

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO. SC

Horsell Graphic Industries Limited

Accounts 31 December 1994
together with directors' and auditors' reports

Registered number: 31919



Directors' report

For the year ended 31 December 1994

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1994.

Principal activity and business review

The principal activity of the company continues to be the supply of and manufacture of printing consumables and equipment. In addition, the company is the holding company for certain overseas selling companies which market these products.

The directors consider the results for the year to be satisfactory and expect the general level of activity to continue in the future.

Results and dividends

Results and recommended transfers to reserves are as follows:

	£'000
Accumulated deficit at 1 January 1994	(14,398)
Retained profit for the year	6,403
Amortisation of revaluation surplus	3
Accumulated deficit at 31 December 1994	<u>(7,992)</u>

No dividend can be proposed.

Directors and their interests

The directors who served during the year are as shown below:

C.F. Phillips	(Chairman)
E. Frankland	(Resigned 20 October 1994)
D. Thompson	
D. Lamb	(Resigned 20 October 1994)
A.P. Copley	
C. Greenberg	(USA)
D. Foley	(USA)
J.F. Hickie	
J.W. Vickers	(Resigned 20 June 1995)

The directors do not have any interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Directors' report (continued)

Fixed assets

Information relating to changes in tangible fixed assets is given in note 9 to the accounts.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings and the company magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Capital reorganisation

On 27 February 1995 the company passed a Special Resolution to reduce the authorised share capital of the company by £11,349,798.30 by cancelling and extinguishing 30p of the amount paid up or credited as paid up on each of the 37,372,182 issued special ordinary shares of £1 each from £1 to 70p.

The High Court confirmed the reduction of share capital on 22 March 1995 and the order of the court and the minute approved by the court were registered at Companies House on 23 March 1995. On that date, the sum of £11,211,654.60 was transferred to Other reserves.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

A. Cook

A. Cook

Secretary

Howley Park Estate

Morley

Leeds

LS27 0QT

14 July 1995

Statement of directors' and auditors' responsibilities

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year 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 accounts, 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 accounts; and
- prepare the accounts 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 accounts 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' responsibilities

Company law requires auditors to form an independent opinion on the accounts presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the company has maintained proper accounting records;
- that the accounts are in agreement with the accounting records;
- that directors' emoluments and other transactions with directors are properly disclosed in the accounts; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the directors' report on pages 1 and 2. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the directors' report are inconsistent with the accounts.

Auditors' report

Manchester

To the Shareholders of Horsell Graphic Industries Limited:

We have audited the accounts on pages 5 to 26 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 pages 7 to 9.

Respective responsibilities of directors and auditors

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

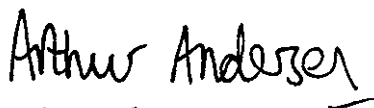
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1994 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

14 July 1995

Profit and loss account

For the year ended 31 December 1994

	Notes	1994 £'000	1993 £'000
Turnover	2	93,609	90,127
Cost of sales		(66,145)	(63,037)
Gross profit		27,464	27,090
Other operating expenses	3	(18,429)	(17,403)
Operating profit		9,035	9,687
Other interest receivable and similar income		87	145
Amounts written back to (off) investments	4	1,283	(1,473)
Interest payable and similar charges	5	(1,590)	(3,107)
Profit on ordinary activities before taxation	6	8,815	5,252
Tax on profit on ordinary activities	8	(2,412)	(2,278)
Profit for the financial year		6,403	2,974
Accumulated deficit, at 1 January 1994		(14,398)	(17,375)
Transfer from revaluation reserve	17	3	3
Accumulated deficit, at 31 December 1994		(7,992)	(14,398)

All activity has arisen from continuing operations. The company has no recognised gains or losses other than the profit for the financial year.

The note of historical cost profits and losses has been omitted because the difference between the historical cost depreciation charge and the actual depreciation charge is not material.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

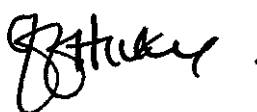
31 December 1994

	Notes	1994 £'000	1993 £'000
Fixed assets			
Tangible assets	9	15,339	15,047
Investments	10	6,115	4,878
		<u>21,454</u>	<u>19,925</u>
Current assets			
Long term debtors	12	5,106	6,519
Stocks	11	11,907	12,222
Debtors	12	23,090	25,443
Cash at bank and in hand		2,714	329
		<u>42,817</u>	<u>44,513</u>
Creditors: Amounts falling due within one year	13	(31,008)	(37,713)
Net current assets		<u>11,809</u>	<u>6,800</u>
Total assets less current liabilities		33,263	26,725
Creditors: Amounts falling due after more than one year	14	(1,185)	(1,098)
Provisions for liabilities and charges	15	(1,652)	(1,604)
Net assets		<u>30,426</u>	<u>24,023</u>
Capital and reserves			
Called-up share capital	16	37,435	37,435
Share premium account	17	1	1
Revaluation reserve	17	982	985
Profit and loss account	17	(7,992)	(14,398)
Total capital employed		<u>30,426</u>	<u>24,023</u>

Signed on behalf of the Board

J.F. Hickie

Director



14 July 1995

The accompanying notes are an integral part of this balance sheet.

Cash flow statement

For the year ended 31 December 1994

	Notes	1994		1993	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	19a		13,725		28,017
Returns on investments and servicing of finance					
Interest received		87		145	
Interest paid		(1,575)		(3,092)	
Net cash outflow from returns on investments and servicing of finance			(1,488)		(2,947)
Taxation					
UK corporation tax paid			(1,894)		(223)
Investing activities					
Purchase of tangible fixed assets		(2,918)		(2,313)	
Capital injection to subsidiary undertaking		(2,054)		-	
Sale of tangible fixed assets		7		44	
Sale of subsidiary undertakings		930		-	
Net cash outflow from investing activities			(4,035)		(2,269)
Net cash inflow before financing			6,308		22,578
Financing					
New loans		-		(3,453)	
Repayment of loans		4,072		377	
Net cash inflow from financing	19b		4,072		(3,076)
Increase in cash and cash equivalents	19c		10,380		19,502

The accompanying notes are an integral part of this statement.

Notes to accounts

31 December 1994

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of certain land and buildings. The accounts have been prepared in accordance with applicable accounting standards.

The company has taken advantage of Section 228 of the Companies Act 1985 not to prepare group accounts since it is a subsidiary undertaking of International Paper Holdings (U.K.) Limited, a company incorporated in Great Britain and registered in England and Wales, and no request for consolidated accounts has been received from the minority interests.

b) Tangible fixed assets

Land and buildings are shown at original historical cost or subsequent valuation as set out in note 9. Other fixed assets are shown at cost.

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold buildings	2% per annum
Leasehold land and buildings	over the term of the lease
Plant and machinery	10%-33% per annum

In accordance with SSAP 19, investment properties are revalued annually. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve. Depreciation is not provided in respect of freehold investment properties or of leasehold investment properties where the unexpired term of the lease is more than 20 years. The directors consider that this accounting policy (which represents a departure from the statutory accounting rules) is necessary to provide a true and fair view. The financial effect of the departure from the statutory accounting rules is not material to the accounts.

c) Investments

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent reductions in value. Provisions for temporary fluctuations in value are made if material. Income is included (together with the related tax credit) in the accounts of the year in which it is receivable.

Notes to accounts (continued)

1 Accounting policies (continued)

d) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	-	purchase cost on a first-in, first-out basis, including transport
Work-in-progress	-	cost of direct materials and labour, plus a reasonable proportion
and finished goods		of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

e) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous periods when it is recovered against corporation tax liabilities.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal.

Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

f) Pension costs

The company provides pensions and other benefits to certain employees through a funded defined benefit pension scheme and a funded defined contribution pension scheme.

The assets of the schemes are held independently of the company by trustees.

The amount charged to the profit and loss account for the defined benefit scheme is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Pension costs (continued)

The amount charged to the profit and loss account for the defined contribution scheme represents amounts payable in the year.

Any difference between amounts charged to the profit and loss account and contributions paid is shown as a separately identified liability or asset in the balance sheet.

Further information on pension costs is provided in note 19d.

g) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract).

Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

h) Turnover

Turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services in the normal course of business.

i) Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

j) Revaluation reserve

Surpluses arising on the revaluation of individual fixed assets other than investment properties are credited to a non-distributable reserve known as the revaluation reserve. Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account below the profit for the financial year. On the disposal of a revalued fixed asset, any remaining revaluation surplus corresponding to the item is also transferred to the profit and loss account.

As permitted by SSAP 19, revaluation surpluses and deficits on investment properties are transferred to the revaluation reserve.

Notes to accounts (continued)

2 Segment information

Turnover and profit on ordinary activities before taxation arose entirely from the principal activity of the company.

Contributions to turnover by geographical segment were as follows:

	1994 £'000	1993 £'000
United Kingdom	42,144	38,270
Rest of Europe	25,455	25,501
Americas	4,278	4,494
Other	21,732	21,862
	<u>93,609</u>	<u>90,127</u>

3 Other operating expenses

	1994 £'000	1993 £'000
Distribution costs	11,017	10,830
Administrative expenses	7,412	6,573
	<u>18,429</u>	<u>17,403</u>

4 Amounts written (back to) off investments

	1994 £'000	1993 £'000
Fixed assets		
- due to permanent fluctuations in value	1,124	-
- due to temporary fluctuations in value	(1,237)	1,331
	<u>(113)</u>	<u>1,331</u>
Long term loans		
- due to permanent reductions in value	472	36
- due to temporary fluctuations in value	-	106
- provisions no longer required and written back	(1,642)	-
	<u>(1,283)</u>	<u>1,473</u>

Notes to accounts (continued)

5 Interest payable and similar charges

	1994 £'000	1993 £'000
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	631	2,633
On group loans	959	474
	<u>1,590</u>	<u>3,107</u>

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after (crediting) charging:

	1994 £'000	1993 £'000
Rent receivable (net)	(89)	(110)
Depreciation of tangible fixed assets	2,300	2,456
Hire of plant and machinery under operating leases	850	767
Other operating lease rentals	677	691
Auditors' remuneration		
- audit	60	60
- non-audit	34	39
Staff costs (see note 7)	14,336	13,333
Research and development expenditure	<u>1,348</u>	<u>949</u>

7 Staff costs

Particulars of employees (including executive directors) are as shown below:

	1994 £'000	1993 £'000
Employee costs during the year amounted to:		
Wages and salaries	12,561	11,691
Social security costs	1,147	1,040
Other pension costs (see note 19d)	628	602
	<u>14,336</u>	<u>13,333</u>

Notes to accounts (continued)

7 Staff costs (continued)

The average weekly number of persons employed by the company during the year was as follows:

	1994 Number	1993 Number
Processing	425	418
Selling and distribution	181	191
Administration	71	59
	<u>677</u>	<u>668</u>

Directors' remuneration:

Directors' remuneration in respect of directors of the company was as follows:

	1994 £'000	1993 £'000
Emoluments for management services (including pension contributions)	<u>379</u>	<u>372</u>

The directors' remuneration shown above (excluding pension contributions) included:

	1994 £'000	1993 £'000
Chairman and highest paid director	<u>95</u>	<u>103</u>

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	1994 Number	1993 Number
Up to £ 5,000	3	3
£ 35,001 - £ 40,000	-	1
£ 40,001 - £ 45,000	1	-
£ 45,001 - £ 50,000	1	1
£ 55,001 - £ 60,000	-	3
£ 60,001 - £ 65,000	3	-
£ 95,001 - £ 100,000	1	-
£ 100,001 - £ 105,000	<u>-</u>	<u>1</u>

Notes to accounts (continued)

8 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1994 £'000	1993 £'000
Corporation tax at 33% (1993 - 33%)	2,328	1,724
Deferred taxation arising from		
- capital allowances	(32)	42
- other timing differences	116	362
	<u>2,412</u>	<u>2,128</u>
Adjustment of corporation tax in respect of prior years	(174)	96
Adjustment of deferred tax in respect of timing differences from prior years	174	54
	<u>2,412</u>	<u>2,278</u>

The tax charge for the year has been reduced by group relief received free of charge from fellow group undertakings of £108,000 (1993 - £124,000).

9 Tangible fixed assets

The following are included in the net book value of tangible fixed assets:

	1994 £'000	1993 £'000
Investment properties	500	500
Land and buildings		
- freehold	3,268	3,340
- long leasehold	1,194	1,221
- short leasehold	436	457
Plant and machinery	9,941	9,529
Net tangible fixed assets	<u>15,339</u>	<u>15,047</u>

Plant and machinery includes fixtures and fittings and assets in course of construction.

Notes to accounts (continued)

9 Tangible fixed assets (continued)

a) The movement in the year was as follows:

	Land and buildings				Plant and machinery £'000	Total £'000
	Investment properties £'000	Freehold £'000	Long leasehold £'000	Short leasehold £'000		
Cost or valuation						
Beginning of year	500	3,646	1,315	687	22,071	28,219
Additions	-	-	-	15	2,903	2,918
Disposals	-	-	-	-	(1,961)	(1,961)
End of year	500	3,646	1,315	702	23,013	29,176
Depreciation						
Beginning of year	-	306	94	230	12,542	13,172
Charge	-	72	27	36	2,165	2,300
Disposals	-	-	-	-	(1,635)	(1,635)
End of year	-	378	121	266	13,072	13,837
Net book value						
Beginning of year	500	3,340	1,221	457	9,529	15,047
End of year	500	3,268	1,194	436	9,941	15,339

Freehold land amounting to £1,400,000 (1993 - £1,400,000) has not been depreciated.

b) Basis of valuation

Plant and machinery (including fixtures and fittings) and short leasehold land and buildings are shown at cost.

Investment properties are revalued annually (see note 9c). Land and buildings are shown at valuation in 1989 with additions at cost as shown below:

	1994			1993		
	Investment properties £'000	Freehold £'000	Long leasehold £'000	Investment properties £'000	Freehold £'000	Long leasehold £'000
Professionally valued						
- existing use	-	3,300	1,200	-	3,300	1,200
Valued by the directors						
- alternative use	500	-	-	500	-	-
Total at valuation	500	3,300	1,200	500	3,300	1,200
At cost	-	346	115	-	346	115
Cost/valuation end of year	500	3,646	1,315	500	3,646	1,315

Notes to accounts (continued)

9 Tangible fixed assets (continued)

c) Investment properties were valued by the directors at £500,000 on 31 December 1994 on the basis of open market value.

d) Original cost, and aggregate depreciation based on cost, of land and buildings included at valuation:

	1994			1993		
	Investment properties £'000	Freehold £'000	Long leasehold £'000	Investment properties £'000	Freehold £'000	Long leasehold £'000
Original cost	215	2,274	986	215	2,274	986
Depreciation based on cost	(97)	(376)	(102)	(92)	(337)	(81)
	<u>118</u>	<u>1,898</u>	<u>884</u>	<u>123</u>	<u>1,937</u>	<u>905</u>

10 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	1994 £'000	1993 £'000
Subsidiary undertakings	6,040	4,803
Other significant investments	<u>75</u>	<u>75</u>
	<u>6,115</u>	<u>4,878</u>

On 18 November 1994 the company injected £2,053,876 of share capital into Ilford Anitec A/S. Subsequent to this, the company's investment in Ilford Anitec A/S was sold for a consideration of £930,000.

Notes to accounts (continued)

10 Fixed asset investments (continued)

a) Principal investments

The company has investments in the following subsidiary undertakings and other significant investments.

	Country of incorporation or registration	Principal activity	Proportion of ordinary shares held by the company
Subsidiary undertakings:			
Ilford Anitec OY	Finland	Supplier to printing industry.	100%
Ilford Anitec Iberica S.A.	Spain	Supplier to printing industry.	100%
Horsell Systems Limited	Great Britain	Supplier of computer systems.	90%
Horsell International Limited	Great Britain	Overseas selling agent for printing equipment and consumables.	100%
Anitec Image (Great Britain) Limited	Great Britain	Supplier to the printing industry.	100%
Principal other investments:			
International Paper (Netherlands) B.V.	Holland	Supplier to printing industry.	4.64%

b) Movement during the year

	Other investments £'000	Subsidiary undertakings £'000	Total £'000
Cost			
Beginning of year	75	19,210	19,285
Additions	-	2,054	2,054
Disposals	-	(9,994)	(9,994)
End of year	75	11,270	11,345
Amounts written off			
Beginning of year	-	14,407	14,407
Written back	-	(113)	(113)
Disposals	-	(9,064)	(9,064)
End of year	-	5,230	5,230
Net book value, end of year	75	6,040	6,115

Notes to accounts (continued)

11 Stocks

	1994 £'000	1993 £'000
Raw materials and consumables	2,577	3,495
Work-in-progress	2,089	1,598
Finished goods and goods for resale	7,241	7,129
	<u>11,907</u>	<u>12,222</u>

The estimated replacement cost of stocks is not materially different from their balance sheet value.

12 Debtors

	1994 £'000	1993 £'000
Amounts falling due after more than one year:		
Trade debtors	3,177	1,688
Amounts owed by subsidiary undertakings	-	2,142
Amounts owed by other group undertakings	1,929	2,689
	<u>5,106</u>	<u>6,519</u>
Amounts falling due within one year:		
Trade debtors	14,779	13,314
Amounts owed by immediate parent company	2,068	1,690
Amounts owed by subsidiary undertakings	1,243	313
Amounts owed by other group undertakings	3,056	8,450
VAT	244	283
Other debtors	827	789
Prepayments and accrued income		
- ACT recoverable	448	448
- Other	425	156
	<u>23,090</u>	<u>25,443</u>

Amounts owed by other group undertakings due after one year are unsecured, interest free and will not be repaid during the next twelve months.

Notes to accounts (continued)

13 Creditors: Amounts falling due within one year

	1994 £'000	1993 £'000
Bank loans and overdrafts	3,956	11,951
Trade creditors	5,912	5,349
Amounts owed to immediate parent company	5,962	5,962
Amounts owed to subsidiary undertakings	1,620	1,638
Amounts owed to other group undertakings	7,975	7,084
Other creditors		
- UK corporation tax payable	2,164	1,904
- social security and PAYE	593	744
- other creditors	510	595
Accruals and deferred income	2,316	2,486
	<u>31,008</u>	<u>37,713</u>

14 Creditors: Amounts falling due after more than one year

	1994 £'000	1993 £'000
Amounts owed to other group undertakings	<u>1,185</u>	<u>1,098</u>

Amounts due to other group undertakings are unsecured, bear interest at a commercial rate and will not be called upon for repayment within the next twelve months.

15 Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	1994 £'000	1993 £'000
Deferred taxation	879	621
Provisions for warranties	20	20
Other provisions	753	963
	<u>1,652</u>	<u>1,604</u>

Notes to accounts (continued)

15 Provisions for liabilities and charges (continued)

Deferred taxation

	1994 £'000	1993 £'000
Excess of tax allowances over book depreciation of fixed assets	1,126	1,034
Other timing differences related to		
- current assets and liabilities	(81)	(89)
- non-current assets and liabilities	(166)	(324)
	<u>879</u>	<u>621</u>

The movement on deferred taxation comprises:

	1994 £'000	1993 £'000
Beginning of year	621	163
Charged (credited) to profit and loss, in respect of		
- capital allowances	92	(6)
- other timing differences	166	464
End of year	<u>879</u>	<u>621</u>

No provision for deferred taxation is considered necessary on the surplus arising from the revaluation of land and buildings as there is no current intention of disposing of them. In addition it is considered that the tax on any capital gains would be deferred indefinitely by means of a rollover relief claim.

Other provisions for liabilities and charges

Other provisions represent rationalisation and reorganisation provisions.

The movement in the provisions are as follows:

	Warranty provisions £'000	Other provisions £'000
Beginning of year	20	963
Expenditure in year	-	(210)
End of year	<u>20</u>	<u>753</u>

Notes to accounts (continued)

16 Called-up share capital

	1994 £	1993 £
<i>Authorised</i>		
37,832,661 special ordinary shares of £1 each	37,832,661	37,832,661
65,000 deferred ordinary shares of £1 each	65,000	65,000
5,000 7.5% (now 5.25% plus tax credit) preference shares of 1p each	50	50
11,567 7.5% (now 5.25% plus tax credit) "A" cumulative participating preference shares of 1p each	116	116
7,433 7.5% (now 5.25% plus tax credit) "B" cumulative participating preference shares of 1p each	74	74
38,000 ordinary shares of 1p each	380	380
	<u>37,898,281</u>	<u>37,898,281</u>
	1994 £	1993 £
<i>Allotted, called-up and fully-paid</i>		
37,372,182 special ordinary shares of £1 each	37,372,182	37,372,182
62,000 deferred ordinary shares of £1 each	62,000	62,000
5,000 7.5% (now 5.25% plus tax credit) preference shares of 1p each	50	50
11,567 7.5% (now 5.25% plus tax credit) "A" cumulative participating preference shares of 1p each	116	116
7,433 7.5% (now 5.25% plus tax credit) "B" cumulative participating preference shares of 1p each	74	74
38,000 ordinary shares of 1p each	380	380
	<u>37,434,802</u>	<u>37,434,802</u>

Notes to accounts (continued)

17 Movement on reserves

	Share premium account £'000	Revaluation reserves £'000	Profit and loss account £'000
At 1 January 1994	1	985	(14,398)
Amortisation of revaluation surplus	-	(3)	3
Profit and loss account	-	-	6,403
At 31 December 1994	<u>1</u>	<u>982</u>	<u>(7,992)</u>

The profit and loss reserve is distributable.

18 Reconciliation of movements in shareholders' funds

	1994 £'000	1993 £'000
Retained profit for the year	6,403	2,974
Opening shareholders' funds	<u>24,023</u>	<u>21,049</u>
Closing shareholders' funds	<u>30,426</u>	<u>24,023</u>

19 Cash flow information

a) Reconciliation of operating profit to net cash inflow from operating activities

	1994 £'000	1993 £'000
Operating profit	9,035	9,687
Depreciation	2,300	2,456
Loss (profit) on sale of tangible fixed assets	319	151
Decrease in stocks	315	512
Decrease in debtors	864	11,125
Increase in creditors	1,102	4,854
Decrease in provisions	<u>(210)</u>	<u>(768)</u>
Net cash inflow operating activities	<u>13,725</u>	<u>28,017</u>

Notes to accounts (continued)

19 Cash flow information (continued)

b) Analysis of changes in financing

	Share capital (including premium) £'000	Loans receivable £'000
Balance at 31 December 1992	37,436	5,350
Net cash outflow from financing	-	(377)
Provision against loans receivable	-	(142)
Balance at 31 December 1993	37,436	4,831
Net cash outflow from financing	-	(4,072)
Write back of provisions	-	1,170
Balance at 31 December 1994	37,436	1,929

c) Analysis of changes in cash and cash equivalents during the year

	Cash at bank and in hand £'000	Bank overdrafts £'000	Net £'000
Balance at 31 December 1992	3,546	(34,670)	(31,124)
Net cash (outflow) inflow	(3,217)	22,719	19,502
Balance at 31 December 1993	329	(11,951)	(11,622)
Net cash inflow	2,385	7,995	10,380
Balance at 31 December 1994	2,714	(3,956)	(1,242)

20 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were:

	1994 £'000	1993 £'000
Contracted for but not provided for	849	1,321
Authorised but not contracted for	230	197
	<u>1,079</u>	<u>1,518</u>

Notes to accounts (continued)

20 Guarantees and other financial commitments (continued)

b) *Contingent liabilities*

The company has cross-guaranteed overdrafts and other liabilities of certain fellow subsidiaries of International Paper Company. The directors are of the opinion that no liability on the guarantees will crystallise.

c) *Lease commitments*

The company has entered into non-cancellable operating leases in respect of plant and machinery, the payments for which extend over a period of up to 5 years. The total annual rental (including interest) for 1994 was £850,405 (1993 - £767,214). The lease agreements provide that the company will pay all insurance, maintenance and repairs. The company may continue, at its option, to use the plant and machinery after the expiration of the initial lease period at a nominal rental.

In addition, the company leases certain land and buildings on short-term and long-term operating leases. The annual rental on these leases was £677,020 (1993 - £691,330). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing leases are as follows:

	1994		1993	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Operating leases which expire				
- within 1 year	-	180	12	133
- within 2 to 5 years	-	573	-	533
- after 5 years	666	-	678	-
	<u>666</u>	<u>753</u>	<u>690</u>	<u>666</u>

Notes to accounts (continued)

20 Guarantees and other financial commitments (continued)

d) *Pension arrangements*

The company operates a defined contribution pension scheme for its employees. The pension cost for the year was £568,000 (1993 - £539,000). The pension cost for the year represents contributions payable by the company during the year.

The company also operates a defined benefit scheme for certain employees. The pension cost for the year was £59,743 (1993 - £62,821). The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit credit method. The most recent valuation was as at 1 April 1992. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 8.5% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at the rate of 3% per annum.

The latest valuation showed that the calculated Regular Contribution Rate was 14.5% per annum. This figure was further adjusted by 1.3% per annum to take account of experience deficits which are being amortised over 23 years, the average remaining service lifetime of employees. The method of amortising the experience deficit has been to express it as a level percentage of projected salaries.

The notional value of the scheme's assets, being an insurance policy, as at the valuation date was £488,400. This value should not be confused with the amount available on surrender (Discontinuance Surrender Value) which would be based on market rates of interest at the date of surrender and hence could be considerably lower. The actuarial value of the scheme's assets represented 80% of the benefits that had accrued to members, based on salaries projected to Normal Retirement Date.

On a current funding level basis, there was a deficiency of £94,700. The deficiency is the estimated amount by which the value of the assets on wind up of the scheme falls short of covering the current cost of securing all of the members' accrued benefits with allowance only for statutory revaluations applying on leaving service.

e) *VAT*

The company is registered for VAT purposes in a group of undertakings which share a common registration number. As a result, it has jointly guaranteed the VAT liability of the group, and failure by other members to meet liabilities of the group would give rise to additional liabilities for the company. The directors are of the opinion that no liability on these guarantees will crystallise.

Notes to accounts (continued)

21 Ultimate parent company

The company is a subsidiary undertaking of International Paper Company, incorporated in the state of New York, USA.

The largest group of which Horsell Graphic Industries Limited is a member and for which group accounts are drawn up is that headed by International Paper Company, whose principal place of business is at 2 Manhattanville Road, Purchase, New York 10577, USA. The smallest such group is that headed by International Paper Holdings (U.K.) Limited, incorporated in Great Britain and registered in England and Wales, whose principal place of business is Town Lane, Mobberley, Knutsford, Cheshire, WA16 7JL.

22 Post balance sheet event

Capital reorganisation

On 27 February 1995 the company passed a Special Resolution to reduce the authorised share capital of the company by £11,349,798.30 by cancelling and extinguishing 30p of the amount paid up or credited as paid up on each of the 37,372,182 issued special ordinary shares of £1 each from £1 to 70p.

The High Court confirmed the reduction of share capital on 22 March 1995 and the order of the court and the minute approved by the court were registered at Companies House on 23 March 1995. On that date, the sum of £11,211,654.60 was transferred to Other reserves.