

Horsell Graphic Industries Limited

Accounts 31 December 1996
together with directors' and auditors' reports

Registered number: 31919



Directors' report

For the year ended 31 December 1996

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 1996.

Principal activity and business review

The principal activity of the company continues to be the supply 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, dividends and recommended transfers to reserves are as follows:

	£'000
Retained profit, beginning of year	5,645
Loss for the year	(1,115)
Interim dividend paid	(7,185)
Transfer from revaluation reserve	3
Accumulated deficit, end of year	<u>(2,652)</u>

Directors and their interests

The directors who served during the year were as follows:

A.P. Copley	(Chairman)
D. Foley	(USA) (resigned 30 April 1996)
C. Greenberg	(USA)
J.F. Hickie	
D. Thompson	(resigned 31 August 1997)
D.G. Barnfield	(appointed 24 October 1996)
D.J. Edwards	(appointed 24 October 1996)
L.H. Powell	(appointed 24 October 1996)
G. Turton	(appointed 24 October 1996)

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

Directors' report (continued)

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.

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.

Directors' report (continued)

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.M. Cook *AM Cook*

Secretary

Howley Park Estate

Morley

Leeds

LS27 0QT

21 October 1997

Auditors' report

Manchester

To the Shareholders of Horsell Graphic Industries Limited:

We have audited the accounts on pages 5 to 20 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 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

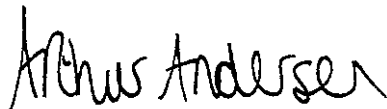
Basis of opinion

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 1996 and of its loss 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

21 October 1997

Profit and loss account

For the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
Turnover	2	92,538	101,853
Cost of sales		(70,776)	(75,403)
Gross profit		21,762	26,450
Other operating expenses	3	(20,564)	(19,348)
Exceptional costs	4	(750)	(2,004)
Operating profit		448	5,098
Profit on sale of fixed asset investment		-	1,135
Profit on sale of investment property		-	435
Provision for fundamental reorganisation	5	(577)	-
Other interest receivable and similar income		407	536
Amounts (written off) back to investments	6	(617)	774
Interest payable and similar charges	7	(878)	(1,360)
(Loss) profit on ordinary activities before taxation	8	(1,217)	6,818
Tax on (loss) profit on ordinary activities	10	102	(1,261)
(Loss) profit for the financial year		(1,115)	5,357
Dividends paid and proposed	11	(7,185)	-
Retained (loss) profit for the year		(8,300)	5,357

All activity has arisen from continuing operations. The company has no recognised gains or losses other than the retained loss for the year. A statement of movement on reserves is given in note 20.

Note of historical cost profits and losses

For the year ended 31 December 1996

	1996 £'000	1995 £'000
Reported (loss) profit on ordinary activities before taxation	(1,217)	6,618
Realisation of property gains from prior years	-	285
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	3	3
Historical cost (loss) profit on ordinary activities before taxation	(1,214)	6,906
Historical cost (loss) profit for the year retained after taxation and dividends	(8,297)	5,645

The accompanying notes are an integral part of these statements.

Balance sheet

31 December 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	12	16,627	16,479
Investments	13	6,197	6,814
		<u>22,824</u>	<u>23,293</u>
Current assets			
Stocks	14	15,287	13,539
Debtors: due after more than one year	15	1,696	2,397
Debtors: due within one year	15	26,004	27,889
Cash at bank and in hand		2,936	4,363
		<u>45,923</u>	<u>48,188</u>
Creditors: Amounts falling due within one year	16	(36,209)	(31,373)
Net current assets		<u>9,714</u>	<u>16,815</u>
Total assets less current liabilities		<u>32,538</u>	<u>40,108</u>
Creditors: Amounts falling due after more than one year	17	(709)	(723)
Provisions for liabilities and charges	18	(4,346)	(3,602)
Net assets		<u>27,483</u>	<u>35,783</u>
Capital and reserves			
Called-up share capital	19	26,223	26,223
Share premium account	20	1	1
Revaluation reserve	20	691	694
Other reserves	20	3,220	3,220
Profit and loss account	20	(2,652)	5,645
Equity shareholders' funds		<u>27,483</u>	<u>35,783</u>

Signed on behalf of the Board

J.F. Hickie



Director

21 October 1997

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

Notes to accounts

31 December 1996

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 and in accordance with applicable accounting standards. Assets and liabilities are recognised where, as a result of past transactions or events, the company has rights or other access to future economic benefits controlled by the company, or obligations to transfer economic benefits.

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 12. 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

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.

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.

Notes to accounts (continued)

1 Accounting policies (continued)

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.

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 22d.

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.

Notes to accounts (continued)

1 Accounting policies (continued)

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.

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:

	1996 £'000	1995 £'000
United Kingdom	42,053	44,162
Rest of Europe	24,981	29,513
Americas	4,186	5,382
Other	21,318	22,796
	<u>92,538</u>	<u>101,853</u>

3 Other operating expenses

	1996 £'000	1995 £'000
Distribution costs	9,765	10,144
Administrative expenses	10,799	9,204
	<u>20,564</u>	<u>19,348</u>

4 Exceptional costs

Exceptional costs of £750,000 in 1996 and £2,004,000 in 1995 relate to provisions made in connection with the commitment termination costs on a number of leased premises no longer used by the company.

5 Provision for fundamental reorganisation

The provision for fundamental reorganisation relates to a provision created to provide for the loss on disposal of the Engineering Division of the company, which was disposed of in May 1997.

Notes to accounts (continued)

6 Amounts written off (back to) investments

	1996 £'000	1995 £'000
Fixed assets		
- due to temporary fluctuations in value	<u>617</u>	<u>(774)</u>

7 Interest payable and similar charges

	1996 £'000	1995 £'000
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	643	758
- repayable after five years	-	47
On group loans	<u>235</u>	<u>555</u>
	<u>878</u>	<u>1,360</u>

8 (Loss) profit on ordinary activities before taxation

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

	1996 £'000	1995 £'000
Rent receivable (net)	(102)	(92)
Depreciation and amounts written off owned tangible fixed assets	2,511	2,196
Hire of plant and machinery under operating lease rentals	756	686
Other operating lease rentals	768	768
Auditors' remuneration		
- audit fees	60	60
- other	58	82
Staff costs (see note 9)	15,581	15,697
Research and development expenditure	<u>2,450</u>	<u>1,660</u>

9 Staff costs

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

	1996 £'000	1995 £'000
Employee costs during the year amounted to:		
Wages and salaries	13,453	13,692
Social security costs	1,247	1,249
Other pension costs (see note 22d)	<u>881</u>	<u>756</u>
	<u>15,581</u>	<u>15,697</u>

Notes to accounts (continued)

9 Staff costs (continued)

The average number of employees (including executive directors) was:

	1996 Number	1995 Number
Processing	452	465
Selling and distribution	182	186
Administration	80	77
	<u>714</u>	<u>728</u>

Directors' remuneration:

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

	1996 £'000	1995 £'000
Emoluments for management services (including pension contributions)	<u>288</u>	<u>291</u>

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

	1996 £'000	1995 £'000
Chairman and highest paid director	<u>90</u>	<u>74</u>

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

	1996 Number	1995 Number
Up to £ 5,000	2	3
£ 10,001 - £ 15,000	3	-
£ 15,001 - £ 20,000	1	-
£ 60,001 - £ 65,000	1	-
£ 65,001 - £ 70,000	-	2
£ 70,001 - £ 75,000	1	2
£ 85,001 - £ 90,000	<u>1</u>	<u>-</u>

Notes to accounts (continued)

10 Tax on (loss) profit on ordinary activities

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

	1996 £'000	1995 £'000
Corporation tax at 33% (1995 - 33%)	-	1,205
Deferred taxation arising from		
- capital allowances	(88)	139
- other timing differences	(250)	(80)
	<u>(338)</u>	<u>1,264</u>
Adjustment in respect of prior years		
- deferred tax	236	(3)
	<u>(102)</u>	<u>1,261</u>

The corporation tax charge for the year has been reduced by £870,000 (1995 - £1,106,000) due to group relief received free of charge from fellow group undertakings of £2,635,000 (1995 - £3,350,000).

11 Dividends paid and proposed

	1996 £'000	1995 £'000
Interim dividends paid on:		
Special ordinary shares of 19.18 pence per share (1995 - Nil pence)	7,168	-
Deferred ordinary shares of 27.40 pence per share (1995 - Nil pence)	17	-
7.5% preference shares of 0.28 pence per share (1995 - Nil pence)	-	-
7.5% "A" cumulative participating preference shares of 0.28 pence per share (1995 - Nil pence)	-	-
7.5% "B" cumulative participating preference shares of 0.27 pence per share (1995 - Nil pence)	-	-
Ordinary shares of 0.27 pence per share (1995 - Nil pence)	-	-
	<u>7,185</u>	<u>-</u>

Notes to accounts (continued)

12 Tangible fixed assets

a) The movement in the year was as follows:

	Land and buildings			Plant and machinery £'000	Total £'000
	Freehold £'000	Long leasehold £'000	Short leasehold £'000		
Cost or valuation					
Beginning of year	3,732	1,928	713	25,715	32,088
Additions	561	6	18	2,340	2,925
Disposals	-	-	-	(1,204)	(1,204)
End of year	4,293	1,934	731	26,851	33,809
Depreciation					
Beginning of year	453	148	299	14,709	15,609
Charge	101	35	42	2,333	2,511
Disposals	-	-	-	(938)	(938)
End of year	554	183	341	16,104	17,182
Net book value					
Beginning of year	3,279	1,780	414	11,006	16,479
End of year	3,739	1,751	390	10,747	16,627

Freehold and long leasehold land amounting to £2,013,000 (1995- £2,013,000) has not been depreciated.

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

b) Basis of valuation

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

Freehold and long leasehold land and buildings are shown at a 1989 open market basis valuation with additions at cost as shown below:

	1996		1995	
	Freehold £'000	Long leasehold £'000	Freehold £'000	Long leasehold £'000
Professionally valued				
- existing use	3,300	1,200	3,300	1,200
Valued by the directors				
- alternative use	-	613	-	613
Total at valuation	3,300	1,813	3,300	1,813
Subsequent additions at cost	993	121	432	115
Cost/valuation end of year	4,293	1,934	3,732	1,928

Notes to accounts (continued)

12 Tangible fixed assets (continued)

If land and buildings had not been revalued they would have been included at the following amounts:

	1996		1995	
	Freehold £'000	Long leasehold £'000	Freehold £'000	Long leasehold £'000
Original cost	2,835	1,605	2,274	1,599
Depreciation based on cost	(478)	(154)	(421)	(122)
Net book value	<u>2,357</u>	<u>1,451</u>	<u>1,853</u>	<u>1,477</u>

13 Fixed asset investments

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

	1996 £'000	1995 £'000
Subsidiary undertakings	<u>6,197</u>	<u>6,814</u>

a) Principal investments

The company has investments in the following subsidiary undertakings:

	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%

Notes to accounts (continued)

13 Fixed asset investments (continued)

b) Movement during the year

	Subsidiary undertakings £'000
Cost	
Beginning and end of year	11,270
Amounts written off	
Beginning of year	4,456
Written off during the year	617
End of year	5,073
Net book value, beginning of year	6,814
Net book value, end of year	6,197

14 Stocks

	1996 £'000	1995 £'000
Raw materials and consumables	3,543	3,995
Work-in-progress	3,938	2,053
Finished goods and goods for resale	7,806	7,491
	15,287	13,539

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

Notes to accounts (continued)

15 Debtors

	1996 £'000	1995 £'000
Amounts falling due after more than one year:		
Trade debtors	<u>1,696</u>	<u>2,397</u>
Amounts falling due within one year:		
Trade debtors	18,055	18,726
Amounts owed by immediate parent company	2,913	2,532
Amounts owed by subsidiary undertakings	186	287
Amounts owed by other group undertakings	1,037	4,554
VAT	658	267
Other debtors	2,777	1,268
Prepayments and accrued income	<u>378</u>	<u>255</u>
	<u>26,004</u>	<u>27,889</u>

16 Creditors: Amounts falling due within one year

	1996 £'000	1995 £'000
Bank loans and overdrafts	932	432
Trade creditors	8,879	9,235
Amounts owed to immediate parent company	6,807	5,962
Amounts owed to subsidiary undertakings	1,282	1,551
Amounts owed to other group undertakings	13,480	8,756
Other creditors		
- UK corporation tax payable	266	1,167
- ACT payable	1,585	-
- social security and PAYE	437	681
- other	914	1,225
Accruals and deferred income	<u>1,627</u>	<u>2,364</u>
	<u>36,209</u>	<u>31,373</u>

17 Creditors: Amounts falling due after more than one year

	1996 £'000	1995 £'000
Obligations under finance leases - due after five years	613	613
Accruals and deferred income	<u>96</u>	<u>110</u>
	<u>709</u>	<u>723</u>

Notes to accounts (continued)

18 Provisions for liabilities and charges

	1996 £'000	1995 £'000
Deferred taxation	833	935
Provision for warranty costs	65	65
Other provisions	3,448	2,602
	<u>4,346</u>	<u>3,602</u>

	Deferred taxation £'000	Warranty provision £'000	Reorganisation Provision £'000	Total £'000
Beginning of year	935	65	2,602	3,602
Charged (credited) to profit and loss account	(102)	-	899	797
Utilised in year	-	-	(53)	(53)
	<u>833</u>	<u>65</u>	<u>3,448</u>	<u>4,346</u>

Deferred taxation provided is as follows:

	1996 £'000	1995 £'000
Excess of tax allowances over book depreciation of fixed assets	1,268	1,301
Other timing differences related to		
- current assets and liabilities	(220)	(169)
- non-current assets and liabilities	(215)	(197)
	<u>833</u>	<u>935</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.

Notes to accounts (continued)

19 Called-up share capital

	1996 £	1995 £
<i>Authorised</i>		
37,832,661 special ordinary shares of 70p each	26,482,863	26,482,863
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>26,548,483</u>	<u>26,548,483</u>
	1996 £	1995 £
<i>Allotted, called-up and fully-paid</i>		
37,372,182 special ordinary shares of 70p each	26,160,527	26,160,527
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>26,223,147</u>	<u>26,223,147</u>

All shares are held by subsidiary undertakings of the ultimate parent company, International Paper Company, who rank all shares as holding the same rights.

20 Reserves

	Share premium account £'000	Revaluation reserves £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Beginning of year	1	694	3,220	5,645	9,560
Transfer from revaluation reserve	-	(3)	-	3	-
Loss for the year	-	-	-	(8,300)	(8,300)
End of year	<u>1</u>	<u>691</u>	<u>3,220</u>	<u>(2,652)</u>	<u>1,260</u>

Notes to accounts (continued)

21 Reconciliation of movements in shareholders' funds

	1996 £'000	1995 £'000
(Loss) profit for the year	(1,115)	5,357
Interim dividend paid	(7,185)	-
Net (reduction from) addition to shareholders' funds	(8,300)	5,357
Opening shareholders' funds	35,783	30,426
Closing shareholders' funds	27,483	35,783

22 Guarantees and other financial commitments

a) Capital commitments

Capital commitments are as follows:

	1996 £'000	1995 £'000
Contracted for but not provided for	837	55

b) Contingent liabilities

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

The company has annual commitments in respect of operating leases expiring:

	1996		1995	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Within one year	-	236	-	553
Within two to five years	-	529	-	432
After five years	768	-	768	-
	768	765	768	985

Notes to accounts (continued)

22 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 £861,433 (1995 - £725,000).

The company also operates a defined benefit scheme for certain employees. The pension cost for the year was £19,746 (1995 - £30,906). The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit credit method.

The most recent formal actuarial valuation of this scheme was at 1 April 1995 and was based on the projected unit method. Details of this valuation are as follows:

Main assumptions (% pa)	
- rate of increase in salaries	7.0
- rate of increase in pensions in payment	3.0
- return on scheme investments	8.5
Results:	
- market value of scheme assets	£765,000
- level of funding (%)	107
- regular contribution rate (%)	16.2

The actual contribution rate based on the advice of the actuary is 14.8%. Based on this contribution rate it is expected that the surplus will be eliminated over a period of 20 years.

23 Cash flow statement

As permitted by Financial Reporting Standard No. 1 (revised), the company has not produced a cash flow statement because its ultimate parent company, International Paper Company has prepared consolidated accounts which include the accounts of the company for the year.

24 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.