<b>2009 £000</b>
At beginning of the year	32,475,000	3,897
Cancellation of treasury shares	(375,000)	(45)
<b>At end of year</b>	<b>32,100,000</b>	<b>3,852</b>
	33,100,000	3,972
	(625,000)	(75)
	32,475,000	3,897

At 30 September 2010, no options over ordinary shares of the Company were outstanding (2009 nil)

The Group has made purchases of its own ordinary shares of 12 pence each to be held in treasury as follows -

	Number of shares	Cost £000
Shares purchased in year ending 30 September 2005	450,000	61
Shares purchased in year ending 30 September 2006	1,390,000	289
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Shares purchased in year ending 30 September 2009	550,000	78
Shares purchased in year ending 30 September 2010	340,000	49
	<b>7,689,261</b>	<b>1,512</b>
Shares cancelled in year ending 30 September 2007	(1,698,603)	(319)
Shares cancelled in year ending 30 September 2008	(1,800,000)	(399)
Shares cancelled in year ending 30 September 2009	(625,000)	(140)
Shares cancelled in year ending 30 September 2010	(375,000)	(82)
<b>Shares held in treasury at 30 September 2010</b>	<b>3,190,658</b>	<b>572</b>

The cost of cancelled shares has been calculated on a "first in, first out" basis

## Notes

forming part of the financial statements for the Company

<b>8</b>	<b>Capital redemption reserve</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	<b>At 1 October</b>	<b>495</b>	<b>420</b>
	Arising on cancellation of 375,000 ordinary shares of 12 pence each	<b>45</b>	<b>-</b>
	Arising on cancellation of 625,000 ordinary shares of 12 pence each	<b>-</b>	<b>75</b>
	<b>At 30 September</b>	<b>540</b>	<b>495</b>
<b>9</b>	<b>Retained earnings</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	<b>At 1 October</b>	<b>3,790</b>	<b>4,018</b>
	Loss for the year	<b>(263)</b>	<b>(150)</b>
	Purchase of own shares for treasury	<b>(49)</b>	<b>(78)</b>
	<b>At 30 September</b>	<b>3,478</b>	<b>3,790</b>
<b>10</b>	<b>Reconciliation of movements in shareholders' funds</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	Loss for the year	<b>(263)</b>	<b>(150)</b>
	Other net recognised gains and losses - purchase of own shares	<b>(49)</b>	<b>(78)</b>
	Net reduction in shareholders' funds	<b>(312)</b>	<b>(228)</b>
	Opening shareholders' funds	<b>8,182</b>	<b>8,410</b>
	<b>Closing shareholders' funds</b>	<b>7,870</b>	<b>8,182</b>
<b>11</b>	<b>Commitments</b>		
	The Company holds no assets under finance leases		
	The Company leases the property it occupies in Leeds at an inclusive rent of £27,000 per annum. The lease falls for renewal in July 2011.		
	The annual lease commitments in respect of non-cancellable operating leases for land and buildings, based on date of expiry, are as follows		
		<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	<b>Within one year</b>	<b>20</b>	<b>-</b>
	<b>Within one to two years</b>	<b>-</b>	<b>27</b>
		<b>20</b>	<b>27</b>
	There were no contracted capital commitments for the Company in either year		
<b>12</b>	<b>Related party transactions</b>		
	The Company has taken advantage of the exemption permitted under FRS8 not to disclose transactions with wholly-owned subsidiaries		

## Five Year Summary of Results and Capital Employed

	2010 IFRS £000	2009 IFRS £000	2008 IFRS £000	2007 IFRS £000	2006 UK GAAP £000
<b>Results</b>					
Revenue	27,655	25,685	21,974	17,523	16,575
Cost of sales	(21,378)	(20,114)	(16,819)	(13,418)	(12,570)
<b>Gross profit</b>	<b>6,277</b>	<b>5,571</b>	<b>5,155</b>	<b>4,105</b>	<b>4,005</b>
Operating expenses	(5,696)	(5,365)	(4,630)	(3,392)	(3,254)
Profit from operations	581	206	525	713	751
Net finance (expense)/income	(274)	(230)	(3)	117	(8)
Exceptional items	-	-	-	-	(838)
<b>Profit/(loss) before tax</b>	<b>307</b>	<b>(24)</b>	<b>522</b>	<b>830</b>	<b>(95)</b>
Tax expense	(176)	(120)	(73)	(245)	(352)
<b>Profit/(loss) after tax</b>	<b>131</b>	<b>(144)</b>	<b>449</b>	<b>585</b>	<b>(447)</b>
<b>Assets employed</b>					
Non-current assets	4,127	4,659	4,036	1,087	1,002
Current assets	16,809	16,259	15,874	14,280	13,248
<b>Total assets</b>	<b>20,936</b>	<b>20,918</b>	<b>19,910</b>	<b>15,367</b>	<b>14,250</b>
Non-current liabilities	(2,150)	(2,273)	(1,977)	(1,569)	-
Current liabilities	(6,294)	(5,413)	(5,920)	(2,906)	(3,375)
<b>Total liabilities</b>	<b>(8,444)</b>	<b>(7,686)</b>	<b>(7,897)</b>	<b>(4,475)</b>	<b>(3,375)</b>
<b>Net assets</b>	<b>12,492</b>	<b>13,232</b>	<b>12,013</b>	<b>10,892</b>	<b>10,875</b>
<b>Financed by</b>					
<b>Equity</b>	<b>12,492</b>	<b>13,232</b>	<b>12,013</b>	<b>10,892</b>	<b>10,875</b>
<b>Key Statistics</b>					
Basic earnings/(loss) per share	0.5p	(0.5)p	1.4p	1.7p	(1.3)p
Net assets per share	43.2p	45.2p	40.3p	34.7p	31.3p

The figures for 2007 - 2010 are prepared under IFRS. The figures for 2006 are UK GAAP figures presented in the same format as the 2007 - 2010 figures. The figures for 2007 had previously been reported under UK GAAP.

## Notice of Annual General Meeting

The one hundred and tenth annual general meeting of the Company will be held at 12 noon on Wednesday 23 February 2011 at the offices of BDO LLP at 1 Bridgewater Place, Water Lane, Leeds, LS11 5RU for the following purposes

### Ordinary business

- 1 To receive the report of the directors, the financial statements for the year ended 30 September 2010 and the report of the auditors thereon
- 2 To re-appoint Mr Peter Gyllenhammar as a director
- 3 To re-appoint BDO LLP 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 resolutions, of which resolution 5 will be proposed as an ordinary resolution and resolutions 4 and 6 will be proposed as special resolutions

- 4 that in accordance with Article 21.1 of the Articles of Association of the Company and Part 18 of the Companies Act 2006 ("the Act") the Company be and is hereby granted general and unconditional authority (pursuant to section 701 of the Act) to make market purchases (as defined in section 693(4) 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
  - 4.1 the maximum number of ordinary shares authorised to be purchased by this resolution is 2,225,000 being 6.93 per cent of the current issued ordinary share capital,
  - 4.2 the maximum price that may be paid for an ordinary share is an amount equal to not more than the higher of
    - 4.2.1 105 per cent of the average middle market quotations for an ordinary share in the Company taken from the AIM appendix to The London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase, and
    - 4.2.2 the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange for an ordinary share in the Company at the time the purchase is carried out, and
  - 4.3 the minimum price that may be paid for an ordinary share is five pence, and
  - 4.4 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 ordinary shares which may be completed by or executed wholly or partly after the expiration of this authority and may purchase ordinary shares in pursuance of any such contract as if the authority conferred by this resolution had not expired

## Notice of Annual General Meeting (continued)

### Special business (continued)

- 5 That the directors be and hereby are generally and unconditionally authorised for the purposes of section 551 of the Act to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (**Rights**) up to an aggregate nominal amount of £1,156,000. 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, make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry, and the directors may allot shares and grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all previous authorities granted to the directors to allot shares and grant Rights, but without prejudice to the allotment or grant of Rights already made or to be made pursuant to such authorities.
- 6 That, subject to the passing of resolution 5 above, the directors be and hereby are empowered pursuant to sections 570 and 573 of the Act to allot equity securities (within the meaning of section 560 of the Act) wholly for cash pursuant to the authority conferred by the previous resolution or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities
- 6.1 in connection with an offer of such securities by way of a rights issue, open offer or other pre-emptive issue or offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or any legal, regulatory or practical problems under the laws of any territory, or the requirements of any recognised regulatory body or stock exchange in any territory or any other matter whatever, and
- 6.2 otherwise than pursuant to sub-paragraph 6.1 above up to an aggregate nominal amount of £192,000

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 make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired

By Order of the Board



Malcolm Wilson  
*Company Secretary*

Schofield House  
Gateway Drive  
Yeadon  
Leeds  
LS19 7XY

12 January 2011

## Notice of Annual General Meeting (continued)

### Notes

- 1 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (as amended) and section 360B of the Companies Act 2006, only those shareholders registered in the register of members of the Company at 6 00 pm on 21 February 2011 as holders of ordinary shares of 12p each in the capital of the Company shall be entitled to attend and 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 21 February 2011 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 2 A member entitled to attend and vote may appoint a proxy to attend, speak and to vote in his or her stead. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. A form of proxy has been inserted into this annual report and accounts and contains notes for its completion.
- 3 To be valid, the form of proxy and any power of attorney or the authority under which it is signed (or a notarially certified copy of it) must be completed and lodged at the Registrars of the Company, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not later than 12 00 noon on 21 February 2011.
- 4 Completion and return of a form of proxy does not preclude a member from subsequently attending and voting at the meeting. If a member appoints a proxy or proxies and then decides to attend the annual general meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case, but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding. If you do not have a proxy form and/or believe that you should have one or if you require additional forms, please contact the Company at its registered office.
- 5 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see note 3 above) also apply in relation to amended instructions, any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

- 6 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU no later than 12 noon on 21 February 2011. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 4 above, your proxy appointment will remain valid.
- 7 Copies of the following documents 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.
  - a Directors' letters of appointment
  - b Current articles of association

## Notice of Annual General Meeting (continued)

### Notes (continued)

- 8 As at 12 January 2011 (being the last practicable business day prior to the publication of this notice) the Company's issued share capital consisted of 32,100,000 ordinary shares of 12 pence each, with one voting right per share. There are 3,190,658 shares held in treasury, representing 9.94% of the total issued share capital. Therefore the total voting rights in the Company as at 12 January 2011 are 28,909,342.
- 9 If a corporation is a member of the Company, it may by resolution of its directors or other governing body authorise one or more persons to act as its representative or representatives at the Meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company.
- Corporate representatives should bring with them either an original or certified copy of the appropriate board resolution or an original letter confirming the appointment, provided it is on the corporation's letterhead and is signed by an authorised signatory and accompanied by evidence of the signatory's authority.
- 10 A member may not use any electronic address (within the meaning of section 333(4) of the Act) provided in this notice of meeting (or in any related or accompanying document, including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
- 11 S311A of the Companies Act 2006 requires a traded company to make available on its website
- a notice of its Annual General Meeting
  - b details of its issued share capital and of its members' voting rights
  - c members' statements, members' resolutions and members' matters of business received by the company after the date on which notice of its meeting was first given

Although the Company, as an AIM listed company, is not required to comply with the requirements of S311A of the Companies Act 2006, it has nevertheless elected to do so. The Annual Report, including the notice of the Company's AGM, can be found at the Company's website [www.leedsgroup.plc.uk](http://www.leedsgroup.plc.uk). The necessary details of its issued share capital and of its members' voting rights are shown in note 8 above. Upon receipt of any of the items detailed in c. above, the Company will promptly make them available on the Documentation and Notifications page of its website.

## **Explanation of resolutions**

### **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 2010. That report and those accounts, and the report of the Company's auditors on those accounts, are set out on pages 8 to 37 of this document.

### **Resolution number 2**

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 less than one third of the directors are required to retire. Any retiring director is eligible for re-appointment. At this annual general meeting, Mr Peter Gyllenhammar is the only director subject to retirement by rotation. Resolution number 2 proposes the re-appointment of Mr Gyllenhammar.

### **Resolution number 3**

The auditors of the Company must be re-appointed at each meeting at which accounts are presented. Resolution 3 proposes the re-appointment of BDO LLP, who have indicated their willingness to be so re-appointed. The resolution also follows past practice in giving the directors authority to agree the remuneration to be paid to the auditors.

### **Resolution number 4**

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 would only consider effecting 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 2,225,000 ordinary shares, being 6.93 per cent of the Company's ordinary share capital in issue as at 12 January 2011, at a minimum price per ordinary share of five pence and a maximum price per ordinary share of the higher of 5 per cent above the average of the middle market quotations for an ordinary share as derived from the AIM appendix of the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any purchases are made and the higher of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out. 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 are permitted to retain any of their own shares that they have purchased as treasury stock, as an alternative to cancelling them. Shares held in treasury may be subsequently cancelled, sold for cash or used to satisfy share options and share awards under employee share schemes and provide the Company with additional flexibility in the management of its capital base. Accordingly, if the directors exercise the authority granted by resolution 4 to purchase ordinary shares, the Company will consider exercising the option of holding those ordinary shares in treasury.

### **Resolution number 5**

The directors are seeking authority to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (**Rights**) up to an aggregate nominal amount of £1,156,000, being an amount representing approximately 33.3% per cent of the Company's current issued share capital (excluding treasury shares). It is not the directors' current intention to allot shares or to grant Rights pursuant to this resolution. 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.

### **Resolution number 6**

This resolution disapplies the statutory pre-emption rights which would otherwise apply on an issue of shares for cash pursuant to a rights issue or other pre-emptive offer where the securities attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of shares held and generally up to a further nominal amount of £192,000, being approximately 5 per cent of the Company's current issued share capital (including treasury shares). This disapplication of the statutory pre-emption rights 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. This authority also covers the sale of treasury shares for cash.

It is the Company's intention to adhere to the provisions in the Pre-emption Group's Statement of Principles regarding cumulative usage of authorities within a three year rolling period where the principles provide that usage in excess of 7.5 per cent should not take place without prior consultation with shareholders.



# LEEDS

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