

MEDIHEALTH PLC

Annual report and financial statements

Year ended 31 March 1998



Registered number : 3089989

MEDIHEALTH PLC

Annual report and financial statements for the year ended 31 March 1998

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Directors

W W Gerard (Chairman)
M Retter
K E Deakin
S C Bridgens
M S Davies
G Vero

Secretary

M. Retter

Registered office

Medihealth House
10 Bourne Court
Woodford Avenue
Woodford Green
Essex IG8 8HD

Registered number

3089989

Auditors

BDO Stoy Hayward
Peter House
St. Peter's Square
Manchester M1 5BH

MEDIHEALTH PLC

Report of the directors for the year ended 31 March 1998

The directors submit their report together with the audited financial statements for the year ended 31 March 1998.

Results and dividends

The results of the group are set out on page 4.

The directors do not recommend payment of a dividend. A preference dividend has been appropriated through the profit and loss account in accordance with Financial Reporting Standard 4.

Principal activities, trading review and future developments

The principal activity of the company is that of a holding company.

The principal activity of the group is that of general pharmaceutical distributors of branded and generic pharmaceutical products nationally, primarily to the retail pharmacy sector.

The results for the year were in line with expectations, with the benefits arising from the group infrastructure put in place during the previous year becoming evident.

The directors remain committed, at the expense of short term profitability, to develop the business and its employees to ensure that it is in a position to take advantage of anticipated market growth and any acquisition opportunities that may arise.

Directors

The directors of the company during the year and their interests in the share capital of the parent undertaking were:

	Ordinary shares of 50p each	
	31 March 1998	31 March 1997
	Number	Number
W W Gerard	-	-
M Retter	110,000	110,000
K E Deakin	24,554	24,554
T W Lawrence (resigned 21 November 1997)	-	-
S C Bridgens	-	-
M S Davies	-	-
G Vero (appointed 21 November 1997)	-	-
	<u> </u>	<u> </u>

Supplier payment policy

The company's policy is normally to pay suppliers in accordance with agreed terms of business.

These terms are agreed with suppliers upon entering into binding contracts and the company's policy is to adhere to the payment terms, provided that the relevant goods or services have been supplied in accordance with the contracts.

At 31 March 1998 the company had 41 days of purchases outstanding.

Year 2000

During the year the directors made significant progress in understanding the scale and multi-faceted nature of the Year 2000 issue in relation to the group's business activities. The results from the initial testing show a high degree of Year 2000 date integrity in the system and data.

Whilst the directors are confident that Year 2000 compliance for all business critical processes can be achieved, they recognise that there may not be sufficient time to test all non-critical systems.

MEDIHEALTH PLC

Report of the directors for the year ended 31 March 1998 (Continued)

Year 2000 (continued)

There is no panacea to the Year 2000 date change problem. There can be no assurance that the steps taken by any company will successfully minimise vulnerabilities of its software and systems, or those of its suppliers, to the problems associated with the transition to the Year 2000. The solution requires a concentrated, analytical approach backed by considerable resources to methodically search out, convert and test for compliance. The directors are communicating with major trading counterparties to ensure they are also addressing the issue. The cost of this programme is not significant in relation to the group's cost of operations.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company 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 presume 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 and detection of fraud and other irregularities.

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



M Retter
Secretary

17 December 1998

MEDIHEALTH PLC

Report of the auditors

To the shareholders of Medihealth Plc

We have audited the financial statements on pages 4 to 20 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 2 the group's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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 an 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 misstatements, 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 group's and company's affairs as at 31 March 1998 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD

Chartered Accountants
and Registered Auditors
Manchester

17 December 1998

MEDIHEALTH PLC

Consolidated profit and loss account for the year ended 31 March 1998

	Note	Before Exceptional item 1998 £	Exceptional item 1998 £	Total 1998 £	Before Exceptional item 1997 £	Exceptional item 1997 £	Total 1997 £
Turnover	2	55,554,519	-	55,554,519	34,338,785	-	34,338,785
Cost of sales		47,278,592	-	47,278,592	29,606,566	-	29,606,566
Gross profit		<u>8,275,927</u>	<u>-</u>	<u>8,275,927</u>	<u>4,732,219</u>	<u>-</u>	<u>4,732,219</u>
Distribution costs		1,594,184	-	1,594,184	1,433,180	-	1,433,180
Administrative expenses							
- non exceptional		4,134,591		4,134,591	3,377,793	-	3,377,793
- amortisation of goodwill arising on consolidation		-	349,695	349,695	-	349,695	349,695
Operating profit/(loss)	3	<u>2,547,152</u>	<u>(349,695)</u>	<u>2,197,457</u>	<u>(78,754)</u>	<u>(349,695)</u>	<u>(428,449)</u>
Interest receivable			197,506			327,728	
Interest payable	6		1,141,620			802,802	
				(944,114)			(475,074)
Profit/(loss) on ordinary activities before taxation				<u>1,253,343</u>			<u>(903,523)</u>
Tax on profit/(loss) on ordinary activities	7			499,506			(195,007)
Profit/(loss) on ordinary activities after taxation				<u>753,837</u>			<u>(708,516)</u>
Minority interests				104,186			37,935
Profit/(loss) for the financial year	17			<u>649,651</u>			<u>(670,581)</u>
Dividends	8			332,820			420,260
Profit/(loss) for the year transferred to reserves				<u>316,831</u>			<u>(1,090,841)</u>

All amounts relate to continuing activities.

All recognised gains and losses are shown in the profit and loss account.

The notes on pages 8 to 20 form part of these financial statements.

MEDIHEALTH PLC

Consolidated balance sheet at 31 March 1998

	Note	1998	1997
		£	£
Fixed assets			
Intangible assets	9	3,268,924	3,197,663
Tangible assets	10	433,128	285,197
		<u>3,702,052</u>	<u>3,482,860</u>
Current assets			
Stocks	12	8,182,521	5,429,599
Debtors- due within one year	13	11,194,191	8,487,050
Cash at bank and in hand		2,076,666	4,992,881
		<u>21,453,378</u>	<u>18,909,530</u>
Creditors: amounts falling due within one year	14	19,153,822	17,013,236
Net current assets		<u>2,299,556</u>	<u>1,896,294</u>
Total assets less current liabilities		<u>6,001,608</u>	<u>5,379,154</u>
Provisions for liabilities and charges			
Deferred tax	15	14,757	17,448
		<u>5,986,851</u>	<u>5,361,706</u>
Capital and reserves			
Called up share capital			
- equity	16	235,715	235,715
- non-equity	16	5,836,939	5,836,939
Share premium account	17	39,375	39,375
Profit and loss account	17	(1,119,580)	(1,436,411)
Profit and loss account	17	811,062	518,129
Shareholders' funds	18	<u>5,803,511</u>	<u>5,193,747</u>
Minority interests		<u>183,340</u>	<u>167,959</u>
		<u>5,986,851</u>	<u>5,361,706</u>

These financial statements were approved by the Board on 17 December 1998.

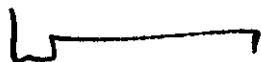
The notes on pages 8 to 20 form part of these financial statements

MEDIHEALTH PLC

Balance sheet at 31 March 1998

	Note	£	1998 £	£	1997 £
Fixed assets					
Tangible assets	10		277,785		105,271
Investments	11		5,785,745		5,785,745
			<u>6,063,530</u>		<u>5,891,016</u>
Current assets					
Debtors 13	5,244,904		1,648,545		
Cash at bank and in hand		2,075,307		4,990,944	
		<u>7,320,211</u>		<u>6,639,489</u>	
Creditors: amounts falling due within one year	14	4,756,087		6,402,275	
Net current assets			<u>2,564,124</u>		<u>237,214</u>
Total assets less current liabilities			<u>8,627,654</u>		<u>6,128,230</u>
Provisions for liabilities and charges					
Deferred tax	15		13,676		17,448
			<u>8,613,978</u>		<u>6,110,782</u>
Capital and reserves					
Called up share capital - equity	16		235,715		235,715
- non-equity	16		5,836,939		5,836,939
Share premium account - equity	17		39,375		39,375
Profit and loss account - equity	17		1,563,560		(519,376)
Profit and loss account - non-equity	17		938,389		518,129
Shareholders' funds	18		<u>8,613,978</u>		<u>6,110,782</u>

These financial statements were approved by the Board on 17 December 1998.



S C Bridgens
Director



M Retter
Director

The notes on pages 8 to 20 form part of these financial statements

MEDIHEALTH PLC

Consolidated cash flow statement for the year ended 31 March 1998

	Note	1998 £	1997 £
Net cash (outflow)/inflow from operating activities	21	369,244	(2,095,014)
Returns on investments and servicing of finance	22	(944,114)	(475,074)
Corporation tax paid		(244,564)	(19,616)
Capital expenditure	22	(463,211)	(70,394)
Acquisitions and disposals	22	(341,499)	-
		(1,624,144)	(2,660,098)
Financing	22	(2,148,282)	903,772
(Decrease)/increase in cash		(3,772,426)	(1,756,326)

Reconciliation of net cash flow to movement in net debt (see note 22ii)

	1998 £	1997 £
Decrease in cash in the period	(3,772,426)	(1,756,326)
Capital element of lease rentals	5,282	46,228
Repayment of loan	2,143,000	-
	(1,624,144)	(1,710,098)
New loan	-	(950,000)
Change in net debt	(1,624,144)	(2,660,098)
Net debt at 1 April 1997	(6,404,371)	(3,744,273)
Net debt at 31 March 1998	(8,028,515)	(6,404,371)

The notes on pages 8 to 20 form part of these financial statements

MEDIHEALTH PLC

Notes forming part of the financial statements for the year ended 31 March 1998

1 Accounting policies

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards. The company has taken advantage of the exemption from presenting its own profit and loss account. The principal accounting policies, are:

Basis of consolidation

The consolidated accounts incorporate the financial statements of Medihealth plc and all of its subsidiary and associated undertakings made up to 31 March 1998. The group uses the acquisition method of accounting to consolidate the results of subsidiary undertakings from the date of acquisition.

Goodwill

Goodwill arising on an acquisition of a subsidiary is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Goodwill arising on consolidation is amortised through the profit and loss account on a straight line basis over its estimated useful life not exceeding ten years.

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax.

Amortisation

The capitalised cost of new patents and licenses is amortised over their useful life of five years from granting the license.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful lives. It is calculated using the following rates:

Leasehold improvements	-	Equally over length of lease
Fixtures, fittings and equipment	-	15% per annum reducing balance
Plant and machinery	-	25% per annum reducing balance
Motor vehicles	-	25% and 50% per annum on cost
Computer equipment	-	25% per annum on cost

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for a permanent diminution in value. Investments held as current assets are stated at the lower of cost and net realisable value.

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

MEDIHEALTH PLC

Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

1 Accounting policies (Continued)

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise.

Leases and hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balances of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Hire purchase contracts are treated identically to finance leases.

Pension costs

Contributions to the group's defined contribution pension scheme are charged to the profit and loss account in the period in which they become payable.

2 Turnover

All of the group's turnover relates to its principal activity, predominantly in the United Kingdom.

3 Operating profit/(loss)

	1998 £	1997 £
This is arrived at after charging:		
Depreciation of tangible fixed assets	116,186	86,242
Amortisation of intangible fixed assets	390,653	365,893
Auditors' remuneration	33,000	27,750
- audit services		
- non-audit services	60,000	10,000
	<u> </u>	<u> </u>

Depreciation includes £nil (1997 - £3,113) charged on assets held under finance leases and hire purchase contracts.

4 Employees

The average monthly number of employees of the group during the year, including executive directors, was as follows:

	1998 Number	1997 Number
Administration	39	32
Selling and distribution	115	108
	<u> </u>	<u> </u>
	154	140
	<u> </u>	<u> </u>

MEDIHEALTH PLC

Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

4 Employees (continued)

Staff costs for all employees, including executive directors, consist of:

	£	£
Wages and salaries	3,186,046	2,437,375
Social security costs	296,539	246,822
Other pension costs	63,500	44,685
	<u>3,546,085</u>	<u>2,728,882</u>

5 Directors

Directors' emoluments consist of:

	1998 £	1997 £
Emoluments for services	354,385	238,903
Contributions to defined contribution pension schemes	1,787	22,900
	<u>356,172</u>	<u>261,803</u>

Emoluments of the highest paid director are as follows:

Emoluments (excluding pension contributions)	106,444	93,965
Contributions to defined contribution pension schemes	-	13,001
	<u>106,444</u>	<u>106,966</u>

Directors who are in defined contribution and defined benefit pension schemes are as follows:

	1998 Number	1997 Number
Defined contribution pension schemes	3	3

6 Interest payable

	1998 £	1997 £
Bank loans and overdrafts	1,140,579	397,458
Hire purchase interest	(1,035)	2,909
Other interest	2,076	402,435
	<u>1,141,620</u>	<u>802,802</u>

MEDIHEALTH PLC

Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

7 Taxation on profit/(loss) on ordinary activities

	1998 £	1997 £
UK corporation tax	503,318	(177,788)
In respect of prior years	-	(34,667)
Deferred taxation	(3,812)	17,448
	<u>499,506</u>	<u>(195,007)</u>

8 Dividends

	1998 £	1997 £
Ordinary shares of subsidiary undertaking – equity	39,887	-
9% Redeemable Convertible Preference shares of company – non-equity	292,933	420,260
	<u>332,820</u>	<u>420,260</u>

In accordance with Financial Reporting Standard 4, the company has appropriated through the profit and loss account Preference share dividends for the year on the company's 9% Redeemable Cumulative Preference Shares. However, as the company is not due to declare these dividends, these dividends have been credited back to the profit and loss account (note 17).

9 Intangible assets

Group	Patents and licenses £	Goodwill on consolidation £	Total £
<i>Cost</i>			
At 1 April 1997	238,720	3,496,954	3,735,674
Additions during year	219,030	252,694	471,724
Deletions during year	(26,310)	-	(26,310)
Prior year adjustments	3,190	-	3,190
At 31 March 1998	<u>434,630</u>	<u>3,749,648</u>	<u>4,184,278</u>
<i>Amortisation</i>			
At 1 April 1997	106,880	431,131	538,011
Provision for year	40,958	349,695	390,653
Deletions during year	(15,308)	-	(15,308)
Prior year adjustments	1,998	-	1,998
At 31 March 1998	<u>134,528</u>	<u>780,826</u>	<u>915,354</u>
<i>Net book value</i>			
At 31 March 1998	<u>300,102</u>	<u>2,968,822</u>	<u>3,268,924</u>
At 31 March 1997	<u>131,840</u>	<u>3,065,823</u>	<u>3,197,663</u>

MEDIHEALTH PLC

Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

10 Tangible assets

Group	Leasehold improvements £	Plant and machinery £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
<i>Cost</i>					
At 1 April 1997	65,096	94,285	340,798	127,253	627,432
Additions	1,701	20,179	258,696	-	280,576
Disposals	-	-	(2,855)	(31,505)	(34,360)
At 31 March 1998	66,797	114,464	596,639	95,748	873,648
<i>Depreciation</i>					
At 1 April 1997	47,452	41,268	178,113	75,402	342,235
Provision for year	7,967	14,635	83,457	10,127	116,186
Disposals	-	-	(663)	(17,238)	(17,901)
At 31 March 1998	55,419	55,903	260,907	68,291	440,520
<i>Net book value</i>					
At 31 March 1998	11,378	58,561	335,732	27,457	433,128
At 31 March 1997	17,644	53,017	162,685	51,851	285,197
<i>Company</i>					
	Plant and machinery £	Computers £	Leasehold improvements £	Fixtures and fittings £	Total £
<i>Cost</i>					
At 1 April 1997	-	68,574	26,903	27,340	122,817
Additions	6,255	234,597	-	4,126	244,978
At 31 March 1998	6,255	303,171	26,903	31,466	367,795
<i>Depreciation</i>					
At 1 April 1997	-	5,360	8,717	3,469	17,546
Provision for year	857	59,067	8,878	3,662	72,464
At 31 March 1997	857	64,427	17,595	7,131	90,010
<i>Net book value</i>					
At 31 March 1998	5,398	238,744	9,308	24,335	277,785
At 31 March 1997	-	63,214	18,186	23,871	105,271

The net book value of tangible fixed assets for the group and the company includes an amount of £nil (1997 - £8,559) in respect of assets held under finance leases and hire purchase contracts.

MEDIHEALTH PLCNotes forming part of the financial statements for the year ended 31 March 1998 *(Continued)***11 Fixed asset investments**

Company	Group undertakings £
<i>Cost</i>	
At beginning and end of year	5,785,745

The following were subsidiary and associated undertakings at the end of the year and have all, except Pharmaceutical Identity Limited, been included in the consolidated accounts.

Name	Proportion of voting rights and share capital held	Nature of business
Falconline Limited	100%	Holding company
Medihealth International Limited	100% *	Holding company
Swingward Limited	100% *	General pharmaceutical distributors
Hollinhurst Limited	70% *	General pharmaceutical distributors
North East Generics Limited	100% *	General pharmaceutical distributors
Format Pharmaceuticals Limited	100% *	Dormant
Expo Pharm Limited	100% *	Dormant
Pharmaceutical Identity Limited	50% *	Pharmaceutical Industry

* Shares held by subsidiary undertaking.

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration.

MEDIHEALTH PLC

Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

12 Stocks

	Group 1998 £	Company 1998 £	Group 1997 £	Company 1997 £
Finished goods and goods held for resale	8,182,521	-	5,429,599	-

The replacement cost of stock is not materially different to that disclosed above.

13 Debtors

	Group 1998 £	Company 1998 £	Group 1997 £	Company 1997 £
Due within one year				
Trade debtors	10,891,983	-	8,120,737	-
Other debtors	163,696	50,197	109,123	59,816
Amounts owing from subsidiary undertakings	-	2,665,668	-	1,563,562
Corporation tax recoverable	-	-	47,501	-
Prepayments and accrued income	136,264	55,595	207,441	25,167
ACT recoverable	2,248	-	2,248	-
Dividend receivable	-	2,473,444	-	-
	<u>11,194,191</u>	<u>5,244,904</u>	<u>8,487,050</u>	<u>1,648,545</u>

14 Creditors: amounts falling due within one year

	Group 1998 £	Company 1998 £	Group 1997 £	Company 1997 £
Bank overdrafts (secured)	368,433	-	517,799	-
Commercial finance	6,029,748	-	5,024,171	-
Trade creditors	6,343,460	110,872	4,168,668	110,721
Other creditors	3,769,182	3,707,000	5,969,577	5,950,000
Amounts owed to subsidiary undertakings	-	80,266	-	100
Taxation and Social Security	1,228,281	6,638	702,592	132,026
Corporation tax	438,169	31,179	238,752	47,237
Obligations under finance leases and hire purchase contracts	-	-	5,282	-
Accruals and deferred income	976,549	820,132	386,395	162,191
	<u>19,153,822</u>	<u>4,756,087</u>	<u>17,013,236</u>	<u>6,402,275</u>

The bank overdrafts are secured by a floating charge over the assets of the group. The commercial finance liability represents advances under invoice discounting agreements and is secured on the book debts of the group.

Included in other creditors is £2,107,000 (1997 - £4,900,000) of unsecured loan stock. Also included in other creditors is an unsecured loan from a director, M Retter of £50,000 (1997 - £50,000), a secured loan of £1,500,000 (1997 - £950,000) from Barings (Guernsey) Limited as trustee for The Third Causeway Development Capital Fund and The Fourth Causeway Development Capital Fund and an unsecured loan from The Fourth Causeway Development Capital Fund of £50,000 (1997 - £50,000).

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Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

15 Deferred taxation

The amount of unprovided deferred taxation and the amount provided are as follows:

Group	1998		1997	
	Unprovided £	Provided in accounts £	Unprovided £	Provided in accounts £
Capital allowances	(20,055)	14,757	29,268	3,149
Sundry timing differences	(53,450)	-	56,851	14,299
	<u>(73,505)</u>	<u>14,757</u>	<u>86,119</u>	<u>17,448</u>
Company	£	£	£	£
Capital allowances	-	13,676	-	3,149
Sundry timing differences	-	-	-	14,299
	<u>-</u>	<u>13,676</u>	<u>-</u>	<u>17,448</u>

16 Share capital

Group and company

Authorised

Non-equity

7,196,939 9% Redeemable Cumulative
Preference Shares of £1 each

1998
£

1997
£

7,196,939

7,196,939

Equity

327,054 Convertible Preference Shares of 50p each
175,000 Ordinary Shares of 50p each

163,527
87,500

163,527
87,500

251,027

251,027

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Notes forming part of the financial statements for the year ended 31 March 1998 (*Continued*)

16 Share capital (*continued*)

Group and company

Allotted, called up and fully paid

	1998 £	1997 £
Non-equity		
5,836,939 9% Redeemable Cumulative Preference Shares of £1 each	5,836,939	5,836,939
Equity		
327,054 Convertible Preference Shares of 50p each	163,527	163,527
144,375 Ordinary Shares of 50p each	72,188	72,188
	<u>235,715</u>	<u>235,715</u>

Rights attaching to shares

The convertible preference shares are convertible, subject to certain conditions contained in the company's articles of association, into either redeemable preference shares or ordinary shares.

The convertible preference shares rank *pari passu* with the ordinary shares.

On a return of capital on liquidation or otherwise, the assets available for distribution amongst its shareholders shall be applied, in priority to any payment to the holders of the ordinary shares, in paying to the convertible preference shareholders the nominal amount plus any premium paid on subscription of the convertible preference shares.

The holders of the redeemable preference shares are entitled to receive a fixed cumulative preference dividend at the rate of 9 per cent per annum (inclusive of the imputed tax credit) payable in accordance with the articles of association with the first payment date due on 1 January 1999.

On a return of capital on liquidation or otherwise, the assets available for distribution amongst its shareholders shall be applied, in priority to any payment to the holders of any other class of shares, in paying to the redeemable preference shareholders the subscription monies and any unpaid preference dividend.

The redeemable preference shareholders are not entitled to vote at a general meeting unless certain conditions concerning redemption and the payment of preference dividends have not been met as specified in the articles of association.

The redeemable preference shares are redeemable at par on three dates, the earliest being 31 December 1998 and the latest being 31 December 2000. The redemption is compulsory on those dates unless the company has voluntarily redeemed them earlier.

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Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

17 Reserves

	31 March 1998		
	Equity share premium account £	Equity profit and loss account £	Non-equity profit and loss account £
Group			
At 1 April 1997	39,375	(1,436,411)	518,129
Profit/(loss) for the year	-	649,651	-
Ordinary dividend (of subsidiary undertaking)	-	(39,887)	-
Preference shares dividend appropriation	-	(292,933)	292,933
At 31 March 1998	<u>39,375</u>	<u>(1,119,580)</u>	<u>811,062</u>
Company			
At 1 April 1997	39,375	(519,376)	518,129
Profit for the year	-	2,503,196	-
Preference shares dividend appropriation	-	(292,933)	292,933
At 31 March 1998	<u>39,375</u>	<u>1,690,887</u>	<u>811,062</u>
	31 March 1997		
	Equity share premium account £	Equity profit and loss account £	Non-equity profit and loss account £
Group			
Issue of shares	-	(345,570)	97,869
Issue costs	39,375	-	-
Loss for the period	-	(670,581)	-
Preference shares dividend appropriation	-	(420,260)	420,260
At 31 March 1997	<u>39,375</u>	<u>(1,436,411)</u>	<u>518,129</u>
Company			
Issue of shares	-	(119,439)	97,869
Issue costs	39,375	-	-
Loss for the period	-	20,323	-
Preference shares dividend appropriation	-	(420,260)	420,260
At 31 March 1997	<u>39,375</u>	<u>(519,376)</u>	<u>518,129</u>

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Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

18 Reconciliation of movements in shareholders funds

	Group 1998 £	Company 1998 £	Group 1997 £	Company 1997 £
At beginning of year	5,193,747	6,110,782	5,824,953	6,051,084
Profit/(loss) for the financial year	699,651	79,752	(670,581)	20,323
Dividends	(420,620)	(420,620)	(420,260)	(420,260)
	<u>5,472,778</u>	<u>5,769,914</u>	<u>4,734,112</u>	<u>5,651,147</u>
Preference shares dividend appropriation	420,620	420,620	420,260	420,260
Issue costs provision released	-	-	39,375	39,375
	<u>5,893,398</u>	<u>6,190,534</u>	<u>5,193,747</u>	<u>6,110,782</u>

19 Contingent liabilities

The company has guaranteed bank borrowings of its subsidiary undertakings. At the year end the liabilities covered by these guarantees totalled £6,427,415 (1997 - £6,137,436).

20 Commitments under operating leases

As at 31 March 1998, the group had annual commitments under non-cancellable operating leases as set out below:

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	97,300	15,283	-	17,982
In two to five years	51,600	252,790	54,500	153,225
After five years	67,864	-	21,180	-
	<u>216,764</u>	<u>268,073</u>	<u>75,680</u>	<u>171,207</u>

21 Reconciliation of operating profit to net cash inflow from operating activities

	1998 £	1997 £
Operating profit/loss	2,197,457	(474,867)
Depreciation	116,186	86,242
Amortisation of intangible assets	390,653	365,893
Profit on sale of fixed assets	(2,246)	-
Increase in stocks	(2,752,922)	(999,762)
Increase in debtors	(2,754,652)	(1,312,494)
Increase in creditors	3,174,758	239,974
Net cash (outflow)/inflow from operating activities	<u>369,244</u>	<u>(2,095,014)</u>

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Notes forming part of the financial statements for the year ended 31 March 1998 (Continued)

22 Notes to the cash flow statement

i) Gross cash flows

	Note	1998 £	1997 £
Returns on investments and servicing of finance			
Interest received		197,506	327,728
Interest paid		(1,141,620)	(800,623)
Interest element of finance lease rentals		-	(2,179)
		<u>(944,114)</u>	<u>(475,074)</u>
Capital expenditure			
Payments to acquire intangible fixed assets		(219,030)	(68,540)
Payments to acquire tangible assets		(262,033)	(193,154)
Receipts from sale of tangible fixed assets		17,852	191,300
		<u>(463,211)</u>	<u>(70,394)</u>
Financing			
Repayment of loans		(2,143,000)	-
Increase in borrowings		-	950,000
Capital element of finance lease rentals		(5,282)	(46,228)
		<u>(2,148,282)</u>	<u>903,772</u>
Acquisitions and disposals			
Payments to acquire minority interest		(341,499)	-
		<u></u>	<u></u>

ii) Analysis of changes in net debt

	At 1 April 1997 £	Cash flows £	Other non cash £	At 31 March 1998 £
Cash at bank and in hand	4,992,881	(2,916,215)	-	2,076,666
Overdrafts	(517,799)	149,366	-	(368,433)
Commercial finance	(5,024,171)	(1,005,577)	-	(6,029,748)
		<u>(3,772,426)</u>		
Debt due within one year	(5,850,000)	2,143,000	-	(3,707,000)
Finance lease and hire purchase liabilities	(5,282)	5,282	-	-
Total	<u>(6,404,371)</u>	<u>(1,624,144)</u>	<u>-</u>	<u>(8,028,515)</u>

23 Pensions

A defined contribution pension scheme is operated on behalf of the employees of the ultimate parent company and one of the subsidiary undertakings. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund, and amounted to £63,500 (1997 - £44,685) for the year.

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Notes forming part of the financial statements for the year ended 31 March 1998 *(Continued)*

24 Related party transactions

The company has taken advantage of the exemption not to disclose transactions with other group undertakings as voting rights are controlled within the group and consolidated financial statements are publicly available.