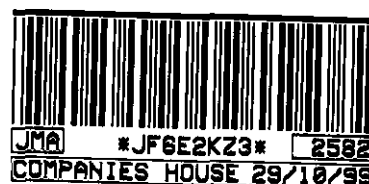


J R Crompton Limited

Directors' report and financial statements

31 December 1998

Registered number 58810



J R Crompton Limited

Directors' report and financial statements

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J R Crompton Limited

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 1998.

Principal activities

The principal activity of the company is the manufacture and sale of special long fibred papers.

Business review and future developments

1998 was a difficult trading year with turnover less than anticipated due to economic and political problems in several overseas markets.

A review of operations was undertaken in the final quarter of the year, which resulted in an exceptional charge against profits for the year (see note 4). The increased capacity available from the £40 million investment in a new paper machine at Lydney has enabled the business to close less efficient capacity at the paper mill in Heywood.

Proposed dividend and transfer to reserves

The directors recommend that no dividend be paid on the ordinary shares for the year.

The retained loss for the year is shown on page 6.

Research and development

The company continued to invest significant resources in research and development.

Employee involvement

The company maintains a policy of 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.

Employment of disabled persons

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

J R Crompton Limited

Directors' report (*continued*)

Supplier payment policy

Terms and conditions of payment for the supply of goods and services are generally agreed in advance with suppliers, and payments are made in accordance with those terms.

The number of days billings from suppliers outstanding at the end of the financial year was 102.

Directors and directors' interests

The directors who held office during the year were as follows:

PJ Ashby	(appointed 1 October 1998)
NAB Acland	(resigned 28 August 1998)
S Charters	(resigned 31 December 1998)
AS Dowd	
B Tomkinson	
GB Woodall	

PJ Ashby, who was appointed a director since the last Annual General Meeting, retires in accordance with the articles of association and, being eligible, offers himself for re-election.

AS Dowd and B Tomkinson retire by rotation and, being eligible, offer themselves for re-election at the next Annual General Meeting.

None of the directors have any interest in the share capital of the company.

The directors' interests in the share capital of the ultimate holding company are given in the financial statements of that company.

The directors, agents, officers and company secretary are indemnified out of the assets of the company against all losses and liabilities properly incurred by them in or about the execution and discharge of the duties of their office.

Year 2000

An extensive review was undertaken during the year to determine the potential year 2000 impact and from this exercise prioritised action plans have been developed to address the key risk areas to ensure continuity through the end of 1999 and beyond.

These plans also give due consideration to potential failures by key suppliers and customers.

Given the complexity of the issue, it would not be realistic for any organisation to guarantee that no year 2000 problems will arise. Any future costs of corrective work are not yet quantified but are not anticipated to be significant. Based on progress to date the board believe that the business will achieve an acceptable state of readiness.

J R Crompton Limited

Directors' report (*continued*)

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



AS Dowd
Secretary

Elton House
Wellington Street
Bury
Lancashire
BL8 2AS

J R Crompton Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining 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 financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



St James' Square
Manchester M2 6DS

Auditors' report to the members of JR Crompton Limited

We have audited the financial statements on pages 6 to 21.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all 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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

7 April 1999

J R Crompton Limited

Profit and loss account

for the year ended 31 December 1998

	Note	Before exceptional items £000	1998 Exceptional items £000	Total £000	1997 £000
Turnover from continuing operations	2	45,735	-	45,735	47,273
Cost of sales		(36,870)	(4,454)	(41,324)	(35,988)
Gross profit		8,865	(4,454)	4,411	11,285
Distribution costs		(2,861)	-	(2,861)	(2,857)
Administrative expenses		(2,446)	(1,053)	(3,499)	(2,401)
Operating profit/(loss) from continuing operations		3,558	(5,507)	(1,949)	6,027
Interest receivable and similar income	7	155	-	155	200
Interest payable and similar charges	8	(5,312)	-	(5,312)	(5,699)
(Loss)/profit on ordinary activities before taxation	2-8	(1,599)	(5,507)	(7,106)	528
Tax on (loss)/profit on ordinary activities	9	211	-	211	130
(Loss)/profit on ordinary activities after taxation		(1,388)	(5,507)	(6,895)	658
Dividends	10	-	-	-	(1,300)
Retained loss for the financial year		(1,388)	(5,507)	(6,895)	(642)
Retained profit brought forward		1,896	-	1,896	2,538
Retained (loss)/profit carried forward		508	(5,507)	(4,999)	1,896

The company has no recognised gains or losses in either the current or preceding year other than those reported above and therefore no separate statement of total recognised gains and losses has been presented.

Further information on the exceptional items is given in note 4 to the financial statements.

J R Crompton Limited

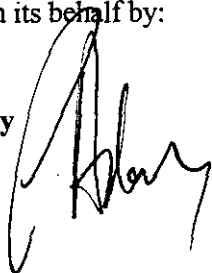
Balance sheet

at 31 December 1998

	Note	1998 £000	1997 £000
Fixed assets			
Tangible assets	11	58,915	63,452
Current assets			
Stocks	12	8,238	10,018
Debtors	13	7,883	7,739
Cash at bank and in hand		1,452	4,038
		<u>17,573</u>	<u>21,795</u>
Creditors: amounts falling due within one year	14	<u>(8,676)</u>	<u>(9,166)</u>
Net current assets		8,897	12,629
Total assets less current liabilities		67,812	76,081
Creditors: amounts falling due after more than one year	15	(48,754)	(52,029)
Provisions for liabilities and charges	16	(3,848)	(1,817)
Accruals and deferred income	17	-	(130)
Net assets		15,210	22,105
Capital and reserves			
Called up share capital	19	20,087	20,087
Share premium account	20	109	109
Warrant reserve	20	13	13
Profit and loss account	20	(4,999)	1,896
Equity shareholders' funds		15,210	22,105

These financial statements were approved by the board of directors on 30 March 1999 and were signed on its behalf by:

PJ Ashby
Director



J R Crompton Limited

Reconciliation of movements in shareholders' funds *for the year ended 31 December 1998*

	1998 £000	1997 £000
(Loss)/profit for the financial year	(6,895)	658
Dividends	-	(1,300)
Net reduction in shareholders' funds	<u>(6,895)</u>	<u>(642)</u>
Opening shareholders' funds	22,105	22,747
Closing shareholders' funds	<u><u>15,210</u></u>	<u><u>22,105</u></u>

J R Crompton Limited

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

The financial statements have been prepared on the going concern basis which assumes that the group will continue to trade. This in turn depends on the continued support of the group's bankers and institutional investors. For the years 1998 and 1999 the institutional investors have agreed not to have their dividends paid and in addition the mezzanine provider has agreed that no interest be paid in 1999.

If the group were unable to continue to trade, adjustments would have to be made to reduce the value of the assets to their recoverable amount, to provide for any further liabilities that might arise and to reclassify fixed assets and long term liabilities and current assets and liabilities.

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard No 1 (revised) to prepare a cash flow statement as it is a wholly owned subsidiary of Crompton Specialist Papermakers Limited and its cash flows are included within the consolidated cash flow statement of that company.

Related party transactions

The directors have taken advantage of the exemption in Financial Reporting Standard No 8, paragraph 3(c), and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

Fixed assets and depreciation

Depreciation is provided by the company 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/motor vehicles	-	4 to 25 years

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

Foreign currencies

Transactions in foreign currencies are recorded using exchange rates 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 committed under forward exchange rates and the gains or losses on translation are included in the profit and loss account.

J R Crompton Limited

Notes *(continued)*

1 **Accounting policies *(continued)***

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

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.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

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

J R Crompton Limited

Notes (continued)

2 Turnover and (loss)/ profit on ordinary activities before taxation

Turnover and (loss)/profit on ordinary activities before taxation arise from the company's principal activities. Turnover and (loss)/profit before taxation have not been analysed between the various classes of business and geographical markets because it is the opinion of the directors that disclosure would be seriously prejudicial to the interests of the company.

3 (Loss)/profit on ordinary activities before taxation

	1998 £000	1997 £000
<i>(Loss)/profit on ordinary activities before taxation is stated:</i>		
<i>after charging</i>		
Auditors' remuneration		
Audit	22	23
Other services	19	16
Depreciation	5,764	3,360
Hire of plant and machinery - rentals payable under operating leases	291	254
Research and development expenditure	687	787
Property rental costs	14	8
Exchange loss	31	24
Loss on sale of fixed assets	4	-
	<hr/>	<hr/>
<i>after crediting</i>		
Profit on sale of fixed assets	-	(27)
	<hr/>	<hr/>

J R Crompton Limited

Notes (continued)

4 Exceptional items

During the year the company implemented a significant restructuring plan. The directors have also revised certain accounting estimates and reviewed the operation and overheads of the company. This has led to the exceptional cost of £5,507,000 as disclosed in the consolidated profit and loss account and is made up as follows:

Included in cost of sales:	£000
Redundancy and related costs	1,068
Accelerated depreciation (note 11)	1,636
Asset provisions	92
Stock write downs	556
Revision in stock provision estimates	342
Restatement of asset lives (note 11)	400
Holiday pay due to change in shift patterns	360
	<hr/> 4,454
Included in administrative expenses:	
Redundancy and related costs	277
Other costs	230
Restatement of asset lives (note 11)	276
Contract cancellations	30
Revision in debtor provision estimates	240
	<hr/> 1,053

5 Remuneration of directors

No remuneration was paid to the directors during the year (1997: £nil).

J R Crompton Limited

Notes (continued)

6 Staff numbers and costs

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

	Number of employees	
	1998	1997
Production and engineering	418	420
Administration	64	68
	<u>482</u>	<u>488</u>

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£000	£000
Wages and salaries	10,106	10,655
Social security costs	807	842
Other pension costs (see note 22)	765	637
	<u>11,678</u>	<u>12,134</u>

7 Interest receivable and similar income

	1998	1997
	£000	£000
Interest receivable	78	200
Other income	77	-
	<u>155</u>	<u>200</u>

J R Crompton Limited

Notes (continued)

8 Interest payable and similar charges

	1998 £000	1997 £000
On bank loans and overdrafts	-	3
On other loans	5,312	5,696
	<u>5,312</u>	<u>5,699</u>
	<u><u>5,312</u></u>	<u><u>5,699</u></u>

The amount payable on other loans, was payable to the parent company.

9 Taxation

	1998 £000	1997 £000
Deferred taxation (see note 16)	(203)	(167)
Irrecoverable advance corporation taxation	-	37
Over provision re prior years	(8)	-
	<u>(211)</u>	<u>(130)</u>
	<u><u>(211)</u></u>	<u><u>(130)</u></u>

There is no charge to taxation due to the tax losses within the company of £10,017,000 (1997: £4,293,000).

10 Dividends

	1998 £000	1997 £000
Ordinary shares:		
Final - 0.647p per share	-	1,300
	<u><u>-</u></u>	<u><u>1,300</u></u>

J R Crompton Limited

Notes (continued)

11 Tangible fixed 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 beginning of year	13,606	65,232	7	669	79,514
Additions	-	-	35	1,201	1,236
Transfers from assets in course of construction	158	1,128	-	(1,286)	-
Disposals	-	(117)	-	-	(117)
At end of year	13,764	66,243	42	584	80,633
Depreciation					
At beginning of year	229	15,826	7	-	16,062
Transfer	166	(166)	-	-	-
Charge for year	276	3,175	1	-	3,452
Accelerated depreciation	179	1,457	-	-	1,636
Restatement of asset lives	-	676	-	-	676
On disposals	-	(108)	-	-	(108)
At end of year	850	20,860	8	-	21,718
Net book value					
At 31 December 1998	12,914	45,383	34	584	58,915
At 31 December 1997	13,377	49,406	-	669	63,452

The net book value of land and buildings comprises:

	1998 £000	1997 £000
Freehold	12,874	13,337
Short leasehold	40	40
	12,914	13,377

The gross amount of land and buildings includes £12,968,000 (1997: £13,000,000) of assets which are depreciable.

J R Crompton Limited

Notes (continued)

12 Stocks

	1998 £000	1997 £000
Raw materials and consumables	4,690	5,165
Work in progress	1,323	1,464
Finished goods and goods for resale	2,225	3,389
	<u>8,238</u>	<u>10,018</u>

13 Debtors

	1998 £000	1997 £000
Trade debtors	7,641	7,284
Amounts owed by parent and fellow subsidiary undertakings	-	46
Tax recoverable	-	104
Prepayments and accrued income	242	305
	<u>7,883</u>	<u>7,739</u>

All debtors fall due within one year.

J R Crompton Limited

Notes (continued)

14 Creditors: amounts falling due within one year

	1998 £000	1997 £000
Trade creditors	4,961	5,256
Bills of exchange payable	1,590	845
Amounts owed to fellow subsidiary undertakings	21	-
Other creditors including taxation and social security:		
Other taxes and social security	376	611
Accruals and deferred income	1,728	2,454
	<u>8,676</u>	<u>9,166</u>

15 Creditors: amounts falling due after more than one year

	1998 £000	1997 £000
Amounts owed to parent and fellow subsidiary undertakings	<u>48,754</u>	<u>52,029</u>

The company have granted a fixed and floating charge, supported by cross guarantees and keyman insurance, in support of the group's bank borrowing (see also note 18).

J R Crompton Limited

Notes (continued)

16 Provisions for liabilities and charges

	Pensions and similar obligations £000	Deferred taxation £000	Other provisions £000	Total £000
At beginning of year	2,633	(816)	-	1,817
Charge/(credit) for the year in the profit and loss account	765	(203)	1,469	2,031
At end of year	3,398	(1,019)	1,469	3,848

The deferred tax asset relates to the SSAP 24 pension adjustment.

The other provisions are detailed below and have been made in accordance with Financial Reporting Standard No 12

	£000
Provision for redundancies & associated costs	1,157
Asset provisions	82
Other costs	230
	<u>1,469</u>

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1998		1997	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Difference between accumulated depreciation and capital allowances	-	6,335	-	10,096
Other timing differences	(1,019)	(3,120)	(816)	(534)
	<u>(1,019)</u>	<u>3,215</u>	<u>(816)</u>	<u>9,562</u>

17 Accruals and deferred income

	1998 £000	1997 £000
Other loans	-	130

J R Crompton Limited

Notes (continued)

18 Contingent liabilities

There is an unlimited cross guarantee between group companies of £48,820,000 (1997: £54,010,000) in respect of bank borrowings.

19 Called up share capital

	1998 £000	1997 £000
<i>Authorised</i>		
200,869,590 Ordinary shares of US \$ 0.0001 each	13	13
201,500,000 Deferred ordinary shares of 10p each	20,150	20,150
	<hr/> 20,163	<hr/> 20,163
<i>Allotted, called up and fully paid</i>		
200,869,590 Deferred ordinary shares of 10p each	20,087	20,087
	<hr/> 20,087	<hr/> 20,087

The ordinary shares were reclassified into deferred shares during 1995. A one for one bonus issue of bearer warrants to subscribe for 200,869,590 ordinary shares of US \$ 0.0001 each was also made during 1995. The bonus issue was debited to the share premium account. Warrants were then issued over these shares.

Rights

Deferred shares

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 these shares. The company is able to repurchase any or all of the deferred shares for a total of £1.

Warrants

The bearer of the warrant shall have the same rights and privileges as he would have had if his name had been included as a holder of the shares specified in the warrant.

J R Crompton Limited

Notes (continued)

20 Reserves

	Share premium account £000	Warrant reserve £000	Profit and loss account £000
At beginning of year	109	13	1,896
Transfer to profit and loss account	-	-	(6,895)
At end of year	<u>109</u>	<u>13</u>	<u>(4,999)</u>

21 Commitments

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

	1998 £	1997 £
Contracted	109	143
Authorised but not contracted	274	395
	<u> </u>	<u> </u>

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

	Other 1998 £000	1997 £000
Operating leases which expire:		
Within one year	27	39
In the second to fifth years inclusive	195	170
	<u> </u>	<u> </u>

J R Crompton Limited

Notes (continued)

22 Pension scheme

As explained in the accounting policies set out on page 10, the company operates a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. 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 1 May 1998. 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.

The pension charge for the period of £765,000 (1997:£637,000) included £103,000 (1997:£160,000) in respect of the amortisation of surpluses that are being recognised over the average remaining service lives of employees.

The most recent actuarial valuation showed that the market value of the scheme's assets was £25,923,764 and that the actuarial value of those assets represented 97% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The company has been on a contribution holiday since 1 November 1996 but following the latest actuarial valuation, resumed contributions from 1 January 1999 on a basis of 10% of pensionable earnings.

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

23 Ultimate parent company

The company is a subsidiary undertaking of Crompton Specialist Papermakers Limited incorporated in England and Wales registered in Great Britain.

The largest group in which the results of the company are consolidated is that headed by Crompton Specialist Papermakers Limited.

The consolidated financial statements of this group are available to the public and may be obtained from the registered office of the company.