

630968

WYEFIELD GROUP PLC

REPORT AND ACCOUNTS

Year ended 30 June 1998



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Chairman's Statement

On 14 December 1998 the Company announced proposals for a Placing to raise £965,000 net of expenses, sufficient to repair the Company's finances. The proposals also involved the transfer of the Company's shares from the Official List to the Alternative Investments Market. Following the passing of the necessary resolutions at an Extraordinary General Meeting on 4 January 1999, the Placing became unconditional.

The historic trading of the Group has been documented at length in my depressing semi-annual communications to Shareholders, which accompanied the annual and interim results. These reports track a woeful story of a contracting business. The results for the year ended 30 June 1998 show a loss of over £3.1 million, incorporating costs incurred in the closure of the production facilities in South Wales and the subsequent reorganisation of the Group's operations.

In May 1998, the Medallion site in South Wales was closed and all of our manufacturing is now based at our site in Derbyshire. On the closure of the Medallion site, we had the opportunity of putting our Medallion subsidiary into liquidation and thereby walking away from all of its creditors. Your Board decided that this course of action, although superficially financially beneficial to the rest of the Group, would probably severely damage the working relationships with a number of key suppliers who supplied the Group both in Derbyshire and in South Wales. It was therefore decided not to implement that liquidation.

The Group's budgets that were produced in July 1998 showed tight but sufficient working capital for the Group to trade during 1998 on the projected level of sales. These sales targets have been achieved and today the Group has a forward order book that is on budget. The Directors also consider that the indications that have been given to the Company by a number of retailing household names regarding future orders are encouraging. However, our cash position which has been described in the document sent to shareholders on 11 December 1998 sadly necessitated an immediate fund raising and the subsequent dilution of the present shareholders' equity.

Preston Rabl
Chairman

4 January 1999

Directors & Advisers

Directors	P M C Rabl, (<i>Non-Executive Chairman</i>) D W R Harland, (<i>Non-Executive Director</i>) A P Davies, (<i>Executive Director</i>) D K Exley, (<i>Executive Director</i>)
Secretary	D K Exley
Registered Office	Birchwood Way Somercotes Derbyshire DE55 2QQ
Registered No.	630968
Auditors	KPMG Audit Plc 5 Stuart Street Derby DE1 2EQ
Bankers	Midland Bank PLC 1 St James Court Friargate Derby DE1 1BT
Financial Advisers	Close Brothers Limited 12 Appold Street London EC2A 2AA
Registrars	Independent Registrars Group Limited Balfour House 390/398 High Road Ilford Essex IG1 1NQ
Solicitors	Theodore Goddard 150 Aldersgate Street London EC1A 4EJ
Stockbrokers	Peel, Hunt & Co Limited 62 Threadneedle Street London EC2R 8HP

Directors' Report

The directors present their report and the accounts for the year ended 30 June 1998 .

Principal activities

The Group designs, manufactures and distributes upholstered furniture.

Results

The results for the year are set out on page 9. The loss for the financial year is £3,146,000 (1997: £352,000 loss).

A review of the development of the business of the Group during the year and on it's future development are given in the Chairman's statement on page 1.

Post balance sheet events

Shareholder approval for a placing of shares and convertible secured debenture stock raising net funds of £965,000 was granted at an Extraordinary General Meeting on 4 January 1999.

Dividend

The directors do not recommend the payment of a dividend (1997: Nil).

Directors

The present directors are shown on page 2. BW Partington and PA Whitlocks resigned on 30 September 1998.

The two non-executive directors are:

Preston Rabl, aged 49, is a chartered accountant and a former partner in Henderson Crosthwaite & Co. Stockbrokers. He was an executive director of WPP plc from which he resigned in June 1987, and is a shareholder in and non-executive director of a number of private companies in various spheres of activity. He is also a director of The Baring Emerging Europe Trust PLC.

David Harland, aged 48, is a chartered accountant who has specialised for the last seventeen years in the re-organisation and development of a number of companies, both public and private. He is a director of Fairway Group PLC and The Mayflower Corporation PLC.

Directors' interests in the Group's share capital are set out in Note 21.

Substantial shareholdings

Interests of 3% or more in the issued ordinary share capital appearing in the register of members at 7 December, 1998 were:

RLAM (Nominees) Ltd Soc Acct	9.0%
Preston Rabl	7.8%
Legg Nominees Limited 698500 Acct	7.4%
MSS Nominees Limited 775245 Acct	7.1%
Peel Hunt & Company Limited PMPRINC Acct	5.9%
MSS Nominees Limited 776810 Acct	4.7%
Blueford Limited	4.4%
David Harland	4.0%
Pershing Keen Nominees Limited PG Acct	3.9%
Productive Nominees Limited 48233 Acct	3.7%
Mint House Nominees Limited Gen Acct	3.3%
RC Greig Nominees Limited	3.2%

Directors' Report

Employment policies

The Group recognises the importance of good communications and relations with its employees. The Group is organised on a decentralised basis and employee participation practices are appropriate to each company's needs. Employees are kept informed of, and express their views on, activities which are likely to affect their interest, typically through line management.

It is the policy of the Group that disabled people are given the same opportunity for employment, training and progression as other employees, dependant only on their skills and abilities.

Charitable and political contributions

During the period the Group made donations to charity totalling £3,000 (1997: £3,000). No political contributions were made.

Creditor payment policy

It is Group policy that each business should agree appropriate terms and conditions for its transactions with suppliers and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them. The Group does not follow any code or standard on payment practice. At 30 June 1998 extended payment terms had been given by some suppliers. At 30 June 1998 purchases outstanding for the Group were equivalent to 47 days.

Year 2000

The directors are aware of the issues that may arise as a result of the millennium date change, with both computer systems and date-aware microchip based equipment. The directors have considered the implications of these issues and are satisfied that there will be no significant impact on the operations of the group. However, it is not possible to give guarantees that no unforeseen problems will arise.

Auditors

A resolution for the reappointment of KPMG Audit Plc is to be proposed at the Annual General Meeting.

Approved by the Board on 4 January 1999 and signed on its behalf by



D K Exley
Secretary

Corporate Governance

The Board of directors' primary responsibility is to the Company's shareholders, while at the same time having regard to the Group's staff, the community and the environment.

The Board, which consists of two executive and two non-executive directors, meets monthly and at other times as appropriate to review strategic, operational and financial matters. The executive directors meet on a more regular basis and are in continual discussion with operational management to ensure business objectives are achieved.

The Company has, throughout the year, complied with the Cadbury Committee's Code of Best Practice with the following exceptions:

Code provisions 1.3, 2.3 and 2.4.

- "The Board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions".
- "Non-executive directors should be appointed for specific terms and reappointment should not be automatic".
- "Non-executive directors should be selected through a formal process and their appointment should be a matter for the Board as a whole".

In view of the present size of the Company it is not yet considered appropriate to appoint additional non-executive directors. Future appointments will be made through a formal process and for specified terms.

Code provision 4.3

- "The Board should establish an audit committee of at least three non-executive directors with written terms of reference which deal clearly with its authority and duties."

This requirement of the Code will be complied with when the requisite number of non-executive directors has been appointed.

Internal financial control

The Board of directors has overall responsibility for, and has reviewed the effectiveness of, the Group's system of internal financial control. Although no such system can provide absolute protection against material mis-statement or loss, it is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. Key procedures that have been established can be described under the following headings:

- Organisational structure - the Group has a management structure designed to establish the shortest possible lines of communication with operating subsidiaries. Operating subsidiaries hold review meetings monthly which are attended by at least one member of the Wyefield Board.
- Financial reporting - the Group has a comprehensive system for reporting and monitoring the performance of each operating unit on a regular basis. Budgets are prepared at the individual operating unit level and, following central review, are formally adopted by the Board. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. Key performance indicators are prepared on a daily, weekly or monthly basis as appropriate to each individual company and these are monitored and reviewed by directors with local management during regular site visits.
- Control over treasury functions - a number of the Group's key functions including financing, taxation, insurance and treasury policy are dealt with centrally. These are closely monitored by the Finance Director, who reports on a regular basis to the Board.

Corporate Governance

Going concern

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

The auditors, KPMG Audit Plc, have confirmed that in their opinion: with respect to the directors' statements on internal financial control on page 5 and going concern on page 6, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which the auditors are aware from their audit work on the financial statements; and that the directors' statement on page 5 appropriately reflects the Company's compliance with the other paragraphs of the Cadbury Code of Best Practice specified in the Listing Rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Report of the Remuneration Committee

Remuneration Committee

The Committee consists solely of the non-executive director, Mr Harland. He has no personal financial interests (other than as a shareholder) in the matters to be decided, no conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business. The Committee consults the Chairman about its proposals and has access when required to professional advice outside the Company.

Remuneration policy

The constitution and operation of the Committee is in compliance with the principles which are incorporated in Section A of the Best Practice Provisions annexed to The Listing Rules. The Committee also confirms that full consideration has been given to the Best Practice Provisions set out in Section B annexed to The Listing Rules in determining the remuneration package for directors.

The Remuneration Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate directors and senior executives of the right calibre.

Basic Salary

In reviewing and setting executive directors salaries the Remuneration Committee considers individual performance, responsibilities and market conditions. Particular regard is paid to salaries in competitor companies within the sector and of comparable size nationally.

Bonuses

Bonus payments, which are non-pensionable, are granted to reward meritorious performance. There is currently no formal bonus entitlement.

Share options

The Company believes that share ownership by executive directors and senior management strengthens the link between their personal interests and those of the shareholders. Full details of directors' share options are shown on page 20.

Report of the Remuneration Committee

Pensions

During the year all members, including the executive directors, transferred out of the Executive Pension Scheme into personal pension schemes.

Additionally, life assurance cover of up to four times insurable earnings is provided by a Group life assurance scheme.

Contracts

All directors have service contracts, terminable by a notice period not exceeding one year. There are no provisions for pre-determined compensation on termination.

Non-executive directors

The remuneration of the non-executive directors is determined by the Board.

Details of directors' remuneration and share options

Full details of all elements in the remuneration package of each director are given in Note 6 to the accounts. Details of executive directors' share interests, including share options, are given in Note 21 to the accounts. The information contained in those notes forms a part of this report.

D W R Harland

Remuneration Committee Chairman

4 January 1999

Statement of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing these accounts, the directors confirm that they have:

- a) selected suitable accounting policies and applied them consistently;
- b) made judgements and estimates that are reasonable and prudent;
- c) followed applicable accounting standards; and
- d) prepared the accounts on a going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors

To the members of Wyefield Group PLC

We have audited the accounts on pages 9 to 21.

Respective responsibilities of directors and auditors

As described on page 7 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 June 1998 and of the loss for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Derby

4 January 1999

Consolidated Profit and Loss Account

		Year ended 30 June 1998 £000	Year ended 30 June 1997 £000
Notes			
1	Turnover from continuing operations	12,257	16,033
	Cost of sales	<u>(8,278)</u>	<u>(9,689)</u>
	Gross profit	3,979	6,344
2	Operating costs	<u>(7,097)</u>	<u>(6,769)</u>
2	Operating loss from continuing operations		
	Excluding exceptionals	(1,884)	(425)
	Exceptional items	(1,234)	--
		(3,118)	(425)
3	Interest (net)	<u>(138)</u>	<u>(69)</u>
4	Loss on ordinary activities before tax	(3,256)	(494)
7	Tax on loss on ordinary activities	110	142
17	Loss for the financial year	<u>(3,146)</u>	<u>(352)</u>
9	Loss per share before exceptional items	(7.6)p	(1.4)p
9	Basic loss per share	(12.4)p	(1.4)p

There were no recognised gains or losses in either the current or preceding years other than those disclosed in the profit and loss account.

There is no material difference between the results disclosed above and the equivalent results prepared on an unmodified historical cost basis.

Consolidated Cash Flow Statement

Notes	Year ended 30 June 1998		Year ended 30 June 1997	
	£000	£000	£000	£000
22	Net cash outflow from operating activities		(1,333)	(581)
	Returns on investments and servicing of finance			
	Interest received		3	11
	Interest paid		(141)	(80)
		(138)		(69)
	Taxation		-	97
	Capital expenditure and financial investment			
	Receipts from sales of tangible fixed assets		49	8
	Payments to acquire tangible fixed assets		(154)	(242)
		(105)		(234)
	Net cash outflow before financing		(1,576)	(787)
	Financing			
	Repayment of bank loans		(68)	(125)
	Repayments of capital element of finance leases		(7)	(2)
	Increase in advances under debt factoring and invoice discounting arrangements		614	201
	New loans		300	-
		839		74
23	Decrease in cash		(737)	(713)

The cash flows for the year ended 30 June 1997 have been restated to include advances under debt factoring and invoice discounting arrangements as financing cash flows.

Reconciliation of Movements in Consolidated Shareholders' Funds

	Year ended 30 June 1998 £000	Year ended 30 June 1997 £000
Loss for the financial year	<u>(3,146)</u>	<u>(352)</u>
Net decrease in shareholders' funds	(3,146)	(352)
Opening shareholders' funds	<u>2,530</u>	<u>2,882</u>
Closing shareholders' funds	<u>(616)</u>	<u>2,530</u>

Balance Sheets

Notes	Group		Company		
	30 June 1998 £000	30 June 1997 £000	30 June 1998 £000	30 June 1997 £000	
Fixed assets					
10	Tangible assets	1,672	1,980	1,275	1,302
11	Investments	--	--	--	9,744
		<u>1,672</u>	<u>1,980</u>	<u>1,275</u>	<u>11,046</u>
Current assets					
12	Stocks	1,125	1,425	--	--
13	Debtors	1,844	2,522	37	269
	Cash	--	2	--	--
		<u>2,969</u>	<u>3,949</u>	<u>37</u>	<u>269</u>
Creditors					
14	Amounts falling due within one year	(5,030)	(3,378)	(365)	(396)
	Net current (liabilities)/assets	<u>(2,061)</u>	<u>571</u>	<u>(328)</u>	<u>(127)</u>
	Total assets less current liabilities	(389)	2,551	947	10,919
Creditors					
14	Amounts falling due after more than one year	(227)	(21)	(227)	--
	Net (liabilities)/assets	<u>(616)</u>	<u>2,530</u>	<u>720</u>	<u>10,919</u>
Capital and reserves					
16	Called up share capital	5,059	5,059	5,059	5,059
	Share premium account	6,155	6,155	6,155	6,155
	Goodwill reserve	(7,265)	(7,265)	--	--
	Other reserves	557	557	557	557
17	Profit and loss account	(5,122)	(1,976)	(11,051)	(852)
	Equity shareholders' funds	<u>(616)</u>	<u>2,530</u>	<u>720</u>	<u>10,919</u>

Approved by the Board on 4 January 1999 and signed on its behalf by:

A P Davies, Director



D K Exley, Director



Accounting Policies

1 Basis of preparation

The Group financial statements are prepared in accordance with applicable Accounting Standards and prepared under the historical cost accounting rules modified to include the revaluation of certain freehold land and buildings.

2 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. The financial statements of all subsidiary undertakings are made up to 30 June each year. Unless otherwise stated the acquisition method of accounting has been adopted. Under this method the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

3 Goodwill

Net tangible assets are appraised at the date of acquisition and are included in the financial statements at their fair values. The difference between the fair value of the consideration given and the fair value of the identifiable net assets is transferred to the goodwill reserve on acquisition.

On disposal of a business the attributable purchased goodwill is included, where separately identifiable, in determining the profit or loss on sale and is transferred out of the goodwill reserve.

4 Turnover

Turnover represents the amounts invoiced to customers outside the Group and excludes VAT.

5 Depreciation

Depreciation is calculated to write down the cost or valuation of fixed assets to their estimated residual values in annual instalments over their anticipated useful economic lives as follows:

Freehold buildings	2%
Leasehold property	Over the life of the lease
Plant and equipment	10% - 25%

Freehold land is not depreciated.

6 Stocks

Raw materials, work in progress and finished goods are valued at the lower of cost, including attributable overhead expenditure, and net realisable value.

7 Research and development

Expenditure on research and development is written off as incurred.

8 Leases

Certain items of plant, equipment and vehicles may be financed by leasing arrangements which give rights that approximate to ownership. These are included in the balance sheet as fixed assets at cost less depreciation and the capital element of future rentals is treated as a liability. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments included in creditors.

Rentals payable under operating leases are charged to the profit and loss account as incurred.

9 Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction or, where applicable, at the contracted rate. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, where applicable, at the contracted rate. Differences on exchange arising in the ordinary course of trading are included in operating profit.

10 Deferred tax

No provision is made nor asset recognised for deferred taxation unless there is a reasonable probability that the liability or asset will crystallise in the foreseeable future.

11 Pension commitments

The Group contributes to various Inland Revenue approved money purchase schemes to provide retirement benefits for a number of its employees. The various schemes are separately administered by trustees. It is the present policy to maintain the current level of contributions to the schemes but there is no commitment to provide target benefits based on members' salaries or any other formula. Contributions are charged against profits in the year in which they arise.

Notes

1 Analysis of Results

The directors consider that the Group has a single activity. All turnover and profits originate from operations in the United Kingdom. A geographical analysis of the Group's turnover by market destination is shown below.

	1998 £000	1997 £000
UK	9,655	10,997
Rest of EU	2,394	4,368
Rest of World	208	668
	<u>12,257</u>	<u>16,033</u>

2 Operating loss

	Excluding Exceptionals £000	1998 Exceptional items £000	Total £000	1997 Total £000
Turnover	12,257	--	12,257	16,033
Cost of Sales	<u>(7,827)</u>	<u>(451)</u>	<u>(8,278)</u>	<u>(9,689)</u>
Gross Profit	4,430	(451)	3,979	6,344
Distribution Costs	(753)	--	(753)	(770)
Administrative Expenses	<u>(5,561)</u>	<u>(783)</u>	<u>(6,344)</u>	<u>(5,999)</u>
Operating loss	<u>(1,884)</u>	<u>(1,234)</u>	<u>(3,118)</u>	<u>(425)</u>

The exceptional items in 1998 relate to costs incurred in the closure of the production facilities in South Wales and the subsequent reorganisation of the Group's operations.

3 Interest (net)

	1998 £000	1997 £000
Receivable - on bank deposits	3	11
Payable - on bank loans and overdrafts	(59)	(67)
- all other loans	(80)	(13)
- finance lease charges	(2)	--
	<u>(138)</u>	<u>(69)</u>

4 Loss on ordinary activities before tax

	1998 £000	1997 £000
This is stated after charging :		
Depreciation - assets subject to finance leases	(4)	(2)
- owned assets	(191)	(175)
Other amounts written off tangible assets	(230)	--
Operating leases rentals - land and buildings	(140)	(225)
- plant and equipment	(132)	(188)
Research and development	(358)	(393)
Auditors - Company audit fee	(6)	(6)
- Group audit fee	(33)	(30)

Fees paid to the auditor and its associates in respect of non-audit services amounted to £21,000 (1997: £19,000).

Notes

5 Employees

The average number of employees during the year was:

	1998 Number	1997 Number
Production and sales	263	269
Administration	<u>39</u>	<u>36</u>
	<u>302</u>	<u>305</u>

The aggregate payroll costs were:

	£000	£000
Wages and salaries	3,688	4,307
Social security costs	368	401
Other pension costs	<u>32</u>	<u>41</u>
	<u>4,088</u>	<u>4,749</u>

6 Directors' remuneration

Remuneration of directors:

The remuneration, excluding pension contributions, of the directors in the year to 30 June 1998 is made up as follows:

	Salary and fees £000	Taxable Benefits £000	Total 1998 £000	Total 1997 £000
P M C Rabl	34	12	46	67
D W R Harland	13	-	13	15
A P Davies	60	6	66	37
D K Exley	60	4	64	5
B W Partington	45	5	50	5
P A Whitelocks	71	5	76	45
Former directors	--	--	--	154
	<u>283</u>	<u>32</u>	<u>315</u>	<u>328</u>

Pension contributions totalling £24,000 (1997: £26,000) were paid in respect of P M C Rabl (£3,000), A P Davies (£6,000), D K Exley (£4,000), P A Whitelocks (£5,000) and B Partington (£6,000). Information concerning directors' share options is given in Note 21.

The number of directors to whom benefits were accruing under money purchase pension schemes was 5 (1997: 3).

Directors' service contracts are terminable by a notice period not exceeding one year.

7 Tax

The tax credit on the year reflects corporation tax recoverable as a result of the loss incurred. No deferred tax has been provided.

8 Loss for the financial year

The Company has not presented its own profit and loss account, as permitted by Section 230 of the Companies Act 1985. The loss for the year in the accounts of the Company amounted to £10,199,000 (1996: £662,000).

9 Loss per share

	1998	1997
Loss for the financial year	£3,146,000	£352,000
Number of shares in issue (weighted average)	25,295,753	25,295,753
Basic loss per share	12.4p	1.4p
Exceptional items per share	4.8p	--
Loss per share before exceptional items	7.6p	1.4p

Notes

10	Tangible fixed assets	Freehold land and buildings £000	Short leasehold property £000	Plant and equipment £000	Total £000
	Group				
	Cost or valuation:				
	At 1 July 1997	1,200	98	1,797	3,095
	Additions	--	4	162	166
	Disposals	--	--	(176)	(176)
	At 30 June 1998	1,200	102	1,783	3,085
	Depreciation:				
	At 1 July 1997	25	40	1,050	1,115
	Charge in the period	25	15	155	195
	Other amounts written off tangible fixed assets	--	37	193	230
	On disposals	--	--	(127)	(127)
	At 30 June 1998	50	92	1,271	1,413
	Net book value:				
	At 30 June 1997	1,175	58	747	1,980
	At 30 June 1998	1,150	10	512	1,672
	Company				
		£000	£000	£000	£000
	Cost or valuation:				
	At 1 July 1997	1,200	--	181	1,381
	Additions	--	--	49	49
	Disposals	--	--	(88)	(88)
	At 30 June 1998	1,200	--	142	1,342
	Depreciation:				
	At 1 July 1997	25	--	54	79
	Charge in the period	25	--	24	49
	On disposals	--	--	(61)	(61)
	At 30 June 1998	50	--	17	67
	Net book value:				
	At 30 June 1997	1,175	--	127	1,302
	At 30 June 1998	1,150	--	125	1,275

Group and company

The gross amount of depreciable freehold buildings is £1,100,000 (1997: £1,100,000).

The land and buildings were valued at £1,200,000 in June 1996 on an open market existing use basis. The historical cost of the freehold land and buildings is £1,744,000, including capitalised interest of £60,000 in relation to the purchase of the property and its refurbishment.

Group

Included in the net book value of plant and machinery is £30,000 (1997: £22,000) in respect of assets held under finance leases.

Notes

11	Fixed asset investments	Shares in group undertakings	Loans to group undertakings	Total
	Cost	£000	£000	£000
	As at 1 July 1997 and 30 June 1998	5,434	8,310	13,744
	Provisions			
	As at 1 July 1997	(4,000)	--	(4,000)
	Provided in the year	(1,434)	(8,310)	(9,744)
	As at 30 June 1998	(5,434)	(8,310)	(13,744)
	Net book value			
	At 30 June 1997	1,434	8,310	9,744
	At 30 June 1998	--	--	--

The principal subsidiary undertakings, all owned through an intermediate holding company, and included in the consolidated accounts, are as follows:

	Class and percentage of shares held
Lincoln House (Furnishings) Limited	Ordinary shares 100%
Medallion Upholstery Limited	Ordinary shares 100%
Quantum Designs Furniture Limited	Ordinary shares 90%

All of the above companies manufacture and distribute upholstered furniture and operate in Great Britain.

In addition to the shareholdings there is a loan due from a subsidiary undertaking, Wyefield Furniture Holdings Limited, of £8,310,000 (1997: £8,310,000). This loan, which was fully provided against during the year, has no fixed repayment date and is regarded as having the nature of a long-term investment in subsidiaries.

12	Stocks	Group		Company	
		1998	1997	1998	1997
		£000	£000	£000	£000
	Raw materials and consumables	830	1,138	--	--
	Work in progress	150	97	--	--
	Finished goods and goods for resale	145	190	--	--
		<u>1,125</u>	<u>1,425</u>	<u>--</u>	<u>--</u>
13	Debtors	Group		Company	
	Due within one year:	1998	1997	1998	1997
		£000	£000	£000	£000
	Trade debtors	1,638	2,294	--	--
	Amounts owing by subsidiary undertakings	--	--	25	236
	Other debtors	168	116	12	33
	Prepayments and accrued income	38	112	--	--
		<u>1,844</u>	<u>2,522</u>	<u>37</u>	<u>269</u>

Notes

14	Creditors	Group		Company	
		1998 £000	1997 £000	1998 £000	1997 £000
	Amounts falling due within one year				
	Bank loans and overdrafts	871	69	233	53
	Term loans	--	62	--	62
	Obligations under finance leases	32	6	--	--
	Trade creditors	1,695	1,543	27	2
	Social security and other taxes	262	265	14	59
	Other creditors	1,024	706	17	36
	Accruals and deferred income	1,146	727	74	184
		<u>5,030</u>	<u>3,378</u>	<u>365</u>	<u>396</u>
	Amounts falling due after more than one year	£000	£000	£000	£000
	Bank loans				--
	Between one and two years	67	--	67	--
	Between two and five years	160	--	160	--
	Obligations under finance leases:				
	Between one and two years	--	6	--	--
	Between two and five years	--	15	--	--
		<u>227</u>	<u>21</u>	<u>227</u>	<u>--</u>

Other creditors include advances under debt factoring and invoice discounting arrangements of £815,000 (1997: £201,000).

- 15 **Provisions for liabilities and charges**
No provision has been made for any actual or potential liability to deferred tax due to the availability of tax losses.

16	Called up share capital	1998	1997
		£000	£000
	Authorised		
	34,102,671 Ordinary shares of 20p each	<u>6,821</u>	<u>6,821</u>
	Issued and fully paid		
	25,295,753 Ordinary shares of 20p each	<u>5,059</u>	<u>5,059</u>

Under the Company's Executive Share Option Scheme, the following share options have been granted and were outstanding at 30 June 1998:

Exercisable between:	Exercise price	Number
December 1996 and December 2003	60.5p	37,500
February 1998 and February 2005	48.0p	15,000
March 1999 and March 2008	20.0p	200,000
January 2000 and January 2008	20.0p	375,000
		<u>627,500</u>

Notes

17	Reserves	Profit and loss account
	Group	£000
	At 1 July 1997	(1,976)
	Retained loss for the year	(3,146)
	At 30 June 1998	<u>(5,122)</u>
	Company	
	At 1 July 1997	(852)
	Retained loss for the year	(10,199)
	At 30 June 1998	<u>(11,051)</u>

The goodwill reserve represents the reserve for the elimination of goodwill arising on acquisitions. The cumulative goodwill set off against reserves at 30 June 1998 and 1997 totalled £7,710,000 of which £445,000 has been written off against the profit and loss account in earlier years. The other reserve is an undistributable reserve for the purposes of Section 264 of the Companies Act 1985 save that it may be applied for the same purposes as if it were a share premium account or to set against goodwill arising on consolidation.

18 Commitments under operating leases

Operating lease rentals due during the next year are under commitments expiring:

	1998		1997	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	35	16	--	24
Between one and five years	90	47	29	92
After five years	--	--	203	--
	<u>125</u>	<u>63</u>	<u>232</u>	<u>116</u>

19 Contingent liabilities

The Company and its subsidiaries have entered into cross guarantees to secure the Group's borrowing facility. Agreements with certain overseas agents include, on any termination, the right to compensation based on commission earned in the period immediately preceding termination. It is not considered likely that any material liability will crystallise in the foreseeable future.

20 Pension schemes

The Group operated during the period certain defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £32,000 (1997: £41,000).

21 Directors interests in shares and options

The interests of the directors in office at 30 June 1998 in the ordinary share capital of the Company were as follows:

	30 June 1998		30 June 1997	
	Fully paid Ordinary shares of 20p	Options	Fully paid Ordinary shares of 20p	Options
P M C Rabi	2,516,450	--	1,159,175	--
D W R Harland	1,017,750	--	602,750	--
A P Davies	66,156	150,000	7,500	100,000
D K Exley	32,000	125,000	--	25,000
B W Partington	12,000	150,000	4,000	25,000
P A Whitelocks	--	150,000	6,250	150,000

Notes

21 Directors interests in shares and options(continued)

As at 4 January 1999 there had been no other alterations to the directors' shareholdings since 30 June 1998. At 30 June 1998, directors were the beneficial holders of all shares listed, except for 280,050 of PMC Rabl's shares which are owned by a trust established by him under which his family are beneficiaries.

Details of share options held by directors in office at 30 June 1998 are as follows:

	Held on 1.7.97	Granted in period	Held on 30.6.98	Exercise price (pence)	Net Value	Exercisable	
						Earliest	Latest
A P Davies	100,000	50,000	150,000	20.0p	Nil	Mar 1999	Jan 2008
D K Exley	25,000	100,000	125,000	20.0p	Nil	Jan 2000	Jan 2008
B W Partington	25,000	125,000	150,000	20.0p	Nil	Mar 1999	Mar 2007
P A Whitelocks	150,000	--	150,000	20.0p	Nil	Jan 2000	Jan 2008

The market price of the Company's shares at 30 June 1998 was 7.5p. The range during the year was 6.5p to 16.5p.

The closing price of the Company's shares on 30 June 1998 was below the exercise prices of all options held. Therefore the options had a 'nil' net value at that date. No options were exercised during the year. The above options may only be exercised if the growth in the Company's earnings per share exceeds inflation by more than 5% over the three year period immediately preceding the proposed exercise.

On 30 September 1998, the options held by BW Partington and PA Whitelocks were relinquished on their resignation as directors of the Group.

22 Reconciliation of operating loss to net cash outflow from operating activities

	1998	1997
Operating loss	£000	£000
Depreciation	(3,118)	(425)
Profit on disposal of fixed assets	195	177
Other amounts written off tangible fixed assets	--	(7)
Decrease in stocks	230	--
Decrease in debtors	300	96
Increase/(decrease) in creditors	788	18
	272	(440)
	<u>(1,333)</u>	<u>(581)</u>

23 Reconciliation of net cash flow to movement in net debt

	£000
Decrease in cash in the year	(737)
Cash inflow from increase in debt and in-substance borrowings	(839)
Change on net debt resulting from cash flows	<u>(1,576)</u>
New finance leases	(12)
Change in net debt in the year	<u>(1,588)</u>
Net debt at 1 July 1997	(357)
Net debt at 30 June 1998	<u>(1,945)</u>

Notes

24	Analysis of net debt	At 1 July 1997	Cash Flow	Other non- cash changes	At 30 June 1998
		£000	£000	£000	£000
	Cash	2	(2)	--	--
	Overdrafts	(69)	(735)	--	(804)
			(737)		
	Debt due after more than one year	--	(227)	--	(227)
	Debt due within one year	(62)	(5)	--	(67)
	Finance leases	(27)	7	(12)	(32)
	Advances under debt factoring and invoice discounting arrangements	(201)	(614)	--	(815)
			(839)		
		<u>(357)</u>	<u>(1,576)</u>	<u>(12)</u>	<u>(1,945)</u>