



LEEDS

GROUP PLC

Annual Report and Accounts 2009

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LEEDS

GROUP PLC

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Financial Highlights

- Group loss before tax was £24,000 (2008 profit £522,000)
- Hemmers-Itex sales were £25,685,000 (2008 £21,974,000) and pre-tax profit was £38,000 (2008 £586,000)
- Focus on working capital management in difficult trading conditions saw Hemmers-Itex bank debt fall by Euro 1,463,000 (19%)
- 550,000 shares were bought back in the year at a cost of £78,000 and 625,000 shares were cancelled
- Net asset value per share (excluding treasury shares) increased by 12% to 45 2 pence
- Loss per share was 0 5 pence (2008 earnings of 1 4 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 & Anderzen, a private property company, and, besides Leeds Group, he is a director of two other public companies – Borås Wäfveri AB (textiles) in Sweden, and K3 Business Technology Group plc. 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
48505 Nordhorn
Germany

Directors during the year

Jorg Hemmers
Thorsten Richter (resigned May 2009)

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

The difficult economic climate in the European countries that Hemmers-Itex sells into, which I wrote about in last year's Chairman's statement, has continued during 2009. The Group made a loss after tax of £144,000 during the year compared with a profit of £449,000 in 2008, resulting in loss per share of 0.5 pence (2008 1.4 pence profit). Net Asset Value per share (excluding shares held in treasury) was 45.2 pence at the year end, compared with 40.3 pence at the end of the previous financial year, the increase arising primarily from Sterling's depreciation against the Euro and the Group's share buy-back programme.

Hemmers-Itex

Material sales at Hemmers-Itex increased by 3.3% to 13.1 million linear metres whilst revenue in the local currency of this German-based subsidiary increased by 2.8% to EUR 29.5 million (2008 EUR 28.7 million). The difficult economic climate referred to above has kept all margins under pressure, and Hemmers-Itex made a pre-tax profit in the year of just EUR 44,000 (2008 EUR 766,000). As I noted in the trading statement issued in November 2009, management at Hemmers-Itex have already taken a number of steps to reduce costs and improve margins, and will continue to seek changes so that their costs are more aligned to the current sales levels.

During these challenging times, Hemmers-Itex has also focused on reducing its working capital needs and during the year its bank debt decreased by EUR 1,463,000, a fall of 19%. This bank debt is secured solely against the assets of Hemmers-Itex.

Investments

Leeds Group continues to hold approximately 29% of Dawson International Plc ("Dawson"). During the last year, Dawson has announced the disposal of its Todd & Duncan business, reductions in bank debt and changes in management, all of which your Directors believe are positive and will, in time, feed through to an improved valuation of the Dawson business. At the start of the financial year, the Group also had an investment in European Equity Tranche Income Limited ("EETI"). Despite a capital restructuring by EETI, which relieved that company of its potential bank debt refinancing risk, the share price of EETI failed to reflect the improved position and the entire holding was sold.

Although Leeds Group has no power to participate in the operating and financial policies of any of the entities in which it has invested, the Directors will manage the portfolio of Group investments in a proactive manner that will encourage the respective management teams to focus on realising the perceived incremental shareholder value that is at the root of the investment decisions.

Share Buy-back Programme

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, 550,000 shares were acquired. Following the cancellation of 625,000 shares the company now has 32,475,000 shares in issue, of which 3,225,628 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.

Directors and Employees

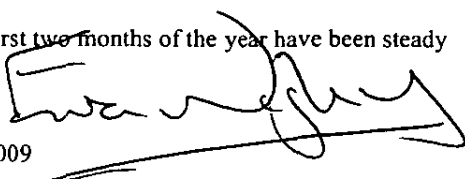
On behalf of shareholders in what has continued to be a challenging environment to operate in, I would like to thank the management and staff of Hemmers-Itex for their continued efforts.

Outlook

Sales for the first two months of the year have been steady.

Ewen Wigley
Chairman,

8 December 2009



Operating and financial review

Group Result

Group revenue increased in the year by 16.9% to £25,685,000 (2008 £21,974,000), partly as a result of increased sales by the Group's trading subsidiaries, but chiefly as a result of translating 2009 revenue at a Sterling exchange rate considerably weaker than last year

The Group loss before tax was £24,000 (2008 profit £522,000) as a consequence of difficult trading conditions in which pre-tax profit in Hemmers-Itex fell to £38,000 (2008 £586,000)

The tax charge in the year was £120,000 (2008 £73,000), of which £48,000 related to under-provisions in previous years. The loss per share was 0.5 pence (2008 earnings 1.4 pence)

Hemmers-Itex

This German-based subsidiary is engaged in the import, warehousing and wholesaling of fabrics. This year was the first full year of operations for its Chinese subsidiary, Chino-Tex, and an encouraging performance there contributed to growth of 3.3% in total fabric sales to 13.1 million linear metres. Sales revenue increased by £3,711,000 (16.9%) to £25,685,000 (2008 £21,974,000). Of this increase, 2.8% represented real growth in terms of local currencies, and 14.1% is the result of translating overseas results at Sterling's weaker exchange rate.

In broad terms, reduced gross margin and increased overhead contributed equally to the reduction in profit. Gross margin was 21.7% (2008 23.5%). For the first seven months of the financial year the Euro was considerably weaker against the US dollar than it was at our 2008 year end. This pushed up the cost of imported fabric and market conditions were such that this could not be passed on to customers fully. The full year of Chino-Tex trading, higher volumes and modest inflationary increases saw overheads increase by 5% in local currency terms.

Although it cannot be denied that the results for the year are disappointing, there have nevertheless been some positive achievements. To have recorded modest growth in a year of depressed aggregate demand for fabric means we have increased market share, and are well positioned for when consumption increases. The strength of the Euro against the US dollar in the last five months has increased beyond its September 2008 level, and has led to recent rates of gross margin that more closely compare with our historic levels. The financial position of Hemmers-Itex was improved considerably in the year by focusing on reducing working capital levels and our success in this respect led to a reduction of €1,463,000 (19%) in the bank debt of Hemmers/Itex and its subsidiaries.

Holding Companies' Costs

The following table indicates that holding companies' costs continue to be tightly controlled, but also shows the impact of falling interest rates which has led to finance income falling to half the level of the previous year.

	2009	2008
	£000	£000
Holding companies' recurring costs	(228)	(225)
Legal costs associated with property at Haw Lane	(53)	-
Exchange gain	91	64
Net operating expense	(190)	(161)
Finance income	166	328
	(24)	167
Impairment of available-for-sale investments	231	(231)
Realised loss on sale of available-for-sale investments	(269)	-
Net costs before tax of holding companies (note 7)	(62)	(64)

Operating and financial review (continued)

Available-for-sale investments.

In February 2009 the Group acquired further shares in European Equity Tranche Income Limited ("EETI"), before selling the entire investment in May of that year. There was a loss on disposal of £269,000 of which £231,000 had been provided last year. The Group's investment in Dawson International plc increased in value by £240,000, which has been taken directly to the available-for-sale reserve. Despite this appreciation, the directors continue to believe that the current share price of Dawson does not fully reflect its long-term value.

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. The Directors are seeking a judicial review of that decision, and the case is scheduled to be heard in March or April 2010. Meanwhile, the directors are of the opinion that, in its current use, the value of the land is negligible.

Fixed Assets

Capital additions in the year amounted to £200,000 (2008 £1,812,000). Tangible fixed assets in the Balance Sheet amount to £2,350,000 (2008 £2,053,000).

Working Capital

Working capital decreased during the year by £884,000 (2008 increase £2,261,000).

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%. The Group's net indebtedness at 30 September 2009 can be analysed as follows:

	Holding Companies £000	Hemmers- Itex £000	Total Group £000
Cash	2,140	434	2,574
Overdrafts	-	(4)	(4)
Total on demand	2,140	430	2,570
Fixed rate loans due within one year	-	(3,819)	(3,819)
Fixed rate loans due after more than one year	-	(2,273)	(2,273)
Net cash balances/(indebtedness)	2,140	(5,662)	(3,522)

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
8 December 2009

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 30 September 2009

Principal activities

During the year, the Group's principal trading subsidiary was Hemmers-Itex Textil Import Export GmbH, a German based business that imports fabric, chiefly from the Far East, for sale and distribution throughout Europe

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 2009, 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 18

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 8 December 2009

	% of issued share capital	% of issued share capital excluding shares held in treasury
Mr Johan Claesson and associates	24.6	27.3
Mr Peter Gyllenhammar and associates	20.7	23.0

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 Johan Claesson who, being eligible, offers himself for re-election 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 8 December 2009

The market value of Leeds Group shares between 1 October 2008 and 30 September 2009 ranged between 16 75p and 13 75p. The average market value for the year was 14 48p, and at 30 September 2009 the market value was 15 00p.

Political and charitable contributions

The Group made no political contributions during the year (2008 £nil). Donations to UK charities amounted to £nil (2008 £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 2009, the amount of trade creditors shown in the consolidated balance sheet represents 14 days (2008 14 days) while trade creditors shown in the Company balance sheet represents 3 days (2008 2 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 550,000 of its own ordinary shares with a nominal value of 12p, for a total consideration of £78,000, and 625,000 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.

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.

Directors' Report (continued)

Directors' responsibilities (continued)

(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) 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
8 December 2009

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 2009, which comprise the Consolidated Income Statement, the Consolidated and the Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense 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 sections 495 and 496 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 2009 and of the group's loss 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
8 December 2009

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

Consolidated Income Statement
for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Revenue	4	25,685	21,974
Cost of sales		(20,114)	(16,819)
Gross profit		5,571	5,155
Distribution costs		(2,000)	(1,615)
Administrative expenses		(3,365)	(3,015)
Profit from operations	5	206	525
Finance expense	8	(270)	(219)
Finance income	8	40	216
(Loss)/profit before tax		(24)	522
Tax expense	9	(120)	(73)
(Loss)/profit for the year, attributable to the equity holders of the Parent Company	23	(144)	449

(Loss)/earnings per share for profit attributable to the equity holders of the Company

	Note	2009	2008
Basic and diluted (pence)	10	(0.5)p	1 4p

Consolidated Statement of Recognised Income and Expense
for the year ended 30 September 2009

		2009 £000	2008 £000
Translation differences on foreign operations	23	1,201	898
Unrealised gains taken to available-for-sale reserve	23	240	74
Net income recognised directly in equity		1,441	972
(Loss)/profit for the financial year	23	(144)	449
Total recognised income and expense for the year		1,297	1,421

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

The notes on pages 16 to 37 form part of these financial statements

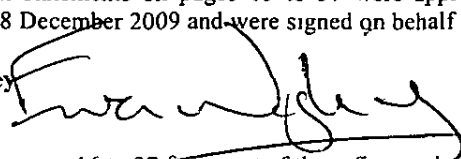
Consolidated Balance Sheet

at 30 September 2009

Company number 00067863	Note	2009 £000	2008 £000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	12	2,350	2,053
Goodwill	13	1,014	883
Available-for-sale investments	14	1,295	1,100
Total non-current assets		4,659	4,036
<i>Current assets</i>			
Inventories	16	6,660	6,573
Trade and other receivables	17	6,973	6,662
Corporation tax recoverable		52	125
Derivative financial assets	18	-	28
Cash available on demand	19	2,574	2,486
Total current assets		16,259	15,874
Total assets		20,918	19,910
Liabilities			
<i>Non-current liabilities</i>			
Loans and borrowings	21	(2,273)	(1,977)
Total non-current liabilities		(2,273)	(1,977)
<i>Current liabilities</i>			
Trade and other payables	20	(1,350)	(1,676)
Loans and borrowings	21	(3,823)	(4,244)
Corporation tax liability		(54)	-
Derivative financial liabilities	18	(186)	-
Total current liabilities		(5,413)	(5,920)
Total liabilities		(7,686)	(7,897)
TOTAL NET ASSETS		13,232	12,013
Capital and reserves attributable to equity holders of the Company			
Share capital	22	3,897	3,972
Capital redemption reserve	23	495	420
Treasury share reserve	23	(605)	(667)
Available-for-sale reserve	23	314	74
Foreign exchange reserve	23	2,266	1,065
Retained earnings	23	6,865	7,149
TOTAL EQUITY		13,232	12,013

The financial statements on pages 13 to 37 were approved and authorised for issue by the board of directors on 8 December 2009 and were signed on behalf of the board by -

Ewen Wigley
Chairman



The notes on pages 16 to 37 form part of these financial statements

Consolidated Cash Flow Statement
for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
(Loss)/profit for the period		(144)	449
Adjustments for:			
Depreciation		198	161
(Reversal of impairment)/impairment of available-for-sale investments		(231)	231
Loss on sale of available-for-sale investment		269	-
Foreign exchange differences	18	214	(54)
Translation gain on cash and cash equivalents		18	67
Finance expense		270	219
Finance income		(40)	(216)
Loss/(gain) on sale of property, plant and equipment		7	(2)
Income tax expense		120	73
Cash flows from operating activities before changes in working capital and provisions		681	928
Decrease/(increase) in inventories		859	(684)
Decrease/(increase) in trade and other receivables		649	(1,701)
(Decrease)/increase in trade and other payables		(624)	124
Cash generated from operating activities		1,565	(1,333)
Income taxes recovered/(paid)		20	(222)
Net cash flows from operating activities		1,585	(1,555)
Investing activities			
Purchase of property, plant and equipment		(200)	(1,812)
Sale of property, plant and equipment		3	5
Purchase of available-for-sale investments		(200)	(1,257)
Dividend from available-for-sale investment		-	21
Sale of available-for-sale investments		207	-
Bank interest received		40	195
Net cash used in investing activities		(150)	(2,848)
Financing activities			
Purchase of treasury shares		(78)	(300)
Proceeds from bank borrowings		-	4,201
Repayment of bank borrowings		(884)	(1,606)
Bank interest paid		(270)	(219)
Net cash used in financing activities		(1,232)	2,076
Net increase/(decrease) in cash and cash equivalents	19	203	(2,327)
Cash and cash equivalents at beginning of the period	19	2,367	4,694
Cash and cash equivalents at end of the period	19	2,570	2,367

The notes on pages 16 to 37 form part of these financial statements

Notes

forming part of the financial statements for the year ended 30 September 2009

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.

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

Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 October 2009 or later and which the Group has decided not to adopt early. Those that are potentially relevant to the Group are:

- *IAS 1, Presentation of Financial Statements (revised)* (effective for accounting periods beginning on or after 1 January 2009). This amendment affects the presentation of owner changes in equity and of comprehensive income. The Group will be required to present, in a statement of changes in equity, 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 standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS.

- *IFRS 8, Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). 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. It replaces IAS 14, Segmental Reporting. The Group expects to apply this standard in the accounting period beginning on 1 October 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the Group.

- *IAS 23, Borrowing Costs (revised)* (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. The Group is currently assessing its impact on the financial statements.

- *Improvements to IFRS (May 2008)* (effective for accounting periods beginning on or after 1 January 2009). This amendment takes various forms, including the clarification of the requirements of IFRS and the elimination of inconsistencies between Standards. The Group is currently assessing its impact on the financial statements.

- *Improvements to IFRS (April 2000)* (effective mainly for accounting periods beginning on or after 1 January 2010). This amendment takes various forms, including the clarification of the requirements of IFRS and the elimination of inconsistencies between Standards. The Group is currently assessing its impact on the financial statements.

- *IFRS 9, Financial Instruments: Recognition and Measurement* (Not endorsed for use in EU and will be effective for accounting periods beginning on or after 1 January 2013). IFRS 9 affects the recognition and measurement of financial assets. One key change to the group is that IFRS 9 includes only two categories of financial asset (a fair value category and an amortised cost category). The category of available for sale will be removed. The Group is currently assessing the impact on the financial statements.

IFRS, IAS and IFRIC interpretations not relevant to the group

The following new and amended IFRS, IAS and IFRIC interpretations are mandatory for accounting periods beginning on or after 1 January 2009 and are not expected at this stage to be relevant to the Group or result in any significant future accounting policy changes.

IFRS 2 - Share-based Payment: Vesting Conditions and Cancellations (revised)

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forming part of the financial statements for the year ended 30 September 2009

1 Accounting policies (continued)

IFRS, IAS and IFRIC interpretations not relevant to the group (continued)

IFRS 7 - Improving Disclosures about Financial Instruments

IAS 32 Financial Instruments Presentation – Puttable financial instruments

IFRIC 15 - Agreements for the Construction of Real Estate

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 result in any significant future accounting policy changes

IAS 32 – Rights Issues (Amendment) (effective for periods commencing on or after 1 February 2010)

IFRS 2 - Share-based Payment Group Cash-settled share based payment arrangements (revised) (effective for periods commencing on or after 1 March 2010)

IFRS 3 - Business Combinations (revised 2008) (effective for business combinations in periods beginning on or after 1 7 09)

IAS 27 - Consolidated and Separate Financial Statements (revised 2008) (effective as above)

IFRIC 12 - Service Concession Arrangements (effective for periods on or after 29 3 09 in EU)

IFRIC 16 – Amendment to Hedges of a Net Investment in a Foreign Operation (effective for periods commencing on or after 1 7 09)

IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for periods commencing on or after 1 7 09)

IFRIC 18 – Transfer of assets from customers (applying to transfers on or after 1 7 09)

IAS 24 (2009) - Related Party Disclosures (effective for periods commencing on or after 1 1 12)

Revenue

Revenue is shown in the income statement net of VAT and returns, and is 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 income statement 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 on performance of the related service.

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 income statement 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 income statement. 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 income statement on the acquisition date.

Segment reporting

The group's primary segmental reporting comprises a single business segment. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of

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forming part of the financial statements for the year ended 30 September 2009

1 Accounting policies (continued)

Segment reporting (continued)

other business segments. There is considered to be one business segment for reporting purposes. The remainder of activities comprise the group's holding companies.

The group's secondary segmental reporting is by geographical segment. The majority of the group's assets are located in Europe. Analysis of revenue is provided by destination, representing the location of the customer.

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 income statement, except to the extent they reverse gains previously recognised in the consolidated statement of recognised income and expense. 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 income statement.

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 income statement 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:

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forming part of the financial statements for the year ended 30 September 2009

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 income statement 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:* The Group's 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 income statement. 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. 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 income statement. On sale, the amount held in the available-for-sale reserve associated with that asset is removed from equity and recognised in the income statement.

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 income statement 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.

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forming part of the financial statements for the year ended 30 September 2009

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 income statement 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 income statement 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.

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forming part of the financial statements for the year ended 30 September 2009

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 evenly over their expected useful economic lives as follows:

Freehold buildings	50 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 income statement 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.

(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 income statement in specific periods.

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forming part of the financial statements for the year ended 30 September 2009

2 Critical accounting estimates and judgements (continued)

(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 2009 would have improved or declined by an estimated £4,250 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 14. 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.

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

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forming part of the financial statements for the year ended 30 September 2009

Financial instruments - Risk Management (continued)

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 17.

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).

(i) Fair value and 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.

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forming part of the financial statements for the year ended 30 September 2009

3 Financial instruments - Risk Management (continued)

Foreign exchange risk (continued)

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 £832,000 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 £1,017,000 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 indebtedness. 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.

4 Revenue

	2009 £000	2008 £000
Revenue arises from		
Sale of goods	25,601	21,904
Provision of services	84	70
Total revenue	25,685	21,974
Analysis of revenue by geographical destination		
	2009 £000	2008 £000
United Kingdom	786	732
Other EU	22,903	19,947
Non EU	1,996	1,295
Total revenue	25,685	21,974

5 Profit from operations

	2009 £000	2008 £000
Profit from operations is stated after charging/(crediting).		
Auditors' fees		
<i>Statutory audit services</i>		
- Audit of the Parent Company and the consolidated accounts	16	20
- Audit of subsidiary companies	22	23
<i>Non-audit related services</i>		
- Tax compliance and VAT services	3	15
- Advice on the liquidation of dormant subsidiaries	-	12
Total auditor's fees	41	70

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5 Profit from operations (continued)

	2009	2008
	£000	£000
Profit from operations is stated after charging/(crediting):		
Staff costs	3,372	2,782
Depreciation of property, plant and equipment	198	161
(Reversal of impairment)/impairment of available-for-sale investments	(231)	231
Loss on sale of available-for-sale investments	269	-
Foreign exchange differences (see note 18)	214	(54)
Operating lease expense		
- Plant and machinery	123	76
- Property	278	267
(Write-back)/write-down of inventory to net realisable value	49	(51)
Profit on disposal of property, plant and equipment	7	(2)

6 Staff costs

The average number of persons employed in the year by the Group (including directors) was 124 (2008 114)

	2009	2008
	£000	£000

Staff costs, including directors, comprise

Wages, salaries and directors' fees	2,836	2,373
Defined contribution pension cost	284	212
Employer's national insurance contributions and similar taxes	252	197

Total staff costs	3,372	2,782
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	2009	2008
	£000	£000

Directors' emoluments comprise exclusively directors' fees, as below

Mr J Claesson	10	10
Mr P Gyllenhammar	10	10
Mr E Wigley	25	25

Total directors' emoluments	45	45
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Outstanding share options granted to employees or directors at 30 September 2009 were nil (2008 nil)

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 the directors of Hemmers-Itex Textil Import Export GmbH listed on page 4

	2009	2008
	£000	£000

Salary and fees	323	299
Bonuses	14	26
Defined contribution pension cost	20	6

Total directors' and key management personnel remuneration	357	331
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7 Segmental information

During the year, the Group's operations in Germany, Holland and China were engaged in the import and distribution of fabric. The Group's head office incurs unallocated central costs and is located in the UK.

The net assets of Hemmers-Itex presented below are predominantly held in the European Union while the net assets of Holding Companies are held predominantly in the UK.

The following tables set out a segmental analysis of the Group's operations.

	Hemmers- Itex 2009 £000	Holding Companies 2009 £000	Group Total 2009 £000	Hemmers- Itex 2008 £000	Holding Companies 2008 £000	Group Total 2008 £000
Revenue	25,685	-	25,685	21,974	-	21,974
Cost of sales	(20,114)	-	(20,114)	(16,819)	-	(16,819)
Gross profit	5,571	-	5,571	5,155	-	5,155
Distribution expenses	(2,000)	-	(2,000)	(1,615)	-	(1,615)
Administrative expenses	(3,137)	(228)	(3,365)	(2,623)	(392)	(3,015)
Profit from operations	434	(228)	206	917	(392)	525
Finance expense	(270)	-	(270)	(219)	-	(219)
Finance income	-	40	40	-	216	216
Internal interest	(126)	126	-	(112)	112	-
Profit/(loss) before tax	38	(62)	(24)	586	(64)	522
Tax (expense)/credit	(123)	3	(120)	(77)	4	(73)
(Loss)/profit for year	(85)	(59)	(144)	509	(60)	449

	Hemmers- Itex 2009 £000	Holding Companies 2009 £000	Group Total 2009 £000	Hemmers- Itex 2008 £000	Holding Companies 2008 £000	Group Total 2008 £000
Property, plant & equip	2,350	-	2,350	2,053	-	2,053
Goodwill	1,014	-	1,014	883	-	883
Available-for-sale investments	-	1,295	1,295	-	1,100	1,100
Current assets	14,058	2,165	16,223	13,476	2,398	15,874
Total assets	17,422	3,460	20,882	16,412	3,498	19,910
Non-current liabilities	(2,273)	-	(2,273)	(1,977)	-	(1,977)
Current liabilities	(5,275)	(102)	(5,377)	(5,804)	(116)	(5,920)
Total liabilities	(7,548)	(102)	(7,650)	(7,781)	(116)	(7,897)
Net assets	9,874	3,358	13,232	8,631	3,382	12,013
Internal (creditor)/debtor	(2,058)	2,058	-	(1,752)	1,752	-
Net assets	7,816	5,416	13,232	6,879	5,134	12,013

Notes

forming part of the financial statements for the year ended 30 September 2009

7 Segmental information (continued)

Other information	Hemmers- Itex 2009 £000	Holding Companies 2009 £000	Group Total 2009 £000	Hemmers- Itex 2008 £000	Holding Companies 2008 £000	Group Total 2008 £000
Capital expenditure	200	-	200	1,812	-	1,812
Depreciation	198	-	198	160	1	161

8 Finance income and expense

	2009 £000	2009 £000	2008 £000	2008 £000
Finance income				
Dividend from available-for-sale investment	-		21	
Interest received on bank deposits	40		195	
		40		216
Finance expense				
Interest paid on bank overdrafts and loans		(270)		(219)
Net finance (expense)/income recognised in income statement		(230)		(3)

9 Tax expense

	2009 £000	2008 £000
Current tax expense		
UK corporation tax and income tax of overseas operations on profits for the year	72	77
Adjustments for under/(over) provision in prior periods	48	(4)
Total current tax expense	120	73
Deferred tax expense	-	-
Total tax expense	120	73

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 (loss)/profit for the year are as follows

	2009 £000	2008 £000
(Loss)/Profit on ordinary activities before taxation	(24)	522
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 28% (2008 28%)	(7)	146
Expenses not deductible for tax purposes	98	17
Income not subject to tax	(33)	(60)
Unrelieved losses	43	50
Utilisation of previously unrecognised tax losses	(53)	(71)
Recovery of tax paid in previous years	(3)	(4)
Underprovided in previous years	51	
Different tax rates applied in overseas jurisdictions	24	(5)
Total tax expense (see above)	120	73

Notes

forming part of the financial statements for the year ended 30 September 2009

9 Tax expense (continued)

The Group has capital losses carried forward of £12,105,000 in the UK and unrelieved trading losses of £262,000 (UK) and £1,511,000 (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.

10 Loss/earnings per share

	2009	2008
Numerator		
(Loss)/profit for the year from continuing operations, being the (loss)/earnings used in basic and diluted loss or earnings per share	£(144,000)	£449,000
Denominator		
Weighted average number of shares used in basic and diluted loss or earnings per share (excluding treasury shares)	29,514,410	31,050,281
Basic and diluted (loss)/earnings per share	(0.5) p	14 p

11 Dividend

The directors have not proposed a dividend in respect of the years ended 30 September 2009 and 30 September 2008.

12 Property, plant and equipment

	Land and buildings £000	Plant and machinery £000	Total £000
Cost			
Balance at 1 October 2007	105	997	1,102
Additions	1,594	218	1,812
Disposals	-	(356)	(356)
Effect of movements in foreign exchange rates	69	129	198
Balance at 30 September 2008	1,768	988	2,756
Additions	73	127	200
Disposals	-	(36)	(36)
Effect of movements in foreign exchange rates	268	149	417
Balance at 30 September 2009	2,109	1,228	3,337
	Land and buildings £000	Plant and machinery £000	Total £000
Accumulated depreciation			
Balance at 1 October 2007	82	712	794
Depreciation charge for the year	34	127	161
Disposals	-	(353)	(353)
Effect of movements in foreign exchange rates	11	90	101
Balance at 30 September 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
Balance at 30 September 2009	226	761	987

Notes

forming part of the financial statements for the year ended 30 September 2009

12 Property, plant and equipment (continued)

Net book amount			
At 1 October 2007	23	285	308
At 30 September 2008	1,641	412	2,053
At 30 September 2009	1,883	467	2,350

Bank borrowings are secured on the inventories, trade receivables and freehold land and buildings of Hemmers-Itex Textil Import Export GmbH (see note 21)

13 Goodwill

	Goodwill £000
Balance at 1 October 2007	779
Effect of movements in foreign exchange rates	104
Balance at 30 September 2008	883
Effect of movements in foreign exchange rates	131
Balance at 30 September 2009	1,014

Goodwill is allocated to the cash-generating unit Hemmers-Itex Textil Import Export GmbH, whose recoverable amount is determined by calculating the present value of expected cash flows using an appropriate discount rate. The directors have calculated the recoverable amount of the cash-generating unit at a variety of projected cash flow levels, using a variety of discount rates, and are satisfied that at any realistic values of these two variables, the recoverable amount comfortably exceeds the carrying value of goodwill and that therefore no provision for impairment is required.

14 Available-for-sale investments

	2009 £000	2008 £000
At 1 October 2008	1,100	-
Additional investment in European Equity Tranche Income Limited	200	1,257
Impairment released/(charged) to income statement	231	(231)
Proceeds of sale of holding in European Equity Tranche Income Limited	(207)	
Realised loss on disposal charged to income statement	(269)	-
Unrealised gain transferred to equity (note 23)	240	74
At 30 September 2009	1,295	1,100

Available-for-sale investments at 30 September 2009 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 2009 and, in the opinion of the directors, its carrying value at 30 September 2009 approximates to its fair value.

The most recently published financial reports of Dawson International PLC disclose

	6 months ended 4 July 2009 £000	Year ended 3 January 2009 £000
Aggregate amount of capital and reserves	11,025	20,240
(Loss)/profit after tax for the period	(9,004)	476

Notes

forming part of the financial statements for the year ended 30 September 2009

14 Available-for-sale investments (continued)

In February 2009 the Group increased its investment in European Equity Tranche Income Limited at a cost of £200,000, and in May 2009 the entire holding was sold, realising a loss on disposal of £269,000 of which £231,000 had been provided in the year ended 30 September 2008. The investment was stated at 30 September 2008 at the closing share price for that day and, in the opinion of the directors, its carrying value at 30 September 2008 approximated to its fair value.

15 Subsidiaries

The subsidiaries of Leeds Group plc, all of which were owned as to 100% in both 2008 and 2009, and which have been included in these consolidated statements, are as follows:

Name	Country of Incorporation	Nature of business	
		2009	2008
* 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			

16 Inventories

	2009 £000	2008 £000
Finished goods and goods for resale	6,660	6,573

The amount of inventories recognised as an expense during the year was £17,586,000 (2008 £14,618,000)

17 Trade and other receivables

	2009 £000	2008 £000
Trade receivables	7,279	6,694
Less provision for impairment of trade receivables	(626)	(468)
Net trade receivables	6,653	6,226
Other receivables	211	337
Prepayments	109	99
Total trade and other receivables	6,973	6,662
Non-current portion	-	-
Current portion	6,973	6,662
	2009 £000	2008 £000
Net trade receivables	6,653	6,226
Other receivables	211	337
Cash and cash equivalents (note 19)	2,574	2,486
Total financial assets classified as loans and receivables	9,438	9,049

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

Notes

forming part of the financial statements for the year ended 30 September 2009

17 Trade and other receivables (continued)

As at 30 September 2009 £5,683,000 of trade receivables were not due for payment (2008 £5,647,000) Trade receivable accounts are monitored by management and provisions for bad and doubtful debts are raised where it is deemed appropriate

As at 30 September 2009 trade receivables of £870,000 were past due but not impaired (2008 £1,047,000) 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

	2009 £000	2008 £000
Up to 3 months overdue	663	869
Overdue by 3 to 6 months	156	137
Overdue by 6 to 12 months	25	41
Overdue by more than 12 months	26	-
Total trade receivables past due but not impaired	870	1,047

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 2009 trade receivables of £726,000 were past due and impaired (2008 £583,000) The amount of the provision was £626,000 (2008 £468,000) 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

	2009 £000	2008 £000
Up to 3 months overdue	13	64
Overdue by 3 to 6 months	54	133
Overdue by 6 to 12 months	79	75
Overdue by more than 12 months	580	311
Total trade receivables past due and impaired	726	583

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

	2009 £000	2008 £000
Euro	6,693	6,220
Sterling	110	123
US Dollar	98	319
Chinese Yuan	72	-
Total trade and other receivables	6,973	6,662

Notes

forming part of the financial statements for the year ended 30 September 2009

17 Trade and other receivables (continued)

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

	2009 £000	2008 £000
At 1 October	468	327
Effect of movements in foreign exchange rates	73	43
Provided during the year	106	112
Receivables written off during the year	(21)	(14)
At 30 September	626	468

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

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

18 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.

The notional principal amounts of outstanding forward exchange contracts at 30 September 2009 were £3,663,000 (2008 £1,091,000)

At 30 September 2009, the fair value for the currency derivatives used as economic cash flow hedges was determined by market price as follows

	Asset		Liability	
	2009 £000	2008 £000	2009 £000	2008 £000
Forward foreign exchange contracts	-	28	186	-

Changes in fair values are recorded in cost of sales in the income statement

An analysis of currency derivatives' maturities is as follows

	2009 £000	2008 £000
Up to 3 months	1,708	397
3 to 6 months	1,334	694
7 to 9 months	621	-
Notional principal amounts of forward exchange contracts	3,663	1,091

19 Cash available on demand

	2009 £000	2008 £000
Cash available on demand	2,574	2,486

Notes

forming part of the financial statements for the year ended 30 September 2009

19 Cash available on demand (continued)

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

	2009 £000	2008 £000
Cash available on demand	2,574	2,486
Overdrafts	(4)	(119)
Total cash and cash equivalents	2,570	2,367

20 Trade and other payables

	2009 £000	2008 £000
Trade payables	594	840
Other tax and social security taxes	39	117
Accruals	417	492
Other payables	300	227
Total trade and other payables	1,350	1,676

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 14 days (2008: 14 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

21 Loans and borrowings

The book value of loans and borrowings are as follows

	2009 £000	2008 £000
Current		
Overdrafts	4	119
Secured bank loans and bill discounting facilities	3,819	4,125
	3,823	4,244
Non-current		
Secured bank loans	2,273	1,977
Total loans and borrowings	6,096	6,221

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

Overdrafts are repayable on demand and attract a variable interest at rates in the range 6 – 8% at the balance sheet date (2008: 7 – 8%). Overdrafts in overseas operations are secured on the inventories and trade receivables of Hemmers-Itex Textil Import Export GmbH.

Notes

forming part of the financial statements for the year ended 30 September 2009

21 Loans and borrowings (continued)

Current loans and borrowings (continued)

Short-term bank loans amount to €4,200,000 (2008 €5,216,000) and comprise short term loans and bill discounting facilities from Dresdner Bank and Commerzbank attracting interest at the balance sheet date at rates between 1.79% and 1.95% (2008 5.49% - 6%). Current bank loans are secured on the inventories and trade receivables of Hemmers-Itex Textil Import Export GmbH.

The short-term bank loans amounting to €4,200,000 are drawn down against total Group facilities of €7,500,000. Following the usual annual review of facilities with the German banks, the directors have a reasonable expectation that these facilities will remain available for the foreseeable future.

Non-current loans and borrowings

Long-term loans amounting to €2,500,000 (2008 €2,500,000) have been drawn down from Commerzbank and Kreissparkasse to finance the warehouse extension completed in 2008. Non-current bank loans are secured on the inventories, trade receivables and freehold land and buildings of Hemmers-Itex Textil Import Export GmbH. Payments to these banks will initially comprise quarterly payments of interest only. Half-yearly repayments of principal and interest will commence on 31 March 2011 and the final repayment will be made on 30 September 2027. Interest on these loans is fixed at 5.1% for the full term.

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

	2009 £000	2008 £000
Inventories	6,660	6,573
Trade receivables	6,653	6,226
Freehold land and buildings	1,883	1,641
Total carrying value of assets pledged as collateral	15,196	14,440

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

	2009 £000	2008 £000
Not later than one year	3,949	4,366
Later than one year and not later than five years	731	637
Later than five years	2,557	2,413
	7,237	7,416
Less interest included in above cash flows	(1,141)	(1,195)
Total loans and borrowings	6,096	6,221

Reconciliation of movements in net debt

	2009 £000	2008 £000
Increase/(decrease) in cash and cash equivalents in the year	203	(2,327)
Net decrease/(increase) in loans	884	(2,595)
Foreign currency translation differences on loans	(874)	(473)
Movement in net debt	213	(5,395)
Net (debt)/cash at beginning of the year	(3,735)	1,660
Net debt at end of the year	(3,522)	(3,735)

Notes

forming part of the financial statements for the year ended 30 September 2009

21 Loans and borrowings (continued)

Classification of financial liabilities	2009 £000	2008 £000
Trade and other payables	594	840
Accruals	417	492
Other payables	300	227
Loans and borrowings	6,096	6,221
Total of financial liabilities at amortised cost	7,407	7,780

22 Share capital

Authorised	2009 £000	2008 £000		
48,000,000 ordinary shares of 12p each (2008 48,000,000 ordinary shares of 12p each)	5,760	5,760		
Issued and fully paid	2009 Number	2009 £000	2008 Number	2008 £000
At beginning of the year	33,100,000	3,972	34,900,000	4,188
Cancellation of treasury shares	(625,000)	(75)	(1,800,000)	(216)
At end of year	32,475,000	3,897	33,100,000	3,972

At 30 September 2009, no options over ordinary shares of the Company were outstanding (2008 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
	7,349,261	1,463
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 held in treasury at 30 September 2009	3,225,658	605

The cost of cancelled shares has been calculated on a "first in, first out" basis, and is shown as a separate component of equity (see note 23)

Notes

forming part of the financial statements for the year ended 30 September 2009

23 Statement of changes to shareholders' equity							
	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
At 1 October 2007	4,188	204	(766)	-	167	7,099	10,892
Translation differences on foreign operations	-	-	-	-	898	-	898
Unrealised gains taken to available-for-sale reserve	-	-	-	74	-	-	74
Profit for the year	-	-	-	-	-	449	449
Purchase of own shares for treasury	-	-	(300)	-	-	-	(300)
Cancellation of shares held in treasury	(216)	216	-	-	-	-	-
Cost of shares cancelled	-	-	399	-	-	(399)	-
At 30 September 2008	3,972	420	(667)	74	1,065	7,149	12,013
Translation differences on foreign operations	-	-	-	-	1,201	-	1,201
Unrealised gains taken to available-for-sale reserve	-	-	-	240	-	-	240
Loss for the year	-	-	-	-	-	(144)	(144)
Purchase of own shares for treasury	-	-	(78)	-	-	-	(78)
Cancellation of shares held in treasury	(75)	75	-	-	-	-	-
Cost of shares cancelled	-	-	140	-	-	(140)	-
At 30 September 2009	3,897	495	(605)	314	2,266	6,865	13,232

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value
Capital redemption reserve	Nominal value of cancelled shares transferred from share capital
Treasury share reserve	Weighted average 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 retranslating the net assets of overseas operations into Sterling
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement

Notes

forming part of the financial statements for the year ended 30 September 2009

24 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. The Group leases all other properties it occupies in UK, Germany and Holland, all of which fall for renewal within the next two years. The Group also 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

	2009 £000	2008 £000
Not later than one year	280	267
Later than one year and not later than five years	124	454
Total future values of minimum lease payments	404	721

25 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

	2009 £000	2008 £000
Overseas state schemes	279	206
UK defined contribution scheme	5	6
Total pension charge for the year	284	212

At 30 September 2009 there were employer's pension contributions outstanding of £nil (2008 £nil)

26 Commitments

At 30 September 2009, contracted capital commitments for the Group for which no provision has been made in these accounts were nil (2008 £240,000)

27 Related party transactions

Mr Jorg Hemmers is a director of Hemmers-Itex Textil Import Export GmbH, as was Mr Thorsten Richter until his resignation in May 2009. During the year ended 30 September 2009 this subsidiary company

- (i) paid rental of €230,000 (2008 €230,000) in respect of a warehouse to a company in which Mr J Hemmers has a financial interest,
- (ii) made sales of fabric amounting to €382,000 (2008 €311,000) to retail shops in which Mr J Hemmers has a financial interest. In this regard, €216,000 (2008 €167,000) forms part of the Group's trade receivables as shown in the consolidated balance sheet
- (iii) made sales of fabric amounting to €522,000 (2008 €467,000) to retail shops in which Mr T Richter has a financial interest. In this regard, €257,000 (2008 €324,000) forms part of the Group's trade receivables as shown in the consolidated balance sheet

Mr Hemmers is considered to be part of the key management of the Group, as was Mr Richter until his resignation in May 2009.

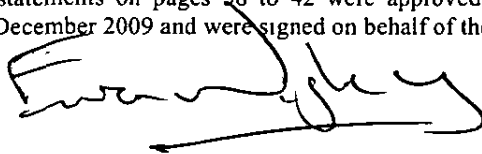
The directors consider that the above transactions have been made on an arm's length basis.

Company balance sheet (prepared using UK GAAP)

As at 30 September	Note	2009 £000	2008 £000
Fixed assets			
Investments	4	5,490	5,535
Total fixed assets		5,490	5,535
Current assets			
Debtors	5	1,204	1,058
Cash at bank and in hand		2,108	2,366
		3,312	3,424
Creditors – amounts falling due within one year	6	(620)	(549)
Net current assets		2,692	2,875
NET ASSETS		8,182	8,410
Capital and reserves			
Called up equity share capital	7	3,897	3,972
Capital redemption reserve	8	495	420
Profit & loss account	9	3,790	4,018
EQUITY SHAREHOLDERS' FUNDS	10	8,182	8,410

The financial statements on pages 38 to 42 were approved and authorised for issue by the board of directors on 8 December 2009 and were signed on behalf of the board by -

Ewen Wigley
Chairman



The notes on pages 39 to 43 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.

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 £150,000 (2008 profit £69,000).

The Company audit fee for 2009 amounted to £16,000 (2008 £20,000).

3 Staff costs

The average number of persons employed in the year by the Company (including directors) was 5 (2008 5).

Staff costs, including directors, comprise	2009 £000	2008 £000
Wages and salaries	93	94
Defined contribution pension cost	6	6
Employer's national insurance contributions and similar taxes	8	8
Total staff costs	107	108

Directors' emoluments comprise exclusively directors' fees, as below	2009 £000	2008 £000
Mr J Claesson	10	10
Mr P Gyllenhammar	10	10
Mr E Wigley	25	25
Total directors' emoluments	45	45

Outstanding share options granted to employees or directors at 30 September 2009 were nil (2008 nil).

4 Investments

	2009 £000	2008 £000
Investments in subsidiary undertakings	4,509	4,509
Investments in other entities	981	1,026
Total investments	5,490	5,535

Notes

forming part of the financial statements for the Company

4 Investments (continued)

	2009 £000	2008 £000
Investments in subsidiary undertakings		
Cost		
At 1 October	6,316	6,316
Additions in year	-	-
At 30 September	6,316	6,316
Provision		
At 1 October	1,807	2,016
Released to profit & loss account	-	(209)
At 30 September	1,807	1,807
Net book amount	4,509	4,509

Details of the principal subsidiary undertakings are given in the Group Information section on page 4 and in note 15 to the consolidated financial statements

	2009 £000	2008 £000
Investments in other entities		
Cost		
At 1 October	1,257	-
Additions in year	200	1,257
Disposals in year	(476)	-
At 30 September	981	1,257
Provision		
At 1 October	231	-
(Released)/charged to profit & loss account	(231)	231
At 30 September	-	231
Net book amount	981	1,026

At 30 September 2009, 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 year, are set out in note 14 to the consolidated financial statements

5 Debtors

	2009 £000	2008 £000
Other debtors	5	14
Prepayments and accrued income	20	19
Amounts receivable from subsidiary undertakings	1,179	1,025
Total debtors	1,204	1,058

Notes

forming part of the financial statements for the Company

6 Creditors

	2009 £000	2008 £000
Bank overdraft	-	20
Trade creditors	3	2
Accruals and deferred income	99	94
Amounts payable to subsidiary undertakings	518	433
Total creditors	620	549

7 Share capital

Authorised	2009 £000	2008 £000
48,000,000 ordinary shares of 12p each (2008 48,000,000 ordinary shares of 12p each)	5,760	5,760

Issued and fully paid	2009 Number	2009 £000	2008 Number	2008 £000
At beginning of the year	33,100,000	3,972	34,900,000	4,188
Cancellation of own shares held in treasury	(625,000)	(75)	(1,800,000)	(216)
At end of year	32,475,000	3,897	33,100,000	3,972

At 30 September 2009 no options over ordinary shares of the Company were outstanding (2008 nil)

The Company 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
	7,349,261	1,463
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 held in treasury at 30 September 2009	3,225,658	605

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

8 Capital redemption reserve

	2009 £000	2008 £000
At 1 October	420	204
Arising on cancellation of 625,000 ordinary shares of 12 pence each	75	-
Arising on cancellation of 1,800,000 ordinary shares of 12 pence each	-	216
At 30 September	495	420

Notes

forming part of the financial statements for the Company

9 Retained earnings

	2009 £000	2008 £000
At 1 October	4,018	4,249
(Loss)/profit for the year	(150)	69
Purchase of own shares for treasury	(78)	(300)
At 30 September	3,790	4,018

10 Reconciliation of movements in shareholders' funds

	2009 £000	2008 £000
(Loss)/profit for the year	(150)	69
Other net recognised gains and losses - purchase of own shares	(78)	(300)
Net reduction in shareholders' funds	(228)	(231)
Opening shareholders' funds	8,410	8,641
Closing shareholders' funds	8,182	8,410

11 Commitments

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

	2009 £000	2008 £000
Later than two years and not later than five years	27	24

There were no contracted capital commitments for the Company in either year

Five Year Summary of Results and Capital Employed

	2009 IFRS £000	2008 IFRS £000	2007 IFRS £000	2006 UK GAAP £000	2005 UK GAAP £000
Results					
Revenue	25,685	21,974	17,523	16,575	17,188
Cost of sales	(20,114)	(16,819)	(13,418)	(12,570)	(10,770)
Gross profit	5,571	5,155	4,105	4,005	6,418
Operating expenses	(5,365)	(4,630)	(3,392)	(3,254)	(4,666)
Profit from operations	206	525	713	751	1,752
Net finance (expense)/income	(230)	(3)	117	(8)	(952)
Exceptional items	-	-	-	(838)	135
(Loss)/profit before tax	(24)	522	830	(95)	935
Tax expense	(120)	(73)	(245)	(352)	(236)
(Loss)/profit after tax	(144)	449	585	(447)	699
Assets employed					
Non-current assets	4,659	4,036	1,087	1,002	14,387
Current assets	16,259	15,874	14,280	13,248	18,384
Total assets	20,918	19,910	15,367	14,250	32,771
Non-current liabilities	(2,273)	(1,977)	(1,569)	-	(7,451)
Current liabilities	(5,413)	(5,920)	(2,906)	(3,375)	(13,676)
Total liabilities	(7,686)	(7,897)	(4,475)	(3,375)	(21,127)
Net assets	13,232	12,013	10,892	10,875	11,644
Financed by					
Equity	13,232	12,013	10,892	10,875	11,644
Key Statistics					
Basic (loss)/earnings per share	(0.5)p	1.4p	1.7p	(1.3)p	1.9p
Net assets per share	45.2p	40.3p	34.7p	31.3p	32.2p

The figures for 2009, 2008 and 2007 are prepared under IFRS. The figures for 2006 and 2005 are UK GAAP figures presented in the same format as the 2009, 2008 and 2007 figures. The figures for 2007 had previously been reported under UK GAAP.

Notice of Annual General Meeting

The one hundred and ninth annual general meeting of the Company will be held at 12 noon on Wednesday 3 February 2010 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 2009 and the report of the auditors thereon
- 2 To re-elect Mr Johan Claesson 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, 6 and 7 will be proposed as special resolutions

- 4 that in accordance with Article 52 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 2,550,000, being 7.85 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 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 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
- 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 £1,169,000. 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 conferred upon the directors pursuant to section 80 of the Companies Act 1985, but without prejudice to the allotment or grant of Rights already made or to be made pursuant to such authorities

Notice of Annual General Meeting (continued)

Special business (continued)

- 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 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 rights 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 £194,000

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

- 7 That the articles of association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification, be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association

By Order of the Board



Malcolm Wilson
Company Secretary

Schofield House
Gateway Drive
Yeadon
Leeds
LS19 7XY

8 December 2009

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 5.00 pm on 1 February 2010 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 1 February 2010 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 is included at the end of this document 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, Proxy Department, PO Box 25, Beckenham, Kent, BR3 4BR not later than 12.00 noon on 1 February 2010

Notice of Annual General Meeting (continued)

Notes (continued)

- 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 Proxy Department, PO Box 25, Beckenham, Kent, BR3 4BR.

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 Proxy Department, PO Box 25, Beckenham, Kent, BR3 4BR no later than 12 noon on 1 February 2010. 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
- c Proposed new articles of association

- 8 As at 8 December 2009 (being the last practicable business day prior to the publication of this notice) the Company's issued share capital consisted of 32,475,000 ordinary shares of 12 pence each, with one voting right per share. There are 3,225,658 shares held in treasury, representing 9.93% of the total issued share capital. Therefore the total voting rights in the Company as at 8 December 2009 are 29,249,342.

- 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.

Notice of Annual General Meeting (continued)

Notes (continued)

- 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. 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 2009. 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 greater than one third of the directors are required to retire. If in any year there is only one director subject to retirement, that director will retire. Any retiring director is eligible for re-election. At this annual general meeting, Mr Johan Claesson is the only director subject to retirement by rotation. Resolution number 2 proposes the re-election of Mr Claesson.

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 2,550,000 ordinary shares, being 7.85 per cent of the Company's ordinary share capital in issue as at 8 December 2009, 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 £1,169,000, 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 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 £194,000, 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 provision 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.

Explanation of resolutions (continued)

Resolution number 7

It is proposed in resolution 7 to adopt new articles of association (the **New Articles**) in order to update the Company's current articles of association (the **Current Articles**) primarily to take account of the implementation of the Companies Act 2006

The principal changes introduced in the New Articles to be adopted pursuant to resolution 7 are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some minor changes which merely reflect changes made by the Act or to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform have not been noted below. The New Articles showing all the changes to the Current Articles are available for inspection, as indicated in note 5 to the notice of annual general meeting.

(i) The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. Until 1 October 2009 the Company's memorandum contained, among other things, the objects clause, which set out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Act has significantly reduced the constitutional significance of a company's memorandum. The Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Act the objects clause and all other provisions which are contained in a company's memorandum, for existing companies as at 1 October 2009, were deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further, the Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have object clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Act, are now treated as forming part of the Company's articles of association. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of the shareholders.

(ii) Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Act are in the main amended to bring them into line with the Act. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

(iii) Authorised share capital and unissued shares

The Act abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Act, save in respect of employee share schemes.

(iv) Form of resolution

The Act dispenses with the concepts of "extraordinary general meetings" and "extraordinary resolutions" and accordingly the Amended Articles have removed reference to these. Matters that formerly required the passing of an extraordinary resolution will instead now require the passing of a special resolution.

(v) Age of directors on appointment

The Current Articles contain a provision requiring special notice to be provided for the appointment or re-appointment of a director if he has attained the age of 70 years or more. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

(vi) General

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

Explanation of resolutions (continued)

Resolution number 7 (continued)

(vii) Power to allot and issue shares (Article 5)

Notwithstanding that the Board seek shareholder approval for issues of shares up to an agreed limit at each AGM, it is proposed to include the general parameters for any authority to allot shares which may be granted by shareholders to the Board at an AGM in the articles. This is contained in article 5. The authority allows the Board to allot shares up to an agreed amount known as the "section 561" amount, in respect of a rights issue and in respect of any other issues up to an amount equal to the amount by which any pre-emption rights on allotment of shares are disapplied.

(viii) Redeemable shares (article 7)

At present if a company wishes to issue redeemable shares, it must include in its articles the terms and manner of redemption. The Act enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

(ix) Declining registration of transfer of shares (Article 16 6) and suspension of registration of share transfers

The Act requires the Board to provide reasons for any refusal by it to register a transfer of shares in the Company and Article 16 6 has been amended to require the Board to provide notice of such reasons within two months of any such refusal.

The Current Articles permit the directors to suspend the registration of transfers. Under the Act share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with the requirement. Accordingly, this power has been removed in the New Articles.

(x) Convening general meetings (Article 22 and 23)

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Act. In particular, a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 clear days' notice was required. 21 clear days' notice is still required for convening the AGM (which must be held within six months of the end of the Company's accounting reference date) and this is reflected in articles 22 and 23.

(xi) Quorum requirements (Article 24.2)

The Act makes it possible for a member to appoint more than one proxy or corporate representative. The Act provides that in general terms the quorum for a general meeting be calculated by reference to the numbers of 'qualifying persons' who are present at the meeting, which includes an individual who is a member of the Company, a person authorised under the Act to act as the representative of a corporation, and a person appointed as proxy of a member. It is proposed that the Current Articles be amended to make clear that there will be no double counting for qualifying persons who are representatives of the same corporation or proxies of the same member.

(xii) Proxies and corporations acting by representatives (Articles 24.2, 25, 27)

A proxy has a statutory right under the Act to speak at any general meeting. This right is not reflected in the Current Articles. The Act also confers on proxies the right to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the member. The Current Articles are not consistent with these provisions of the Act, accordingly, it is proposed that the Current Articles be amended to reflect the new rules.

Since the Act allows the appointment of multiple proxies and for proxies to vote on a show of hands, in order to guard against voting on a show of hands being distorted by one member appointing multiple proxies, it is proposed to amend the Current Articles by including a provision that the number of votes of the proxies appointed by a member shall not be more than that member would have had had he attended in person (Article 27 9).

The Act allows corporations to appoint multiple representatives and article 27 17 has been amended to permit this.

(xiii) Vacation of office by directors (article 33)

The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

Explanation of resolutions (continued)

Resolution number 7 (continued)

(xiv) Conflicts of interest (Article 37)

The Act sets out directors' general duties which largely codify the existing law but with some changes. Under the Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. It is therefore proposed that the New Articles allow the directors to authorise conflicts and potential conflicts, subject to certain safeguards.

There are two principal safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively.

(xv) Board Committees (Article 42.8)

The Board is entitled to delegate any of its powers to committees. The New Articles confirm the position in the Current Articles that allow the Board to co-opt non-directors onto such committees. However, any such co-opted members must be less than half of the total amount of the committee and no resolution of the committee will be effective unless a majority of the members present at the committee are directors.

(xvi) Use of seals (article 44)

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

Since 1 October 2009, a company no longer requires authority in its articles to have an official seal for use abroad and accordingly the relevant authority has been removed in the New Articles.

(xvii) Capitalisation of reserves (Article 48)

It is not permitted for a company to allot shares below their par value. Issues can arise where share option prices are varied following a capitalisation of reserves or reorganisation of share capital, reducing the exercise price to below par value for a share. The New Articles enable the Company to capitalise reserves available for distribution in paying up the difference in price between the option price and par value for a share to ensure that the Company does not fall foul of this legislative requirement.

(xviii) Electronic and web communications (Article 52)

Provisions of the Act which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

Explanation of resolutions (continued)

Resolution number 7 (continued)

(xix) Provision for employees on cessation of business (article 55)

The Act provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting. The New Articles provide that the directors may exercise this power.

(xx) Directors' indemnities and loans to fund expenditure (Articles 57 and 58)

The Act has, in some areas, widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.