Registered Number 58810

J R Crompton Limited

Directors' report and financial statements

for the year ended 31 December 2003

J R Crompton Limited

Directors' report and financial statements for the year ended 31 December 2003

Contents

Directors and advisers for the year ended 31 December 2003 1
Directors' report for the year ended 31 December 2003 2
Independent auditors' report to the members of J R Crompton Limited 4
Profit and loss account for the year ended 31 December 2003 5
Statement of total recognised gains and losses for the year ended 31 December 2003 6
Balance sheet as at 31 December 2003 7
Reconciliation of movements in shareholders' funds for the year ended 31 December 2003 8
Notes to the financial statements for the year ended 31 December 2003 9

J R Crompton Limited

Directors and advisers for the year ended 31 December 2003

Directors
P J Ashby
B Tomkinson
C J Jowsey
M H Walker

Secretary
M H Walker

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12th Floor
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M3 3JZ

Auditors
PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
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M2 3PW

Solicitors
DLA
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Bankers
HSBC Bank plc
100 King Street
Manchester
M60 2HD

Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements of the company for the year ended 31 December 2003.

Principal activities
The company's principal activity during the year was the manufacture and sale of special long fibre papers.

Review of business and future developments
The company had another successful year with all key performance indicators ahead of 2002. Our turnover of £58,573,000 was up by £2,990,000, or 5.4%, and our sales volume, measured in tonnes, increased by 5.5%. Our operating profit before exceptional items of £8,973,000 was 0.6% ahead of 2002.

We consolidated our position as the global market leader in teabag and coffee papers with a market share estimated by the directors of over 40%. We also continued our successful diversification into the sausage casing market with our patented and environmentally friendly casing papers.

We incurred exceptional costs before taxation of £1,023,000 during the year, of which £440,000 were charged against administration expenses and £583,000 were charged against cost of sales. The administration items comprised £281,000 of termination, redundancy and other related costs and £159,000 of costs related to an aborted transaction. The cost of sales charge represented costs incurred in working with MeadWestvaco Corporation in bringing back into commission an inclined wire paper machine at their Devon Valley site in Hele, Devon. After the year-end, the group completed the purchase of the site and certain assets, including the inclined wire paper machine noted above together with a further flat wire paper machine, as disclosed in note 23.

Operating profit after exceptional items was £7,950,000.

The company continues to invest in research and development both in improving existing products and in developing innovative new products.

Proposed dividend and transfer to reserves
The directors do not recommend the payment of a dividend.

The retained profit for the year, after charging exceptional items, is £5,437,000 *(2002: £5,002,000).*

Directors and their interests
The directors who held office during the year are given below:

P J Ashby
B Tomkinson (resigned 5 March 2004)
C J Jowsey
M H Walker

None of the directors who held office at the end of the financial year has any disclosable interest in the shares of the company.

The directors' interests in the share capital of the ultimate holding company, Westvan (2001) Limited, are given in the financial statements of that company.

According to the register of directors' interests no rights to subscribe for shares in or debentures of the company or any other group company were granted to the directors or any of their immediate families or exercised by them during the financial year.

Directors' report for the year ended 31 December 2003 (continued)

Employees
The company maintains a policy for providing employees with information on matters of concern aimed at achieving a common awareness of the financial and economic factors affecting the performance of the company. Regular briefings provide a forum for communication so that views can be taken into account in making decisions which are likely to affect the interests of employees. Incentives are provided to staff employees through a bonus scheme which is related to personal performance and group profitability.

Employment of disabled persons
Applications for employment by disabled persons are treated in the same way as any others. Company policy is to make special arrangements by providing the necessary training and opportunity for rehabilitation in cases of disablements while in the company's employment.

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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

Auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board

M H Walker
Secretary
14 May 2004.

J R Crompton Limited

Independent auditors' report to the members of J R Crompton Limited

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes which have been prepared under the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Directors' report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body, in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit 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 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 at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
14 May 2004

J R Crompton Limited

Profit and loss account for the year ended 31 December 2003

	Note	2003			2002		
		Before exceptional items £'000	**Exceptional items £'000**	**Total £'000**	Before exceptional items £'000	Exceptional items £'000	Total £'000
Turnover – continuing operations	2	**58,573**	**-**	**58,573**	55,583	-	55,583
Cost of sales	4	**(43,512)**	**(583)**	**(44,095)**	(40,017)	-	(40,017)
Gross profit		**15,061**	**(583)**	**14,478**	15,566	-	15,566
Distribution costs		**(2,317)**	**-**	**(2,317)**	(2,055)	-	(2,055)
Administrative expenses	4	**(3,771)**	**(440)**	**(4,211)**	(4,589)	(441)	(5,030)
Net operating expenses		**(6,088)**	**(440)**	**(6,528)**	(6,644)	(441)	(7,085)
Operating profit – continuing operations		**8,973**	**(1,023)**	**7,950**	8,922	(441)	8,481
Interest receivable	7	**6**	**-**	**6**	15	-	15
Interests payable and similar charges	8	**(2,444)**	**-**	**(2,444)**	(2,798)	-	(2,798)
Profit on ordinary activities before taxation	3	**6,535**	**(1,023)**	**5,512**	6,139	(441)	5,698
Tax on profit on ordinary activities	9	**(400)**	**250**	**(150)**	(828)	132	(696)
Profit on ordinary activities after taxation and retained for the financial year	19	**6,135**	**(773)**	**5,362**	5,311	(309)	5,002

Details of exceptional items are given in note 4 to the financial statements.

The notes on pages 10 to 24 form part of the financial statements.

Statement of total recognised gains and losses for the year ended 31 December 2003

	2003 £	2002 £
Profit for the financial year	**5,362**	5,002
Total recognised gains for the year	**5,362**	5,002
Prior year adjustment (see note 16)	-	(7,741)
Total recognised gains/(losses) since last annual report	**5,362**	(2,739)

J R Crompton Limited

Balance sheet as at 31 December 2003

	Note	2003		2002	
		£	£	£	£
Fixed assets					
Tangible assets	10		**48,834**		49,391
Investments	11		**1**		1
			48,835		49,392
Current assets					
Stock	12	**11,087**		10,531	
Debtors	13	**12,512**		11,782	
Cash at bank and in hand		**1,036**		155	
Total current assets		**24,635**		22,468	
Creditors - amounts falling due within one year	14	**(14,661)**		(11,174)	
Net current assets			**9,974**		11,294
Total assets less current liabilities			**58,809**		60,686
Creditors - amounts falling due after more than one year	15		**26,319**		33,198
Provisions for liabilities and charges	16		**11,216**		11,576
Capital and reserves					
Called up share capital	18	**20,100**		20,100	
Share premium account	19	**109**		109	
Profit and loss account	19	**1,065**		(4,297)	
Equity shareholders' funds			**21,274**		15,912
			58,809		60,686

The notes on pages 10 to 24 form part of the financial statements.

The financial statements were approved by the board of directors on 14 May 2004 and were signed on its behalf by:

P J Ashby
Director

J R Crompton Limited

Reconciliation of movements in shareholders' funds for the year ended 31 December 2003

	2003	2002
	£'000	£'000
Opening shareholders' funds as previously reported	**15,912**	18,651
Prior year adjustment (note 16)	-	(7,741)
Opening shareholders' funds as restated	**15,912**	10,910
Profit for the financial year	**5,362**	5,002
Closing shareholders' funds	**21,274**	15,912

Notes to the financial statements for the year ended 31 December 2003

1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost accounting rules.

Basis of accounting
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The company has followed the transitional arrangements of FRS 17 "Retirement Benefits" in these financial statements.

Basis of preparation
The financial statements have been prepared on the going concern basis which assumes that the company will continue to trade.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated accounts.

Related party transactions
As 100% of the company's voting rights are controlled within the group headed by Westvan (2001) Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Westvan (2001) Limited, within which this company is included, can be obtained from the address given in note 24.

Other related party transactions are set out in note 22 of these financial statements.

Tangible fixed assets and depreciation
Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	25 – 50 years
Leasehold land and buildings	life of lease
Plant and machinery	10 to 25 years
Motor vehicles	4 years

No depreciation is provided on freehold land or assets in the course of construction.

Investments
Investments are stated at cost less provision for permanent diminution in value if appropriate.

1 Accounting policies (continued)

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using either the rate of exchange ruling at the balance sheet date or the rate of exchange to which the company is committed under forward exchange contracts. The gains or losses on translation are included in the profit and loss account.

Leases
Assets held under finance leases and hire purchase contracts are included in fixed assets and the capital elements of the commitments are shown as obligations under finance leases and hire purchase contracts. Payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and their useful lives. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Research and development expenditure
Expenditure on research is written off to the profit and loss account in the period in which it is incurred. Development expenditure on specific product development is reviewed against future expected income streams from the product. Where the expected net income streams exceed the development costs incurred, the expenditure is deferred until the commercial production and sale of the new product commences. The deferred costs are then amortised over an appropriate period relevant to the expected commercial life of the product, not exceeding a period of five years.

Stocks
Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale the weighted average purchase price is used. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate portion of attributable overheads.

Post-retirement benefits
The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The company accounts for pension costs in accordance with SSAP 24, Accounting for Pension Costs and has provided transitional disclosures under FRS 17 in note 21 to the accounts.

Turnover
Turnover represents the amounts (excluding value added tax) derived from the provision of goods to customers during the year and is recognised on shipment.

Taxation
The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax, in accordance with FRS 19, is recognised in respect of all timing differences that have originated and have not reversed. Deferred tax balances are not discounted.

2 Analysis of turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are wholly derived from the company's principal activity of the manufacture and sale of special long fibre papers. An analysis of turnover by geographical market is as follows:

	2003 £'000	2002 £'000
United Kingdom	**17,013**	18,682
Rest of Europe	**12,332**	10,343
USA	**8,212**	7,837
Far East	**11,659**	9,415
Rest of the World	**9,357**	9,306
	58,573	55,583

3 Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated after charging/ (crediting):		
Auditors' remuneration:		
- Audit	**28**	28
- Other services, principally tax compliance services		
- current auditors	**22**	15
- previous auditors	**-**	9
Depreciation:		
- Owned assets	**3,236**	3,323
- Assets held under finance lease	**31**	24
Hire of plant & machinery	**182**	179
Research and development expenditure		
- current year	**63**	68
- prior year	**112**	54
Property rental costs	**149**	239
Profit on sale of fixed assets	**-**	(11)
Finance lease interest	**45**	8

4 Exceptional items

Exceptional costs were incurred as follows:

	2003 £'000	2002 £'000
Included in cost of sales:		
Commissioning costs	**583**	-
Included in administrative expenses:		
Aborted transaction costs	**159**	-
Termination, redundancy and other costs	**281**	239
Onerous lease provision and other costs	**-**	202
	440	441
Total exceptional items	**1,023**	441

5 Remuneration of directors

	2003 £'000	2002 £'000
Directors' emoluments:		
Remuneration as executives	**695**	579
Pension contributions	**87**	96
Fees	**14**	12
Total emoluments	**796**	687
Compensation for loss of office	**-**	95
	796	782

The emoluments, excluding pension contributions, of the highest paid director were £296,000 (*2002: £212,000*). Pension contributions of £25,000 (*2002: £24,000*) were paid on his behalf. He is a member of a defined benefit scheme, under which the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end, is £17,000 (*2002: £14,000*). The highest paid director also received a management fee of £20,000 *(2002: £16,667)* from Marla Innovations Limited, a related company (see notes 11 and 22).

Retirement benefits were accruing to 4 directors during the year (*2002: 5*) under defined benefit schemes.

6 Staff number and costs

The average monthly number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2003 Number	2002 Number
Production and engineering	**364**	344
Selling and administration	**47**	51
	411	395

	2003 £'000	2002 £'000
Wages and salaries	**10,734**	10,043
Social security costs	**906**	751
Pension costs	**879**	885
	12,519	11,679

7 Interest receivable

	2003 £'000	2002 £'000
Bank interest	**6**	15

8 Interest payable and similar changes

	2003 £'000	2002 £'000
Amounts payable on bank loans and overdrafts	**66**	52
Amounts payable on other loans	**1,882**	2,435
Other interest	**496**	311
	2,444	2,798

The amount payable on other loans was payable to Crompton Specialist Papermakers Limited. Interest is charged at 8% (*2002:8%*) on this intercompany balance.

J R Crompton Limited

9 Taxation

	2003 **£**	2002 £
Current tax:		
UK Corporation tax	-	-
Deferred tax:		
Origination and reversal of timing differences	**150**	*696*
Tax on profit on ordinary activities	**150**	696

Tax is lower than the standard rate of corporation tax in the UK of 30%. A detailed reconciliation is set out in the table below.

	2003 **£**	2002 £
Profit on activities before taxation	**5,512**	5,698
Profit on activities before taxation multiplied by standard rate of UK tax of 30%	**1,653**	1,709
Adjustments:		
Other expenses that are not deductible for tax purposes	**84**	75
Capital allowances for period in excess of depreciation	**42**	(182)
Utilisation of tax losses	-	(451)
Other timing differences (primarily pension timing differences)	**(151)**	(63)
Utilisation of Group relief for nil consideration	**(1,628)**	(1,088)
UK corporation tax	-	-

10 Tangible assets

	Land and buildings	Plant and machinery	Motor vehicles	Payments on account for assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2003	12,796	69,298	24	597	82,715
Additions	-	-	-	2,710	2,710
Transfers	43	831	-	(874)	-
At 31 December 2003	**12,839**	**70,129**	**24**	**2,433**	**85,425**
Depreciation					
At 1 January 2003	1,636	31,670	18	-	33,324
Charge for the year	257	3,004	6	-	3,267
At 31 December 2003	**1,893**	**34,674**	**24**	**-**	**36,591**
Net book amount					
At 31 December 2003	**10,946**	**35,455**	**-**	**2,433**	**48,834**
At 31 December 2001	11,160	37,628	6	597	49,391

Included above are assets held under finance leases and similar hire purchase contracts with a net book value of £863,000 (*2002:£98,000)*. The depreciation charge for the year on these assets was £31,000 (*2002:£24,*000).

The net book value of land and buildings comprises:

	2003	2002
	£'000	£'000
Freehold	**10,910**	11,123
Short leasehold	**36**	37
	10,946	11,160

The gross amount of land and buildings includes £12,244,000 (*2002: £12,201,000*) of depreciable assets.

11 Fixed asset investments

The company has a £450 investment in a 45% interest in Marla Innovations Limited.

Investment	Country of registration	Shares held	% holding	Nature of business
Marla Innovations Limited	England and Wales	'B' ordinary shares of £1 each	45%	Licensing of intellectual property

Marla Innovations Limited was incorporated on 19 July 1999. Management accounts have been prepared for the year to 31 December 2003. The investment in the company is treated as an associate. No account has been taken of the results for the period to 31 December 2003 in these financial statements on the grounds that they are not material, with a turnover of £214,000 *(2002: £168,000).*

Details of related party transactions with the company are disclosed in note 22.

The above joint venture is jointly managed through a management board, on which the other 45% shareholder is represented.

Mr P J Ashby, a director of the company, holds the remaining 10% of the share capital of Marla Innovations Limited.

12 Stocks

	2003 £'000	2002 £'000
Raw materials and consumables	**7,288**	7,070
Work in progress	**662**	572
Finished goods and goods for resale	**3,137**	2,889
	11,087	10,531

13 Debtors

	2003 £'000	2002 £'000
Trade debtors	**11,477**	10,699
Other debtors	**229**	333
Prepayments and accrued income	**806**	750
	12,512	11,782

All debtors fall due within one year.

14 Creditors – Amounts falling due within one year

	2003 £'000	2002 £'000
Bank loans and overdrafts	**2,698**	1,612
Obligations under finance leases and hire purchase contracts	**204**	41
Trade creditors	**6,886**	4,684
Bills of exchange payable	**3,096**	2,818
Taxation and social security	**330**	277
Accruals and deferred income	**1,447**	1,742
	14,661	11,174

15 Creditors – Amounts falling due after more than one year

	2003 £'000	2002 £'000
Amounts owed to group undertakings	**25,728**	33,154
Obligations under finance leases and hire purchase contracts	**591**	44
	26,319	33,198

Interest is due on the loan from the parent company at a rate of 8% (*2002:8%*) per annum. There are no fixed repayment terms in respect of this loan.

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2003 £'000	2002 £'000
Within one year	**204**	41
In the second to fifth years	**591**	44
	795	85

16 Provisions for liabilities and charges

	Pensions and similar obligations	Deferred taxation	Total
	£'000	**£'000**	**£'000**
At 1 January 2003	4,570	7,006	11,576
Cash movement in year	(1,365)	-	(1,365)
Charged to the profit and loss account for the year	855	150	1,005
At 31 December 2003	**4,060**	**7,156**	**11,216**

The amounts provided for deferred taxation are set out below:

	2003 £'000	2002 £'000
Difference between accumulated depreciation and capital allowances	**8,396**	8,399
Other timing differences:		
- Pension contributions and provisions	**(1,240)**	(1,393)
	7,156	7,006

During the year to 31 December 2002 the group adopted FRS 19 'Deferred Taxation' and fully provided for all such taxation. This resulted in a prior year adjustment of £7,741,000, being a reduction in reserves which was taken through the statement of total recognised gains and losses.

Details of the pension scheme are set out in note 21.

17 Contingent liabilities

There is an unlimited cross guarantee between group companies of £30,750,000 *(2002:£37,000,000)* in respect of bank borrowings, supported by a fixed and floating charge and key man insurance.

On 3 May 2003 a fatal accident occurred at one of the company's factories; the detailed investigation into which by the Police and the Health and Safety Executive is yet to be finalised. The directors have received reports from independent legal and technical advisors about the incident and believe that the likely level of any fines, penalties and costs which may arise from any actions that the Police and the Health and Safety Executive may take, would not be material to the financial position of the company.

18 Called up share capital

	2003 £'000	2002 £'000
Authorised		
201,500,000 ordinary shares of 10p each	**20,150**	20,150
200,869,590 deferred ordinary shares of US $0.0001 each	**13**	13
	20,163	20,163
Allotted, called up and fully paid		
200,869,590 ordinary shares of 10p each	**20,087**	20,087
200,869,590 deferred ordinary shares of US$0.0001 each	**13**	13
	20,100	20,100

Rights

The holders of the deferred shares shall not be entitled to participate in the profits or assets of the company unless on a return of assets the holders of every other class of shares in the company have received the sum of £1 million per share.

There are no voting rights attached to the deferred shares. The company is able to repurchase any or all of the deferred shares for a total of £1.

19 Reserves

	Share premium account £'000	Profit and loss account £'000
Opening reserves as at 1 January	109	(4,297)
Profit for the year	-	5,362
Closing reserves as at 31 December 2003	**109**	**1,065**

20 Commitments

(i) Capital commitments at the end of the financial year for which no provision has been made are as follows:

	2003 **£'000**	2002 £'000
Contracted	**413**	7
Authorised but not contracted	**1,377**	92

(ii) Annual commitments under non-cancellable operating lease are as follows:

	Land and buildings		**Other**	
	2003 **£'000**	2002 £'000	**2003** **£'000**	2002 £'000
Operating leases which expire:				
Within one year	64	-	21	20
In the second to fifth years inclusive	-	85	60	108
Over five years	114	114	-	-
	178	**199**	**81**	**128**

21 Pension commitments

The company operates a funded defined benefit scheme, costs being charged to the profit and loss account so as to spread the cost of pensions over employees working lives with the company in accordance with SSAP 24.

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 30 April 2002 with an updated full actuarial valuation as at 31 December 2003 carried out by a qualified independent actuary. The assumptions which have the most significant effect on the results of the valuation are:

Investment return	6.9% per annum
Salary increase	3.7% per annum
Pension increase (LPI)	2.7% per annum

The most recent actuarial valuation showed that the market value of the scheme's assets was £25,502,000 as at 31 December 2003 and that the actuarial value of those assets represented 64.2% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The pension charge for the year of £879,000 (*2002: £885,000*) included £127,000 (*2002: £484,000*) in respect of the amortisation of surpluses that are being recognised over the average remaining service lives of employees.

The company paid contributions on the basis of 12.8% of pensionable earnings for the months of January to April 2003, 18.2% in May 2003 and 18% from 1 June 2003 as set out in the schedule of contributions (2002: 12.8%). Employees contributed at a rate of 5% until 30 April 2003 and then at a rate of 7% from 1 May 2003.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

There is a pension provision of £4,060,000 (*2002: £4,570,000*) as at 31 December 2003.

21 Pension commitments (continued)

FRS 17

The scheme is closed to new entrants and under the method used to calculate pension costs in accordance with FRS 17, the costs as a percentage of pensionable payroll will tend to increase as the average age of membership increases.

Whilst the Company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The valuation at 30 April 2002 has been updated by the actuary on an FRS 17 basis as at 31 December 2003. The major assumptions used in this valuation were:

	2003	2002	2001
Rate of increase in salaries	**3.7%**	3.4%	4.0%
Rate of increase in pensions in payment	**2.7%**	2.4%	2.5%
Discount rate	**5.4%**	5.6%	5.8%
Inflation assumption	**2.7%**	2.4%	2.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The market value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, the expected rates of return on these assets and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return expected	**At 31 December 2003 £'000**	Long term rate of return expected	At 31 December 2002 £'000	Long term rate of return expected	At 31 December 2001 £'000
Equities	**7.50%**	**19,662**	7.50%	15,860	7.90%	19,734
Bonds and cash	**5.60%**	**2,140**	5.60%	656	5.80%	1,972
Government bonds	**4.50%**	**3,700**	4.50%	4,649	4.90%	3,525
Total market value of assets		**25,502**		21,165		25,231
Actuarial value of liabilities		**(39,738)**		(32,195)		(28,685)
Recoverable deficit in the scheme		**(14,236)**		(11,030)		(3,454)
Related deferred tax asset		**4,270**		3,309		1,036
Net pension liability		**(9,966)**		(7,721)		(2,418)

21 Pension commitments (continued)

The following amounts would have been recognised in the financial statements for the year to 31 December 2003 under the requirements of FRS 17:

Analysis of the amount charged to operating profit

	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
Service cost	**1,172**	1,244
Past service cost	-	-
Total operating charge	**1,172**	1,244

Analysis of net return on pension scheme

	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
Expected return on pension scheme assets	**1,467**	1,836
Interest on pension liabilities	**(1,825)**	(1,662)
Net return	**(358)**	174

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
Actual return less expected return on assets	**1,925**	(5,615)
Experience gains and losses on liabilities	-	(2,577)
Changes in assumptions	**(4,966)**	660
Actuarial loss recognised in STRGL	**(3,041)**	(7,532)

21 Pension commitments (continued)

Movement in deficit during the year	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
Deficit in scheme at beginning of year	**(11,030)**	(3,454)
Movement in year:		
Current service cost	**(1,172)**	(1,244)
Contributions	**1,365**	1,026
Reported net return on assets	**(358)**	174
Actuarial loss	**(3,041)**	(7,532)
Deficit in scheme at end of year	**(14,236)**	(11,030)

The actuarial valuation of 30 April 2002 showed a change in the funding position from a surplus of £2,234,000 at 30 April 1999 to a deficit of £2,487,000. Employer contributions from 1 June 2003 are at the rate of 18% of pensionable pay with annual increases, on 1 June each year, to the contribution rate as set out in the Schedule of Contributions.

Details of experience gains and losses for the year	2003	2002
Difference between expected and actual return on scheme assets:		
Amount (£000)	**1,925**	(5,615)
Percentage of scheme assets	**8%**	(27%)
Experience gains and losses on scheme liabilities:		
Amount (£000)	**-**	(2,577)
Percentage of scheme liabilities	**0%**	(8%)
Total amount recognised in statement of total recognised gains and losses:		
Amount (£000)	**(3,021)**	(7,532)
Percentage of scheme liabilities	**(8%)**	(23%)

22 Related party disclosures

During the year, management fees of £60,000 (*2002: £60,000*) were paid to venture capital providers or related institutions in respect of monitoring fees.

Royalties charged by the associate company, Marla Innovations Limited (note 11) to the company, amounted to £213,500 (*2002: £163,740*) of which £118,492 (*2002: £54,795*) is included within accruals at the year end. Expenses recharged by the company to Marla Innovations Limited amounted to £90,000 in the year *(2002: £88,125)*. One director received a management fee from Marla Innovations Limited which is disclosed in note 5 to these accounts.

23 Post balance sheet events

On 12 February 2004 the company purchased land, certain assets and the business carried on at Devon Valley Paper Mill, Hele, Exeter for a consideration of $8,000,000. The assets were acquired from MeadWestvaco UK Limited, a subsidiary of the US based MeadWestvaco Corporation.

24 Ultimate parent undertaking

The company is a subsidiary undertaking of Crompton Specialist Papermakers Limited which itself is a subsidiary of Westvan (2001) Limited, a company incorporated in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Westvan (2001) Limited which the directors consider to be the ultimate controlling party.

The smallest group in which they are consolidated is that headed by Crompton Specialist Papermakers Limited, a company incorporated in England and Wales.

The consolidated financial statements of these groups are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.