HENNELL PLC - GROUP

Financial Statements

for the year ended 28th February 1998

Company Number: 2536155

Company Information

Company No: 2536155

Chairman

Mr K. Narang

Registered Office

12 New Bond Street
London
W1Y 0HE

Directors

Mr K. Narang
Mr T. Piper

Secretary

Mr T. Piper

Auditors

Wilkins Kennedy
1 Nelson Street
Southend on Sea
Essex
SS1 1EG

Bankers

Midland Bank
129 New Bond Street
London
W1A 2JA

Increasingly, the company is identified as a design led jewellery and silver house. Sales registered an impressive 17% growth in the Christmas season. Silver ware now includes contemporary designs and highly saleable range of gift items attractively priced.

'Commitment' jewellery is not only more widely known, satisfactorily, it is also attracting repeat customers. Other designs are being highlighted and have been noted favourably by the media. We expect to do well by them.

More specific target oriented focus on building a corporate image and the product range should produce better results in the current year.

K.R. Narang

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Directors' Report

for the year ended 28th February 1998

The directors submit their report together with the audited financial statements for the year ended 28th February 1998.

Directors' Statement

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 and of the loss for that year. 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 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.

Results and Dividends

The loss on the ordinary activities of the company before taxation amounted to £441,525. After deducting taxation, the loss of £441,525 has been transferred from reserves.

The directors do not recommend a dividend.

Principal Activity and Business Review

The group is engaged in the design, retailing and wholesaling of fine quality jewellery and watches and the wholesaling and retailing of modern and antique silver and silver plate.

Group Development

A review of the group's activities during the year, its position at 28th February 1998 and its future development is included in the Chairman's statement.

Ultimate Holding Company

The directors consider the company's ultimate holding company to be Bakali Limited.

Directors

The directors, none of whom is beneficially interested in the shares of the company, who served during the year were as follows:

Mr K. Narang
Mr T. Piper

Policy on the payment of creditors

It is the company's policy in respect of its suppliers;

to settle the terms of payment with those suppliers when agreeing the terms of each transaction
to ensure that those suppliers are made aware of the terms of payment and
to abide by the terms of payment

Auditors

The Auditors, Wilkins Kennedy Chartered Accountants, have indicated that they are willing to be reappointed at the forthcoming Annual General Meeting.

By Order of the Board:

Mr T. Piper, Secretary

16th September 1998

Auditors' Report to the Shareholders

on the Financial Statements for the year ended 28th February 1998

We have audited the financial statements on pages 4 to 10, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 6.

Respective responsibilities of the directors and auditors

As described on page 1 the company'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 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 information and explanations which we consider 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, other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

Fundamental Uncertainty Relating To Going Concern

In forming our opinion we have also considered the ability of the group to generate cash, given that the group has loans due to its ultimate holding company of £525,503 and bank loans and overdrafts of £236,852. The group's ultimate holding company, Bakali Limited, has indicated its willingness to continue support. The financial statements have been prepared on a going concern basis, the validity of which depends upon the continued support of the holding company and its bankers. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 28th February 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Wilkins Kennedy
Chartered Accountants
and Registered Auditors

1 Nelson Street
Southend on Sea
Essex
SS1 1EG

16th September 1998

Profit and Loss Account

for the year ended 28th February 1998

	Notes	1998	1997
Turnover	2	598,503	671,413
Cost of sales		(345,882)	(366,949)
Gross profit		252,621	304,464
Administrative expenses		(671,829)	(717,448)
Operating loss	3	(419,208)	(412,984)
Interest payable	4	(22,317)	(19,340)
Loss on ordinary activities before Taxation		(441,525)	(432,324)

All amounts relate to continuing activities.

There have been no recognised gains or losses, other than the results for the financial year, and all profits or losses have been accounted for on an historical cost basis.

The notes on pages 6 to 10 form part of these financial statements.

Balance Sheet

as at 28th February 1998

	Notes	1998 £	1998 £	1997 £	1997 £
Fixed Assets					
Intangible fixed assets	7		471,739		600,419
Tangible fixed assets	8		181,711		210,890
			653,450		811,309
Current Assets					
Stock	9	1,527,019		1,651,467	
Debtors	10	39,642		42,089	
Cash at bank and in hand		520		629	
		1,567,181		1,694,185	
Creditors:					
Amounts falling due within one year	11	(1,198,627)		(1,038,724)	
Net Current Assets			368,554		655,461
Total Assets Less Current Liabilities			1,022,004		1,466,770
Creditors:					
Amounts falling due after more than one year	12		(78,124)		(81,365)
			943,880		1,385,405
Capital and Reserves					
Share capital	13		3,547,936		3,547,936
Share premium account	14		323,657		323,657
Revaluation reserve	14		577,960		577,960
Profit and loss account	14		(3,505,673)		(3,064,148)
Equity Shareholders' Funds	15		943,880		1,385,405

These accounts were approved by the board on 16th September 1998.

Mr K. Narang Mr T. Piper
Directors

The notes on pages 6 to 10 form part of these financial statements.

1 Principal Accounting Policies

Accounting Convention

The financial statements have been prepared in accordance with applicable Accounting Standards under the historical cost convention, modified to include the revaluation of certain fixed assets.

Going Concern

The accounts have been drawn up on a going concern basis which assumes that the group's holding company and bankers continue the current support. The accounts do not take into account adjustments, if any, which may be necessary if the group is unable to continue as a going concern.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

Depreciation

Depreciation is calculated to write down the cost, less estimated residual value, of all tangible fixed assets over their expected useful lives. The rates generally applicable are:

Leasehold land and buildings	Not depreciated
Furniture and equipment	10% cost per annum
Maquettes	20% cost per annum

Intangible fixed assets

Cost of trademarks and patents are amortised through the Profit and Loss account over the directors estimate of their useful life at 10% per annum.

Development costs incurred are capitalised when recoverability can be assessed with reasonable certainty/ and amortised in line with expected sales.The directors estimate that benefit will arise over 3 years and expenditure is written off at 33 1/3% of cost per annum.

Goodwill

Purchased goodwill is amortised on a straight-line basis over its estimated useful economic life of 25 years as shown in the note to intangible fixed assets. Goodwill existing at 1 January 1985 is being amortised prospectively over its remaining useful economic life.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is computed on a first in first out basis. The cost of work in progress and finished goods includes all production overheads and depreciation and the attributable proportion of indirect overheads based on the normal level of activity. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

2 **Turnover**

The turnover and operating loss for the year was derived from the company's principal activity as was carried out wholly in the UK.

Turnover relates to the following activities or business segments:

	1998	1997
	£	£
Silver	71,279	63,526
Jewellery	527,224	607,887
	598,503	671,413

3 **Operating Loss**

The operating loss is stated after charging or crediting:

	1998	1997
	£	£
Amounts payable to the auditors in respect of audit services	10,050	10,000
Depreciation - owned assets	141,937	146,584
Amortisation of intangible assets	19,200	19,200

4 **Interest Payable**

	1998	1997
	£	£
Bank loans and overdrafts	22,317	19,340

5 **Directors and Employees**

Staff costs during the year were as follows:

	1998	1997
	£	£
Wages and salaries	178,567	168,542
Social security costs	15,745	13,872
	194,312	182,414

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

	1998 Number	1997 Number
Administration	3	3
Sales	5	5
	8	8

Remuneration in respect of directors was as follows:

	1998	1997
	£	£
Aggregate amount of emoluments paid in respect of qualifying services	47,880	50,433

6 **Tax on Loss on Ordinary Activities**

No liabilty to UK corporation tax arises in respect of this year (1997: £Nil).

7 **Intangible Fixed Assets**

	Development Expenditure	Patents and Trademarks	Goodwill	Total
Cost	£	£	£	£
At 1st March 1997	313,840	53,353	945,211	1,312,404
Increase during the year	-	469	-	469
At 28th February 1998	313,840	53,822	945,211	1,312,873
Amortisation				
At 1st March 1997	130,958	9,127	571,901	711,986
Provided during the year	104,613	5,335	19,200	129,148
At 28th February 1998	235,571	14,462	591,101	841,134
Net Book Value				
At 28th February 1998	78,269	39,360	354,110	471,739
At 28th February 1997	182,882	44,226	373,310	600,418

8 Tangible Fixed Assets

	Leasehold land and buildings	Furniture and equipment	Fixtures and fittings	Total
Cost	£	£	£	£
At 1st March 1997	50,000	268,977	50,587	369,564
Additions	-	2,311	500	2,811
At 28th February 1998	50,000	271,288	51,087	372,375
Depreciation				
At 1st March 1997	-	113,179	45,496	158,675
Charged for the year	-	26,898	5,091	31,989
At 28th February 1998	-	140,077	50,587	190,664
Net Book Value				
At 28th February 1998	50,000	131,211	500	181,711
At 28th February 1997	50,000	155,798	5,091	210,889

9 Stocks

	1998	1997
	£	£
Stocks	1,527,019	1,651,467

10 Debtors

	1998	1997
	£	£
Trade debtors	15,347	15,820
Other debtors	3,752	2,194
Prepayments and accrued income	20,543	24,075
	39,642	42,089

11 Creditors: Amounts falling due within one year

	1998	1997
	£	£
Bank loans and overdrafts	158,729	158,759
Trade creditors	183,843	204,428
Loan from Holding Company	525,503	525,503
Other taxes and social security	5,929	3,899
Accruals and deferred income	324,623	146,135
	1,198,627	1,038,724

12 Creditors: Amounts falling due after one year

	1998	1997
	£	£
Bank loans	78,124	81,365

13 **Share Capital**

Authorised	**1998**	1997
	£	£
5,000,000 Ordinary shares of £1 each (1997: 5,000,000)	5,000,000	5,000,000

Allotted, called up and fully paid	**1998**	1997
	£	£
3,547,936 Ordinary shares of £1 each (1997: 3,547,936)	3,547,936	3,547,936

14 **Share Premium Account and Reserves**

	Share Premium Account	**Revaluation Reserve**	**Profit and Loss Account**
	£	£	£
At 1st March 1997	323,657	577,960	(3,064,148)
Loss for the year	-	-	(441,525)
At 28th February 1998	323,657	577,960	(3,505,673)

15 **Reconciliation of the Movement in Shareholders' Funds**

	1998	1997
	£	£
Loss for the financial year	(441,525)	(432,324)
New share capital subscribed	-	1,000,000
(Decrease)/Increase in shareholders' funds	(441,525)	567,676
Opening shareholders' funds	1,385,405	817,729
Closing shareholders' funds	943,880	1,385,405

16 **Ultimate Parent Undertaking**

The group's ultimate parent undertaking is Bakali Limited which is registered in Jersey.

17 **Related Party Transactions**

Included in creditors is an amount of £525,503 due to Bakali Limited the ultimate holding company