

W. & J. KNOX FIBRES LIMITED

FINANCIAL STATEMENTS

for the fifty-two weeks ended
1st September, 1996



KIDSONS IMPEY

Chartered Accountants

HULL

W. & J. KNOX FIBRES LIMITEDDirectors

F. W. Wood (Chairman)
 J. Traynor (Managing)
 N. R. Carrick
 J. R. Hairstans
 M. D. Nutter
 J. Templeton

DIRECTORS' REPORT

The directors submit their annual report and the audited financial statements of the company for the fifty-two weeks ended 1st September, 1996 ("the year").

BUSINESS REVIEW

The principal activity of the company continues to be the processing of synthetic carpet yarns and fibres.

The company has experienced another difficult year in the European carpet market. However, the directors believe there are signs that the U.K. residential market is improving. Progress is also being made in the contract carpet sector and the directors expect the company's market share to increase.

The trading results for the year are shown in the profit and loss account on page 5.

The directors do not recommend the payment of a dividend for the year.

The company's future development will be in its current and similar products in which there appear to be opportunities.

DIRECTORS

The membership of the Board is shown above. With the exception of Mr. N. R. Carrick who was appointed to the Board on 11th September, 1995, all served on the Board for the whole of the financial year.

Messrs. N. R. Carrick and M. D. Nutter retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SHAREHOLDINGS

None of the directors has any beneficial interest in the share capital of the company. The interests of Messrs. F. W. Wood and N. R. Carrick in the share capital of Cosalt plc, the ultimate parent company, are disclosed by that company.

The interests of the other directors in the ordinary share capital of Cosalt plc are as follows:

| | <u>At 1st September, 1996</u> | <u>At 4th September, 1995</u> |
|-----------------|-------------------------------|-------------------------------|
| J. Traynor | 5,477 | 4,885 |
| J. R. Hairstans | 5,311 | 4,719 |
| M. D. Nutter | - | - |
| J. Templeton | 4,143 | 3,551 |

These holdings include shares issued under the Cosalt plc Employees' Profit Sharing Scheme.

W. & J. KNOX FIBRES LIMITEDDIRECTORS' REPORT(CONTINUED)

DIRECTORS' SHAREHOLDINGS (continued)

Mr. J. Traynor held options to purchase Cosalt plc ordinary shares under the Cosalt plc Executive Share Option Scheme as follows:

| <u>At 4th September, 1995 and 1st September, 1996</u> | <u>Exercise price</u> | <u>Dates from which exercisable</u> | <u>Expiry date</u> |
|---|---------------------------|---|------------------------|
| 10,000 | 193p | 28.11.91 | 27.11.98 |
| 6,250 | 238p | 18.12.92 | 17.12.99 |
| 8,000 | 134.67p | 17.12.93 | 16.12.00 |
| 8,000 | 140p | 16.12.94 | 15.12.01 |
| 8,000 | 164p | 17.12.95 | 16.12.02 |
| 8,000 | 111.70p | 22.12.96 | 21.12.03 |
| <u>10,000</u> | 140p | 15.12.97 | 14.12.04 |
| 58,250 | | | |

No options were granted during the year.

The market price of Cosalt plc ordinary shares at 1st September, 1996 was 187.50p and the range during the year was 142p to 193p.

No options lapsed during the year.

FIXED ASSETS

The movements in tangible fixed assets are set out in note 7 to the financial statements. In note 14 additional information is provided on assets used by the company which are subject to lease agreements.

AUDITORS

The auditors, Messrs. Kidsons Impey, Chartered Accountants, have intimated their willingness to continue in office.

By Order of the Board


A. B. Clark

Secretary

Fish Dock Road,
Grimsby.

18th November, 1996.

W. & J. KNOX FIBRES LIMITEDSTATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the year, and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- * prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention of fraud and other irregularities.

W. & J. KNOX FIBRES LIMITEDREPORT OF THE AUDITORS TO THE MEMBERS

We have audited the financial statements on pages 5 to 13 which have been prepared under the accounting policies set out on pages 7 and 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 1st September, 1996 and of its results for the fifty-two weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Kidsons Impey
Kidsons Impey

Hull: 18th November, 1996.

Registered Auditors
Chartered Accountants

W. & J. KNOX FIBRES LIMITEDPROFIT AND LOSS ACCOUNTFOR THE FIFTY-TWO WEEKS ENDED 1ST SEPTEMBER, 1996

| | | 52 weeks ended 1st September, 1996 | 53 weeks ended 3rd September, 1995 |
|--|-------------|--|--|
| | <u>Note</u> | £ | £ |
| TURNOVER | 2 | 3,408,400 | 3,428,444 |
| OPERATING PROFIT | 3 | 48,322 | 59,134 |
| INTEREST PAYABLE AND SIMILAR CHARGES | 4 | <u>203,776</u> | <u>209,593</u> |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | (155,454) | (150,459) |
| TAXATION CREDIT | 6 | <u>(49,145)</u> | <u>(64,954)</u> |
| TRANSFERRED FROM RESERVES | 13 | <u>(106,309)</u> | <u>(85,505)</u> |

All operations are classed as continuing.

The company has no recognised gains or losses other than the losses for the years disclosed above; accordingly, a statement of recognised gains and losses has not been included in these financial statements.

The historical cost profits and losses are not materially different from those reported above.

W. & J. KNOX FIBRES LIMITEDBALANCE SHEET - 1ST SEPTEMBER, 1996

| | | 1st September, | | 3rd September, | |
|---|-------------|------------------|------------------|------------------|------------------|
| | | 1996 | | 1995 | |
| | <u>Note</u> | £ | £ | £ | £ |
| FIXED ASSETS | | | | | |
| Tangible fixed assets | 7 | | 2,584,935 | | 2,625,801 |
| CURRENT ASSETS | | | | | |
| Stocks | 8 | 139,287 | | 245,709 | |
| Debtors | 9 | 949,662 | | 909,045 | |
| Cash at bank | | <u>-</u> | | <u>5,249</u> | |
| | | 1,088,949 | | 1,160,003 | |
| CREDITORS | | | | | |
| Amounts falling due within one year | 10 | <u>2,297,721</u> | | <u>1,964,528</u> | |
| NET CURRENT LIABILITIES | | | (1,208,772) | | (804,525) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 1,376,163 | | 1,821,276 |
| CREDITORS | | | | | |
| Amounts falling due after more than one year | 10 | | <u>1,103,079</u> | | <u>1,446,230</u> |
| | | | 273,084 | | 375,046 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 11 | 119,709 | | 95,310 | |
| DEFERRED INCOME | | | | | |
| Grants not yet credited to profit | | <u>191,920</u> | <u>311,629</u> | <u>211,972</u> | <u>307,282</u> |
| NET (LIABILITIES)/ASSETS | | | <u>(38,545)</u> | | <u>67,764</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 12 | | 150,000 | | 150,000 |
| Profit and loss account | 13 | | (188,545) | | (82,236) |
| EQUITY SHAREHOLDERS' FUNDS | | | | | |
| - (ADVERSE) | 13 | | (38,545) | | 67,764 |

Approved by the Board on 18th November, 1996.



N. R. Carrick - Director

W. & J. KNOX FIBRES LIMITEDNOTES ON FINANCIAL STATEMENTS - 1ST SEPTEMBER, 1996

1. ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are prepared in accordance with applicable accounting standards and under the historical cost convention, adjusted for the revaluation of leasehold property improvements.

The company has taken advantage of the exemption from preparing a cash flow statement conferred by Financial Reporting Standard No. 1 on the grounds it is a wholly owned subsidiary undertaking of a parent undertaking which publishes a consolidated cash flow statement.

(b) Depreciation

Tangible fixed assets are depreciated on a straight line basis at annual rates which vary depending on the type of asset but which are generally:

| | |
|---------------------------------|--------|
| Leasehold property improvements | 2% |
| Plant and machinery | 5-20% |
| Motor vehicles | 20-25% |

(c) Government grants

Capital grants received for plant are taken to deferred income and released to profit and loss account in instalments relating to the relevant asset lives.

Other grants are recognised in the profit and loss account in the same period as the related expenditure.

(d) Leased assets

Assets which are financed by leasing agreements transferring substantially all the risks and rewards of ownership (finance leases) are capitalised and depreciated over their useful lives. The liability to the leasing company is included in creditors. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to profit and loss account. All other payments under lease agreements are charged in full to profit and loss account.

(e) Stocks

Stocks are stated at the lower of cost, including an appropriate proportion of production overheads, and net realisable value.

(f) Deferred taxation

Provision is made on the liability method for deferred taxation, arising from the different treatment of certain items for taxation and accounting purposes, unless there is reasonable probability that such deferred taxation will not be payable in the foreseeable future.

(g) Pension costs

Contributions to the group's pension schemes are charged to profit and loss account so as to spread the cost of pensions over employees' service lives.

W. & J. KNOX FIBRES LIMITEDNOTES ON FINANCIAL STATEMENTS - 1ST SEPTEMBER, 1996(CONTINUED)

1. ACCOUNTING POLICIES (continued)

(h) Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at approximate rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. All exchange differences arising are included in the profit and loss account for the year.

2. TURNOVER

Turnover represents the goods and services, excluding value added tax, invoiced to customers. The principal activity of the company is the processing of synthetic carpet yarns and fibres and the geographical analysis of turnover is as follows:

| | <u>1996</u> | <u>1995</u> |
|----------------|------------------|------------------|
| | £ | £ |
| United Kingdom | 2,237,023 | 2,139,348 |
| Overseas | <u>1,171,377</u> | <u>1,289,096</u> |
| | 3,408,400 | 3,428,444 |

All turnover originated in the United Kingdom.

3. OPERATING PROFIT

Operating profit has been arrived at after charging/(crediting):

| | <u>1996</u> | <u>1995</u> |
|---|---------------|---------------|
| | £ | £ |
| Movement in stocks of finished goods and work in progress | 103,103 | (25,611) |
| Other operating income - rents received | (91,077) | (66,333) |
| Government grants | (20,052) | (20,460) |
| Raw materials and consumables | 435,224 | 380,889 |
| Other external charges | 1,007,328 | 1,044,779 |
| Auditors' remuneration | 2,650 | 2,600 |
| Operating lease charges - plant | 33,362 | 35,121 |
| Plant hire | 10,960 | 15,763 |
| Staff costs (note 5) | 1,524,105 | 1,661,738 |
| Depreciation on owned assets | 76,797 | 83,997 |
| Depreciation on assets held under finance leases | 203,278 | 197,427 |
| Other operating charges | <u>74,400</u> | <u>59,400</u> |
| | 3,360,078 | 3,369,310 |

4. INTEREST PAYABLE AND SIMILAR CHARGES

| | <u>1996</u> | <u>1995</u> |
|---|---------------|---------------|
| | £ | £ |
| On bank borrowings | 17,016 | 19,798 |
| On finance leases | 112,360 | 130,395 |
| Capital charge by ultimate parent company | <u>74,400</u> | <u>59,400</u> |
| | 203,776 | 209,593 |

W. & J. KNOX FIBRES LIMITED

NOTES ON FINANCIAL STATEMENTS - 1ST SEPTEMBER, 1996

(CONTINUED)

| 5. DIRECTORS AND EMPLOYEES | 1996 | 1995 |
|---|--------------------------|--------------------------|
| | £ | £ |
| Staff costs: | | |
| Wages and salaries | 1,366,099 | 1,499,452 |
| Social security costs | 110,781 | 112,315 |
| Other pension costs | 32,364 | 35,742 |
| Employees' profit sharing scheme | <u>14,861</u> | <u>14,229</u> |
| | 1,524,105 | 1,661,738 |
| | <u><u> </u></u> | <u><u> </u></u> |
| Emoluments of the directors of the company were: | | |
| Remuneration for management | 123,044 | 137,077 |
| | <u><u> </u></u> | <u><u> </u></u> |
| Emoluments of the directors (excluding pension contributions) were: | | |
| Chairman | Nil | Nil |
| | <u><u> </u></u> | <u><u> </u></u> |
| Highest paid director | 39,989 | 43,027 |
| | <u><u> </u></u> | <u><u> </u></u> |
| Other directors | <u>Number</u> | <u>Number</u> |
| £0 - £5,000 | 1 | - |
| £15,001 - £20,000 | 1 | - |
| £20,001 - £25,000 | 1 | - |
| £25,001 - £30,000 | - | 1 |
| £30,001 - £35,000 | 1 | 2 |
| The average number of employees of the company during the year was: | | |
| Management and administration | 9 | 8 |
| Production and sales staff | <u>120</u> | <u>136</u> |
| | 129 | 144 |
| | <u><u> </u></u> | <u><u> </u></u> |
| 6. TAXATION | 1996 | 1995 |
| | £ | £ |
| The taxation credit based on the loss on ordinary activities is: | | |
| Group taxation relief recoverable @ 33% | (73,000) | - |
| U.K. corporation tax payable @ 33% | - | 31,000 |
| Transfer to/(from) deferred taxation | <u>24,399</u> | <u>(74,715)</u> |
| | (48,601) | (43,715) |
| Prior year adjustments: | | |
| Corporation tax | (544) | (783) |
| Deferred taxation | <u>-</u> | <u>(20,456)</u> |
| | (544) | (21,239) |
| | <u><u>(49,145)</u></u> | <u><u>(64,954)</u></u> |

W. & J. KNOX FIBRES LIMITED

NOTES ON FINANCIAL STATEMENTS - 1ST SEPTEMBER, 1996

(CONTINUED)

7. TANGIBLE FIXED ASSETS

| | Leasehold property improvements | Plant, vehicles and equipment | Total |
|------------------------------------|---------------------------------------|--|-----------|
| | £ | £ | £ |
| COST AND VALUATION | | | |
| At 4th September, 1995 | 30,655 | 4,592,418 | 4,623,073 |
| Additions | - | 239,209 | 239,209 |
| At 1st September, 1996 | 30,655 | 4,831,627 | 4,862,282 |
| Being: | | | |
| Cost | - | 4,831,627 | 4,831,627 |
| Valuation - 1988 | 30,655 | - | 30,655 |
| | 30,655 | 4,831,627 | 4,862,282 |
| DEPRECIATION | | | |
| At 4th September, 1995 | 4,547 | 1,992,725 | 1,997,272 |
| Charged to profit and loss account | 648 | 279,427 | 280,075 |
| At 1st September, 1996 | 5,195 | 2,272,152 | 2,277,347 |
| NET BOOK VALUES | | | |
| At 1st September, 1996 | 25,460 | 2,559,475 | 2,584,935 |
| At 3rd September, 1995 | 26,108 | 2,599,693 | 2,625,801 |

Assets costing £558,000 (1995 £406,000) have been fully depreciated and are still in use.

The following tangible fixed assets held under finance leases are included in plant, vehicles and equipment:

| | 1996 | 1995 |
|----------------|-----------|-----------|
| | £ | £ |
| Cost | 3,769,603 | 3,690,473 |
| Depreciation | 1,653,153 | 1,449,875 |
| Net book value | 2,116,450 | 2,240,598 |

Property valuation was at open market value on an existing use basis.

If leasehold property improvements had not been revalued in 1988 they would have been included at the following amounts:

| | 1996 | 1995 |
|---|--------|--------|
| | £ | £ |
| Cost | 32,406 | 32,406 |
| Accumulated depreciation | 6,935 | 6,287 |
| Net book value | 25,471 | 26,119 |
| The depreciable amount of leasehold property improvements is: | 30,655 | 30,655 |

W. & J. KNOX FIBRES LIMITED

NOTES ON FINANCIAL STATEMENTS - 1ST SEPTEMBER, 1996

(CONTINUED)

| 8. STOCKS | <u>1996</u> £ | <u>1995</u> £ |
|--|-------------------|-------------------|
| Raw materials | 16,905 | 20,224 |
| Work in progress | 18,525 | 54,368 |
| Finished goods | <u>103,857</u> | <u>171,117</u> |
| | 139,287 | 245,709 |
| | <u> </u> | <u> </u> |
| 9. DEBTORS | <u>1996</u> £ | <u>1995</u> £ |
| Amounts falling due within one year: | | |
| Trade debtors | 554,786 | 354,925 |
| Amount due from ultimate parent company | 184,450 | 449,900 |
| Group taxation relief recoverable | 115,487 | - |
| Prepayments and accrued income | <u>94,939</u> | <u>104,220</u> |
| | 949,662 | 909,045 |
| | <u> </u> | <u> </u> |
| 10. CREDITORS | <u>1996</u> £ | <u>1995</u> £ |
| Amounts falling due within one year: | | |
| Bank overdraft | 1,233,296 | 1,004,628 |
| Bank loan | <u>61,250</u> | <u>61,250</u> |
| | 1,294,546 | 1,065,878 |
| Trade creditors | 168,390 | 120,533 |
| Amounts owed to fellow subsidiary undertakings | 169,800 | 57,101 |
| Corporation tax | - | 144,099 |
| Other taxation | 41,716 | 75,028 |
| Social security | 15,841 | 13,289 |
| Other creditors | 1,680 | 5,422 |
| Accruals and deferred income | 246,850 | 152,884 |
| Obligations under finance leases (note 14) | <u>358,898</u> | <u>330,294</u> |
| | 2,297,721 | 1,964,528 |
| | <u> </u> | <u> </u> |
| Amounts falling due after more than one year: | | |
| Bank loan | 61,250 | 122,500 |
| Obligations under finance leases (note 14) | <u>1,041,829</u> | <u>1,323,730</u> |
| | 1,103,079 | 1,446,230 |
| | <u> </u> | <u> </u> |
| Analysis of bank borrowings: | | |
| Bank overdraft | 1,233,296 | 1,004,628 |
| Loan repayable within five years: | | |
| Unsecured loan 1996/98 at 11% | <u>122,500</u> | <u>183,750</u> |
| Total bank borrowings | <u>1,355,796</u> | <u>1,188,378</u> |
| | <u> </u> | <u> </u> |

W. & J. KNOX FIBRES LIMITED

NOTES ON FINANCIAL STATEMENTS - 1ST SEPTEMBER, 1996

(CONTINUED)

| | | |
|---|------------------|------------------|
| 10. CREDITORS (continued) | <u>1996</u> £ | <u>1995</u> £ |
| Repayment of bank borrowings: | | |
| Between two and five years | 61,250 | 122,500 |
| Within one year or on demand | <u>1,294,546</u> | <u>1,065,878</u> |
| | <u>1,355,796</u> | <u>1,188,378</u> |
| 11. PROVISIONS FOR LIABILITIES AND CHARGES | <u>1996</u> £ | <u>1995</u> £ |
| The provision included in the balance sheet relates to deferred taxation and comprises: | | |
| Accelerated tax allowances | 49,765 | 39,570 |
| Other timing differences | <u>69,944</u> | <u>55,740</u> |
| | <u>119,709</u> | <u>95,310</u> |
| 12. CALLED UP SHARE CAPITAL | <u>1996</u> £ | <u>1995</u> £ |
| Authorised: 250,000 ordinary shares of £1 each | 250,000 | 250,000 |
| Issued and fully paid: | | |
| 150,000 ordinary shares of £1 each | <u>150,000</u> | <u>150,000</u> |
| 13. RESERVES | | |
| (a) Reconciliation of movements in equity shareholders' funds | <u>1996</u> £ | <u>1995</u> £ |
| Loss for the financial year and net reduction in equity shareholders' funds | (106,309) | (85,505) |
| Opening equity shareholders' funds | <u>67,764</u> | <u>153,269</u> |
| Closing equity shareholders' funds - (adverse) | <u>(38,545)</u> | <u>67,764</u> |
| (b) Profit and loss account | £ | |
| Balance at 4th September, 1995 - adverse | (82,236) | |
| Loss for the year | <u>(106,309)</u> | |
| Balance at 1st September, 1996 - adverse | <u>(188,545)</u> | |

W. & J. KNOX FIBRES LIMITEDNOTES ON FINANCIAL STATEMENTS - 1ST SEPTEMBER, 1996(CONTINUED)

14. LEASING OBLIGATIONS

Future commitments due under finance leases are:

| | <u>1996</u> | <u>1995</u> |
|--|-----------------------------|-----------------------------|
| | £ | £ |
| Within one year | 445,074 | 441,236 |
| Between two and five years | 955,627 | 1,343,877 |
| In five years or more | <u>221,003</u> | <u>181,934</u> |
| | 1,621,704 | 1,967,047 |
| Less: future finance charges | <u>220,977</u> | <u>313,023</u> |
| | 1,400,727 | 1,654,024 |
| Shown in creditors (note 10) as: | <u> </u> | <u> </u> |
| Amounts falling due within one year | 358,898 | 330,294 |
| Amounts falling due after more than one year | <u>1,041,829</u> | <u>1,323,730</u> |
| | 1,400,727 | 1,654,024 |
| | <u> </u> | <u> </u> |

15. PENSION COMMITMENTS

The company is part of the Cosalt plc group which operates several pension schemes, the major one being of the defined benefit type, and the assets of these schemes are held in separate trustee administered funds.

Contributions by the company which amounted to £32,364 (1995 £35,742) are based on pension costs across the group as a whole and are assessed in accordance with advice of a qualified actuary. Particulars of actuarial valuations of the group schemes are disclosed in the financial statements of Cosalt plc. The latest actuarial assessment of the major scheme was made at 1st January, 1994.

16. ULTIMATE PARENT COMPANY

The ultimate parent company is Cosalt plc, which is incorporated in England.