

BASIC THINKING LIMITED

Annual report and financial statements for the period ended 31 July 1997

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Directors

K Hickey
AJ Worrall FCCA
A Openshaw

Secretary and registered office

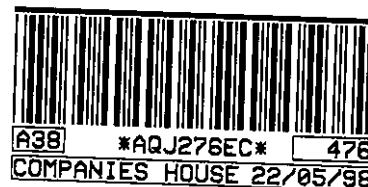
Miss J Redfearn
Foxhall Lodge
Gregory Boulevard
Nottingham
NG7 6LH

Company number

3231869

Auditors

BDO Stoy Hayward
Chartered Accountants
Foxhall Lodge
Gregory Boulevard
Nottingham
NG7 6LH



Bankers

National Westminster Bank plc
5 Market Place
Loughborough
Leicester
LE11 3EA

BASIC THINKING LIMITED

Report of the directors for the period ended 31 July 1997

The directors present their first report together with the audited financial statements for the period ended 31 July 1997.

Results and dividends

The profit and loss account is set out on page 3 and shows the profit for the period.

The directors do not recommend the payment of a final dividend.

Principal activities, trading review and future developments

The company was incorporated on 31 July 1996 and commenced trading on 1 August 1996.

The principal activities of the company are the design and sale of fashion clothing and the procurement and sale of fabric to clothing manufacturers.

The directors are very satisfied with the performance of the company during its first period of trading and are confident that the level of activity and profitability can be enhanced in the future. In particular, management are concentrating on the introduction of new products, expanding the customer base and increasing the efficiency of production.

Directors

The directors of the company during the period and their interest in the ordinary share capital of the company was as follows:

	Ordinary shares of £1 each	
	At 31 July 1997	At date of appointment
K Hickey (appointed 31 July 1996)	5,000	1

Wildman & Batell Limited were appointed as the first director upon incorporation and resigned on 31 July 1996.

Mr AJ Worrall and Miss A Openshaw were appointed as directors of the company on 8 January 1998.

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

BASIC THINKING LIMITED

Report of the director for the period ended 31 July 1997 (*Continued*)

Directors' responsibilities (*Continued*)

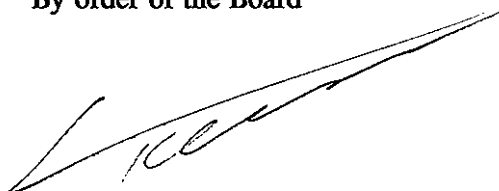
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Auditors

BDO Stoy Hayward were appointed as auditors to the company during the period.

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

By order of the Board

A handwritten signature in black ink, appearing to read 'K Hickey', written over a horizontal line.

K Hickey
Director

22 January 1998

BASIC THINKING LIMITED

Profit and loss account for the period ended 31 July 1997

	Note	£
Turnover	2	5,500,049
Cost of sales		4,384,564
Gross profit		<u>1,115,485</u>
Distribution costs		60,186
Administrative expenses		677,405
Operating profit		<u>377,894</u>
Interest receivable		2,680
Interest payable	4	(29,675)
Profit on ordinary activities before taxation	5	<u>350,899</u>
Taxation on profit on ordinary activities	7	90,000
Retained profit for the period		<u><u>260,899</u></u>

All amounts relate to continuing activities.

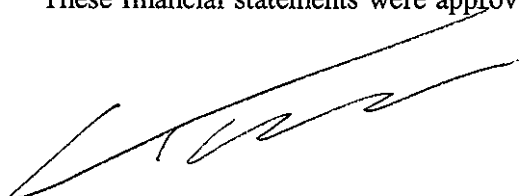
All recognised gains and losses are included in the profit and loss account.

The notes on pages 6 to 13 form part of these financial statements.

BASIC THINKING LIMITED**Balance sheet at 31 July 1997**

	Note	£	£
Fixed assets			
Tangible assets	8		176,978
Current assets			
Stocks	9	501,028	
Debtors	10	1,424,289	
Cash at bank and in hand		123,129	
		<u>2,048,446</u>	
Creditors: amounts falling due within one year	11	<u>1,757,006</u>	
Net current assets			291,440
Total assets less current liabilities			<u>468,418</u>
Creditors: amounts falling due after more than one year	12		195,019
Provision for liabilities and charges	13		2,500
			<u>270,899</u>
Capital and reserves - equity			
Called up share capital	14		10,000
Profit and loss account			260,899
Shareholders' funds			<u>270,899</u>

These financial statements were approved by the Board on 22 January 1998.



K Hickey
Director

The notes on pages 6 to 13 form part of these financial statements.

BASIC THINKING LIMITED**Cash flow statement for the period ended 31 July 1997**

	Note	£	£
Net cash inflow from operating activities	19		175,672
Returns on investments and servicing of finance			
Interest paid		(27,982)	
Interest received		2,680	
Interest element of hire purchase contracts		(1,693)	
Net cash outflow from returns on investments and servicing of financing			(26,995)
Capital expenditure			
Purchase of tangible fixed assets		(95,272)	
Sale of tangible fixed assets		927	
Net cash outflow from capital expenditure			(94,345)
Net cash inflow before financing			54,332
Financing			
Inception of bank loan		15,000	
Capital element of hire purchase contracts		(13,172)	
Capital element of bank loan repayments		(356)	
Issue of ordinary share capital		10,000	
Net cash inflow from financing			11,472
Increase in cash	21		65,804

The notes on pages 6 to 13 form part of these financial statements.

BASIC THINKING LIMITED

Notes forming part of the financial statements for the period ended 31 July 1997

1 Accounting policies

There have been no changes in accounting policies during the period.

The financial statements have been prepared under the historical cost convention. The following principal accounting policies have been applied:

Turnover

Turnover represents sales of garments to outside customers at invoiced amounts less value added tax and commissions received from acting as an agent for the sale of garments.

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 at the following rates:

Leasehold improvements	- over the period of the lease
Plant and machinery	- 15% straight line
Office equipment, fixtures and fittings	- 33% straight line
Motor vehicles	- 25% and 50% straight line

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated as follows:

Raw materials and consumables and goods for resale	- cost of purchase on a first in, first out basis.
Work in progress and finished goods	- cost of raw materials, labour and an appropriate proportion of production overheads.

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

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 will crystallise.

Hire purchase contracts

Where assets are financed by hire purchase agreements, the assets are treated as if they had been purchased outright. The corresponding liabilities are shown in creditors. Depreciation on the relevant assets is charged to the profit and loss account. 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 agreement. The capital part reduces the outstanding liability.

BASIC THINKING LIMITED

Notes forming part of the financial statements for the period ended 31 July 1997 (*Continued*)

1 Accounting policies (*Continued*)

Leased assets

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 during the lease term. 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 split 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 balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Pension costs

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

2 Turnover

Turnover is wholly attributable to the principal activities of the company.

	£
Turnover as analysed by market:	
Home	4,862,581
Exports - Europe	164,692
- Rest of the world	472,776
	5,500,049

3 Employees

Staff costs, including the director, consist of:

Wages and salaries	342,536
Social security costs	33,241
Other pension costs	21,167
	396,944

BASIC THINKING LIMITED

Notes forming part of the financial statements for the period ended 31 July 1997 (*Continued*)

3 Employees (*Continued*)

The average monthly number of employees during the period was as follows:

	Number
Sales and distribution	3
Administration	3
Production	12
	<u>18</u>

4 Interest payable

	£
Bank loan and overdraft	2,130
Hire purchase interest	1,693
Factoring of debts	25,852
	<u>29,675</u>

5 Profit on ordinary activities before taxation

This is arrived at after charging:

Depreciation of owned assets	10,551
Depreciation of assets held under hire purchase contracts	12,655
Operating leases - plant and equipment	6,914
Operating leases - other	25,000
Auditors' remuneration	3,700
Loss on disposal of tangible fixed assets	653
	<u></u>

6 Director's emoluments

Director's emoluments	104,329
	<u></u>

During the period the company paid pension contributions to a defined contribution scheme in respect of the director.

7 Taxation on profit on ordinary activities

UK corporation tax	87,500
Transfer to deferred taxation	2,500
	<u>90,000</u>

BASIC THINKING LIMITEDNotes forming part of the financial statements for the period ended 31 July 1997 *(Continued)***8 Tangible assets**

	Leasehold improvements £	Plant and machinery £	Office equipment fixtures and fittings £	Motor vehicles £	Total £
Cost					
Additions	15,439	23,657	45,073	117,595	201,764
Disposals	-	-	(2,168)	-	(2,168)
At end of period	15,439	23,657	42,905	117,595	199,596
Depreciation					
Provided for the period	2,577	3,548	4,710	12,371	23,206
Disposals	-	-	(588)	-	(588)
At end of period	2,577	3,548	4,122	12,371	22,618
Net book value					
At 31 July 1997	12,862	20,109	38,783	105,224	176,978

Included in the above net book value totals are amounts of £113,950 in respect of assets held under hire purchase contracts.

9 Stocks

	£
Raw materials and consumables	163,064
Work in progress	180,615
Finished goods and goods for resale	157,349
	501,028

10 Debtors

Trade debtors	1,296,312
Other debtors	50,613
Prepayments	77,364
	1,424,289

All amounts shown under debtors fall due for payment within one year.

BASIC THINKING LIMITED

Notes forming part of the financial statements for the period ended 31 July 1997 (Continued)

11 Creditors: amounts falling due within one year

	£
Bank loan and overdraft (note 12)	63,176
Trade creditors	1,190,103
Amount due to factors	321,679
Taxation and social security	20,201
Other creditors	4,632
Corporation tax	87,500
Obligations under hire purchase agreements	33,825
Accruals	35,890
	<u>1,757,006</u>

Bank borrowings are secured by means of a charge over bank deposit balances.

12 Creditors: amounts falling due after more than one year

	£
Bank loan	8,793
Obligations under hire purchase agreements (repayable within five years)	59,495
Other creditors (note 18)	126,731
	<u>195,019</u>

The bank loan is repayable in monthly instalments at a rate of interest of 10.5% per annum over the following periods:-

Within one year	5,851
Between two and five years	8,793
	<u>14,644</u>

BASIC THINKING LIMITED

Notes forming part of the financial statements for the period ended 31 July 1997 (Continued)

13 Provision for liabilities and charge

Deferred taxation

	£
Accelerated capital allowances	4,500
Less: other timing differences	(2,000)
	<u>2,500</u>

Deferred taxation has been provided in full.

14 Share capital

	Authorised £	Allotted, called up and fully paid £
Ordinary shares of £1 each	<u>100,000</u>	<u>10,000</u>

The company was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each. Two shares were issued at par for cash on incorporation.

On 31 July 1997 the authorised share capital was increased to £100,000 by the creation of an additional 99,000 ordinary shares. On the same date a further 9,998 shares were issued at par for cash.

15 Reconciliation of movements in shareholders' funds

	£
Profit on ordinary activities after taxation	260,899
Shares issued in year (note 14)	10,000
Closing shareholders' funds	<u>270,899</u>

16 Commitments under operating leases

As at 31 July 1997 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings £	Other £
Within 2 - 5 years	<u>25,000</u>	<u>16,194</u>

BASIC THINKING LIMITED

Notes forming part of the financial statements for the period ended 31 July 1997 (Continued)

17 Pensions

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge of £14,167 represents contributions payable by the company to the fund. Pension costs (note 3) also include a provision of £7,000 for contributions to the personal pension plan of an employee.

18 Transactions involving the director and related parties

(a) The director of the company has given a guarantee against the company's bank borrowings, limited to £25,000 and a guarantee made in favour of the factor limited to £50,000.

(b) The director had an overdrawn director's current account during the period as follows:

	£
At 31 July 1997	-
Maximum amount outstanding during the period	11,955

(c) The director sold two motor vehicles to the company during the period for £12,000 and £45,000 respectively. These transactions were deemed to be at arm's length and at market value.

(d) During the period, the company made purchases of £744,034 from Sherif Clothing Co, a business in which Mr S Moursi has a controlling financial interest. Mr Moursi has a material financial interest in Basic Thinking Limited. In addition the company received commissions of £394,774 and sales made of £78,002 to Sherif Clothing Co. All transactions were made at arm's length and on normal commercial terms.

(e) During the period, the company made a loan to The Basic Thinking Retirement Benefit Scheme of which Mr Hickey is a trustee and beneficiary. The loan of £4,987 which is interest free was outstanding at 31 July 1997. In addition, the company paid rentals of £5,906 to the scheme for the lease of plant and equipment.

(f) Other creditors due after more than year represent loans from the following:

	£
K Hickey	30,236
S Moursi	96,495
	126,731

The loans are interest free and there are no formal terms of repayment. Repayment however has been deferred until a date not falling due within twelve months of the balance sheet date.

BASIC THINKING LIMITED

Notes forming part of the financial statements for the period ended 31 July 1997 (Continued)

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

	£
Operating profit	377,894
Depreciation	23,206
Loss on sale of tangible fixed assets	653
Increase in stocks	(501,028)
Increase in debtors	(1,424,289)
Increase in creditors	1,699,236
Net cash inflow from operating activities	<u>175,672</u>

20 Analysis of changes in net debt

	At start of period £	Cash flows £	Other non-cash changes £	At 31 July 1997 £
Cash at bank and in hand	-	123,129	-	123,129
Bank overdraft	-	(57,325)	-	(57,325)
Debt due after one year	-	(8,793)	-	(8,793)
Debt due within one year	-	(5,851)	-	(5,851)
Hire purchase contracts	-	13,172	(106,492)	(93,320)
	<u>-</u>	<u>64,332</u>	<u>(106,492)</u>	<u>(42,160)</u>

21 Reconciliation of net cash inflow to movement in net debt

	£	£
Increase in cash in the period	65,804	
Cashflow from decrease in debt and hire purchase financing	(1,472)	
Change in net debt resulting from cashflows		64,332
New hire purchase agreements		(106,492)
Net debt at end of period		<u>(42,160)</u>

AUDITORS' REPORT**To the members of Basic Thinking Limited**

We have audited the financial statements on pages 3 to 13 which have been prepared under the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2, the 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 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 as at 31 July 1997 and of its profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



BDO STOY HAYWARD
*Chartered Accountants
and Registered Auditor*
Nottingham
10.2.98.