Registered Number 58810

J R Crompton Limited

Directors' report and financial statements

for the year ended 31 December 2002

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J R Crompton Limited

Directors' report and financial statements for the year ended 31 December 2002

Contents

J R Crompton Limited

Directors and advisers for the year ended 31 December 2002

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

Secretary
M H Walker

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M60 2HD

J R Crompton Limited

Directors' report for the year ended 31 December 2002

The directors present their report and the audited financial statements of the company for the year ended 31 December 2002.

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 a successful year with all key performance indicators substantially ahead of 2001. Sales were up by 4.1% and operating profit before non-recurring exceptional items increased by 12.9%.

Our market share increased to over 40% of the global teabag paper market and we managed to successfully diversify into the sausage casing market during the year. Our patented and environmentally friendly casing product has made us the sole supplier to the second largest sausage casing customer in the world.

Our performance was recognised by us being awarded the Manchester Evening News Business of the Year Award for the 'Most Innovative Company in the North West of England'.

Our turnover of £55,583,000 was £2,180,000 (4.1%) ahead of 2001. Our operating profit before exceptional items of £8,922,000 was £1,022,000 (12.9%) ahead of 2001.

Exceptional administration expenses of £441,000 were incurred during the year, comprising £239,000 of termination and redundancy costs and an onerous lease provision and other costs of £202,000. Our operating profit after exceptional items of £8,481,000 was 20.2% ahead of 2001.

During the year, the group adopted FRS 19, "Deferred Taxation" and as a result has fully provided for all such taxation. This has resulted in a prior year adjustment as shown on page 8 to these accounts.

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 £5,002,000 *(2001: £2,617,000).*

The profit for the year previously reported was £4,111,000. This has been restated due to the adoption of FRS 19 – Deferred Tax (see note 16).

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

P J Ashby
B Tomkinson
C Hill (resigned 31 October 2002)
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 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.

J R Crompton Limited

Directors' report for the year ended 31 December 2002 (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 2002, 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 of fraud and other irregularities.

Auditors
During the year, KPMG LLP resigned as auditors and the directors appointed PricewaterhouseCoopers LLP in their place.

By order of the Board

M H Walker
Secretary
31 March 2003

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 2002 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
31 March 2003

J R Crompton Limited

Profit and loss account
for the year ended 31 December 2002

	Note	2002			2001 (as restated)		
		Before exceptional items £'000	**Exceptional items £'000**	**Total £'000**	Before exceptional items £'000	Exceptional items £'000	Total £'000
Turnover – continuing operations	2	**55,583**	**-**	**55,583**	53,403	-	53,403
Cost of sales		**(40,017)**	**-**	**(40,017)**	(40,027)	(351)	(38,684)
Gross profit		**15,566**	**-**	**15,566**	13,376	(351)	13,025
Distribution costs		**(2,055)**	**-**	**(2,055)**	(1,753)	-	(1,753)
Administrative expenses		**(4,589)**	**(441)**	**(5,030)**	(3,723)	(493)	(4,216)
Net operating expenses		**(6,644)**	**(441)**	**(7,085)**	(5,476)	(493)	(5,969)
Operating profit – continuing operations		**8,922**	**(441)**	**8,481**	7,900	(844)	7,056
Interest receivable	7	**15**	**-**	**15**	15	-	15
Interests payable and similar charges	8	**(2,798)**	**-**	**(2,798)**	(3,225)	-	(3,225)
Profit on ordinary activities before taxation	3	**6,139**	**(441)**	**5,698**	4,690	(844)	3,846
Tax on profit on ordinary activities	9	**(828)**	**132**	**(696)**	(1,229)	-	(1,229)
Profit on ordinary activities after taxation and retained for the financial year	19	**5,311**	**(309)**	**5,002**	3,461	(844)	2,617

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

The notes on pages 11 to 26 form part of the financial statement.

J R Crompton Limited

Statement of total recognised gains and losses for the year ended 31 December 2002

	2002 £'000	2001 (as restated) £'000
Profit for the financial year	**5,002**	2,617
Total recognised gains for the year	**5,002**	2,617
Prior year adjustment (see note 16)	**(7,741)**	
Total recognised gains/(losses) since last annual report	**(2,739)**	
Prior year adjustment		
Opening reserves as at 1 January 2001 as previously reported		(5,669)
Adoption of FRS 19 – Deferred taxation		(6,247)
Opening reserves as at 1 January 2001 as restated		(11,916)
Restated profit on activities after taxation for the year ended 31 December 2001		2,617
Restated profit and loss account reserve as at 31 December 2001		(9,299)

J R Crompton Limited

Balance sheet as at 31 December 2002

	Note	2002		2001 (as restated)	
		£	£	£	£
Fixed assets					
Tangible assets	10		**49,391**		52,152
Investments	11		**1**		1
			49,392		52,153
Current assets					
Stock	12	**10,531**		8,875	
Debtors	13	**11,782**		9,892	
Cash at bank and in hand		**155**		446	
Total current assets		**22,468**		19,213	
Creditors - amounts falling due within one year	14	**(11,174)**		(11,717)	
Net current assets			**11,294**		7,496
Total assets less current liabilities			**60,686**		59,649
Creditors - amounts falling due after more than one year	15		**33,198**		37,718
Provisions for liabilities and charges	16		**11,576**		11,021
Capital and reserves					
Called up share capital	18	**20,100**		20,100	
Share premium account	19	**109**		109	
Profit and loss account	19	**(4,297)**		(9,299)	
Equity shareholders' funds			**15,912**		10,910
			60,686		59,649

The notes on pages 11 to 26 form part of the financial statement.

The financial statements were approved by the board of directors on 31 March 2003 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 2002

	2002	2001
	£'000	£'000
Opening shareholders' funds as previously reported	**18,651**	14,540
Prior year adjustment	**(7,741)**	(6,247)
Opening shareholders' funds as restated	**10,910**	8,293
Profit for the financial year	**5,002**	2,617
Closing shareholders' funds	**15,912**	10,910

J R Crompton Limited

Notes to the financial statements for the year ended 31 December 2002

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, apart from the adoption of FRS 19, 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", and has adopted FRS 19 "Deferred Taxation" 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.

Comparative period of account
The comparative accounting period is the year to 31 December 2001.

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 23.

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 acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. 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 group's principal activity of the manufacture and sale of special long fibre papers. An analysis of turnover by geographical market is as follows:

	2002 £'000	2001 £'000
United Kingdom	**18,682**	18,313
Rest of Europe	**10,343**	9,581
USA	**7,837**	6,166
Far East	**9,415**	10,594
Rest of the World	**9,306**	8,749
	55,583	53,403

3 Profit on ordinary activities before taxation

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation is stated after charging/ (crediting):		
Auditors' remuneration:		
- Audit	**28**	31
- Other services, principally tax compliance services		
- current auditors	**15**	-
- previous auditors	**9**	6
Depreciation:		
- Owned assets	**3,323**	3,395
- Assets held under finance lease	**24**	24
Hire of plant & machinery	**179**	231
Research and development expenditure	**122**	179
Property rental costs	**239**	211
(Profit)/loss on sale of fixed assets	**(11)**	30

4 Exceptional items

Exceptional costs of £441,000 were incurred in the year as follows:

	2002 £'000	2001 £'000
Included in cost of sales:		
Stock readjustments and write off	-	137
Re-commissioning costs	-	214
	-	351
Included in administrative expenses:		
Transaction costs	-	94
Termination and redundancy costs	239	399
Onerous lease provision and other costs	202	-
	441	493
Total exceptional items	441	844

5 Remuneration of directors

	2002 £'000	2001 £'000
Directors' emoluments:		
Remuneration as executives	579	641
Pension contributions	96	89
Fees	12	12
Total emoluments	687	742
Compensation for loss of office	95	184
	782	926

The emoluments, excluding pension contributions, of the highest paid director were £212,000 (*2001: £263,000*). Pension contributions of £24,000 (*2001 :£23,000*) 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 £14,000 (*2001: £13,000*). Retirement benefits were accruing to 5 directors during the year (*2001: 7*) under defined benefit schemes.

The highest paid director also received a management fee of £16,667 *(2001: £10,000)* from Marla Innovations Limited, a related company (see note 22).

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:

	2002 Number	2001 Number
Production and engineering	**344**	332
Selling and administration	**51**	51
	395	383

	2002 £'000	2001 £'000
Wages and salaries	**10,043**	10,259
Social security costs	**751**	832
Pensions costs	**885**	824
	11,679	11,915

7 Interest receivable

	2002 £'000	2001 £'000
Bank interest	**15**	15

8 Interest payable and similar changes

	2002 £'000	2001 £'000
Amounts payable and bank loans and overdrafts	**52**	307
Amounts payable on other loans	**2,435**	2,469
Other interest	**311**	36
Net exchange losses	**-**	413
	2,798	3,225

The amount payable on other loans was payable to Crompton Specialist Papermakers Limited. Interest is charged at 8% (*2001:7%*) on the intercompany balances.

9 Taxation

	2002 £'000	2001 £'000
Current tax:		
UK Corporation tax on profits of the period at 30%	-	-
Deferred tax:		
Origination and reversal of timing differences	**696**	1,229
Tax on profit on ordinary activities	**696**	1,229

During the year the company has adopted FRS 19 'Deferred Taxation'. The impact of this change in accounting policy is disclosed on page 8 to these accounts and in note 16.

The tax for the year ended 31 December 2002 is lower than the standard rate of corporation tax in the UK of 30%. A detailed reconciliation is set out in the table below.

	2002 £'000	2001 £'000
Profit on activities before taxation	**5,698**	3,846
Profit on activities before taxation multiplied by standard rate of UK tax of 30%	**1,709**	1,154
Adjustments:		
Other expenses that are not deductible for tax purposes	**75**	75
Capital allowances for period in excess of depreciation	**(182)**	(689)
Utilisation of tax losses	**(451)**	(829)
Other timing differences (primarily pension timing differences)	**(63)**	289
Utilisation of Group relief for nil consideration	**(1,088)**	-
	-	-

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 2002	12,791	69,161	25	152	82,129
Additions	-	-	-	597	597
Disposals	-	-	-	(11)	(11)
Net transfers and reclassifications	5	137	(1)	(141)	-
At 31 December 2002	**12,796**	**69,298**	**24**	**597**	**82,715**
Depreciation					
At 1 January 2002	1,530	28,434	13	-	29,977
Net transfers and reclassifications	(150)	151	(1)	-	-
Charge for the year	256	3,085	9	-	3,347
At 31 December 2002	**1,636**	**31,670**	**18**	-	**33,324**
Net book amount					
At 31 December 2002	**11,160**	**37,628**	**6**	**597**	**49,391**
At 31 December 2001	11,261	40,727	12	152	52,152

Included above are assets held under finance leases and similar hire purchase contracts with a net book value of £98,000 (*2001:£70,*000). The depreciation charge for the year on these assets was £24,000 (*2001:£24,*000).

The net book value of land and buildings comprises:

	2002	2001
	£'000	£'000
Freehold	**11,123**	11,223
Short leasehold	**37**	38
	11,160	11,261

The gross amount of land and buildings includes £12,201,000 (*2001: £11,339,000*) 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 2002. The investment in the company is treated as an associate. No account has been taken of the results for the period to 31 December 2002 in these financial statements on the grounds that they are not material, with a turnover of £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 holds the remaining 10% of the share capital of Marla Innovations Limited.

12 Stocks

	2002 £'000	2001 £'000
Raw materials and consumables	**7,070**	5,389
Work in progress	**572**	834
Finished goods and goods for resale	**2,889**	2,652
	10,531	8,875

13 Debtors

	2002 £'000	2001 £'000
Trade debtors	**10,699**	8,753
Other debtors	**333**	388
Prepayments and accrued income	**750**	751
	11,782	9,892

All debtors fall due within one year.

14 Creditors – Amounts falling due within one year

	2002 £'000	2001 £'000
Bank loans and overdrafts	**1,612**	1,561
Obligations under finance leases and hire purchase contracts	**41**	24
Trade creditors	**4,684**	4,902
Bills of exchange payable	**2,818**	2,286
Taxation and social security	**277**	283
Accruals and deferred income	**1,742**	2,661
	11,174	11,717

15 Creditors – Amounts falling due after more than one year

	2002 £'000	2001 £'000
Amounts owed to group undertakings	**33,154**	37,672
Obligations under finance leases and hire purchase contracts	**44**	46
	33,198	37,718

Interest is due on the loan from the parent company at a rate of 8% (*2001:7%*) 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:

	2002 £'000	2001 £'000
Within one year	**41**	24
In the second to fifth years	**44**	46
	85	70

16 Provisions for liabilities and charges

	Pensions and similar obligations	Deferred taxation (as restated)	Total
	£'000	£'000	£'000
At 1 January 2002	4,711	6,310	11,021
Cash movement in year	(141)	-	(141)
Charged to the profit and loss account for the year	-	696	696
At 31 December 2002	**4,570**	**7,006**	**11,576**

The amounts provided for deferred taxation are set out below:

	2002	2001 (as restated)
	£'000	£'000
Liability/(asset)		
Difference between accumulated depreciation and capital allowances	**8,399**	8,216
Other timing differences:		
- Pension contributions and provisions	**(1,393)**	(1,455)
- Tax losses	-	(451)
	7,006	6,310

During the year to 31 December 2002 the group has adopted FRS 19 'Deferred Taxation' and has fully provided for all such taxation. This has resulted in a prior year adjustment which reduced reserves at 1 January 2001 by £6,247,000, profit for the year ended 31 December 2001 by £1,494,000 and profit for the year ended 31 December 2002 by £696,000.

17 Contingent liabilities

There is an unlimited cross guarantee between group companies of £37,000,000 (*2001:£41,000,000*) in respect of bank borrowings, supported by a fixed and floating charge and key man insurance.

18 Called up share capital

	2002 £'000	2001 £'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	**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 as previously reported	122	(1,558)
Prior year adjustments	(13)	(7,741)
Opening reserves as at 1 January as restated	109	(9,299)
Profit for the year	-	5,002
Closing reserves as at 31 December 2002	**109**	**(4,297)**

The prior year adjustments of £7,741,000 relates to the adoption of FRS 19, Deferred Taxation, as described in note 16 and the prior year adjustment of £13,000 relates to the re-classification of share premium to share capital in respect of deferred ordinary shares of US$0.0001 each.

20 Commitments

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

	2002 £'000	2001 £'000
Contracted	7	15
Authorised but not contracted	92	-

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

	Land and buildings		Other	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Operating leases which expire:				
Within one year	-	-	20	24
In the second to fifth years inclusive	85	85	108	116
Over five years	114	114	-	-
	199	199	**128**	140

21 Pension commitments

The company operates a defined benefit scheme, 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 1999 with an updated full actuarial valuation as at 30 April 2002 currently being 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% per annum
Salary increase	4.5% per annum
Pension increase (LPI)	2.5% per annum

The most recent actuarial valuation showed that the market value of the scheme's assets was £27,531,000 as at 1 May 1999 and that the actuarial value of those assets represented 109% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The pension charge for the year of £885,000 (*2001: £824,000*) included £484,000 (*2001: £474,000*) in respect of the amortisation of surpluses that are being recognised over the average remaining service lives of employees.

The group paid contributions on the basis of 12.8% of pensionable earnings for the year (2001: nil). Employees are contributing at a rate of 5%.

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

There is a pension provision of £4,570,000 (*2001: £4,711,000*) as at 31 December 2002.

21 Pension commitments (continued)

FRS 17

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 1 May 1999 has been updated by the actuary on an FRS 17 basis as at 31 December 2002. The major assumptions used in this valuation were:

	2002	2001
Rate of increase in salaries	**3.4%**	4.0%
Rate of increase in pensions in payment	**2.4%**	2.5%
Discount rate	**5.6%**	5.8%
Inflation assumption	**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 fair 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 2002 £'000**	Long term rate of return expected	At 31 December 2001 £'000
Equities	**7.50%**	**15,860**	7.90%	19,734
Bonds and cash	**5.60%**	**656**	5.80%	1,972
Government bonds	**4.50%**	**4,649**	4.90%	3,525
Total market value of assets		**21,165**		25,231
Actuarial value of liabilities		**(32,195)**		(28,685)
Recoverable deficit in the scheme		**(11,030)**		(3,454)
Related deferred tax asset		**3,309**		1,036
Net pension liability		**(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 2002 under the requirements of FRS 17:

Analysis of the amount charged to operating profit

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

Analysis of net return on pension scheme

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

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

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

21 Pension commitments (continued)

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

Employer contributions have been 12.8% of pensionable pay. The contributions will be reviewed as part of the actuarial valuation which is currently being undertaken.

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

22 Related party disclosures

During the year, management fees of £60,000 (*2001: £60,000*) were paid to venture capital providers or related institutions in respect of directors' services.

Royalties charged by the associate company, Marla Innovations Limited (note 11) to the company, amounted to £163,740 (*2001: £134,218*) of which £54,795 (*2001: £44,650*) is included within accruals at the year end. Expenses recharged by the company to Marla Innovations Limited amounted to £88,125 in the year *(2001: £44,650).* One director received a management fee from Marla Innovations Limited which is disclosed in note 5 to these accounts.

23 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.