

**Eastham Refinery Limited**

**Directors' report and financial  
statements**

**Registered number 2205902**

**31 December 2003**



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## Directors' report

The directors present their annual report and the audited accounts for the year ended 31 December 2003.

### Principal activity and business review

The principal activity of the company continues to be oil refining.

### Results and dividend

The profit for the year amounted to £2,229,095 (2002: £120,264). The results for the year and the company's financial position are set out in the attached financial statements. The directors are proposing the payment of a final dividend of £3,000,000 (2002: £Nil).

### Directors

The current directors of the company and those who served during the period were:

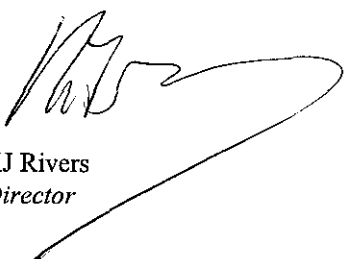
|               |                              |
|---------------|------------------------------|
| R Childs      |                              |
| BW Möller     | (appointed 12 May 2003)      |
| KJ Rivers     |                              |
| O Virta       |                              |
| RMJJ Wetzels  | (appointed 16 December 2003) |
| H Hammerström | (resigned 12 May 2003)       |
| Y Shen        | (resigned 15 December 2003)  |
| UR Thakkar    | (resigned 31 December 2003)  |

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

### Auditors

A resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



KJ Rivers  
Director

8 York Road  
London  
SE1 7NA

18 February 2004

## 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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.



KPMG LLP

2 Cornwall Street  
Birmingham  
B3 2DL

## **Independent auditors' report to the members of Eastham Refinery Limited**

We have audited the financial statements on pages 4 to 17.

This report is made solely to the company's members, as a body in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 1, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the company 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 as 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.

KPMG LLP

KPMG LLP  
Chartered Accountants  
Registered Auditor

18 February 2004

**Profit and loss account**  
*for the year ended 31 December 2003*

|  | <i>Note</i> | <b>2003</b><br>£    | <b>2002</b><br>£ |
|--|-------------|---------------------|------------------|
| <b>Turnover</b>                                      | <i>1,2</i>  | <b>85,949,926</b>   | 100,054,436      |
| Cost of sales  |             | <b>(81,240,518)</b> | (98,292,009)     |
|  |             | <hr/>               | <hr/>            |
| <b>Gross profit</b>                                  |             | <b>4,709,408</b>    | 1,762,427        |
| Administrative expenses                              |             | <b>(1,361,463)</b>  | (1,251,469)      |
|  |             | <hr/>               | <hr/>            |
| <b>Operating profit</b>                              |             | <b>3,347,945</b>    | 510,958          |
| Net interest payable                                 | <i>5</i>    | <b>(143,845)</b>    | (360,888)        |
|  |             | <hr/>               | <hr/>            |
| <b>Profit on ordinary activities before taxation</b> | <i>3</i>    | <b>3,204,100</b>    | 150,070          |
| Tax on profit on ordinary activities                 | <i>6</i>    | <b>(975,005)</b>    | (29,806)         |
|  |             | <hr/>               | <hr/>            |
| <b>Profit for the financial year</b>                 |             | <b>2,229,095</b>    | 120,264          |
| Proposed final dividend                              |             | <b>(3,000,000)</b>  | -                |
|  |             | <hr/>               | <hr/>            |
| <b>Transferred (from)/to reserves</b>                | <i>13</i>   | <b>(770,905)</b>    | 120,264          |
|  |             | <hr/>               | <hr/>            |

All of the above relate to continuing activities.

Movements on reserves are set out in note 13 on page 12.

**Statement of total recognised gains and losses**

There were no recognised gains or losses in either the current or preceding year other than those reported in the profit and loss account.

**Note on historical cost profits and losses**

There is no difference between the results as disclosed in the profit and loss account and the results as given on an unmodified historical cost basis.

**Balance sheet**  
*at 31 December 2003*

|   | Note | 2003<br>£           | 2002<br>£           |
|---|------|---------------------|---------------------|
| <b>Fixed assets</b>                                   |      |                     |                     |
| Tangible assets                                       | 7    | 17,881,585          | 17,976,261          |
| <b>Current assets</b>                                 |      |                     |                     |
| Stocks  | 8    | 8,727,115           | 14,677,952          |
| Debtors   | 9    | 6,693,918           | 7,283,856           |
| Cash at bank and in hand                              |      | 10,027              | 46,614              |
|   |      | <u>15,431,060</u>   | <u>22,008,422</u>   |
| <b>Creditors: amounts falling due within one year</b> | 10   | <u>(11,391,799)</u> | <u>(17,242,932)</u> |
| <b>Net current assets</b>                             |      | <u>4,039,261</u>    | <u>4,765,490</u>    |
| <b>Total assets less current liabilities</b>          |      | <u>21,920,846</u>   | <u>22,741,751</u>   |
| <b>Provision for liabilities and charges</b>          | 11   | <u>(4,832,116)</u>  | <u>(4,882,116)</u>  |
| <b>Net assets</b>                                     |      | <u>17,088,730</u>   | <u>17,859,635</u>   |
| <b>Capital and reserves</b>                           |      |                     |                     |
| Called up share capital                               | 12   | 10,000,000          | 10,000,000          |
| Profit and loss account                               | 13   | 7,088,730           | 7,859,635           |
| <b>Equity shareholders' funds</b>                     | 14   | <u>17,088,730</u>   | <u>17,859,635</u>   |

These financial statements were approved by the board of directors on 18 February 2004 and were signed on its behalf by:

**KJ Rivers**  
Director



*R. Childs.*

**R Childs**  
Director

## Cash flow statement

for the year ended 31 December 2003

|  | Note  | 2003<br>£ | £ | 2002<br>£   | £ |
|--|-------|-----------|---|-------------|---|
| <b>Net cash inflow/(outflow) from operating activities</b> | 17(a) | 4,814,818 |   | (2,487,811) |   |
| <b>Return on investments and servicing of finance</b>      |       |           |   |             |   |
| Interest received  |       | 14,805    |   | 10,703      |   |
| Interest paid  |       | (158,650) |   | (371,591)   |   |
|  |       | (143,845) |   | (360,888)   |   |
| <b>Taxation</b>  |       | (343,642) |   | 329,870     |   |
| <b>Capital expenditure</b>                                 |       |           |   |             |   |
| Payments to acquire fixed assets                           |       | (893,078) |   | (386,416)   |   |
|  |       | (893,078) |   | (386,416)   |   |
| <b>Equity dividends paid</b>                               |       | -         |   | -           |   |
| <b>Increase/(decrease) in cash</b>                         |       | 3,434,253 |   | (2,905,245) |   |

## Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2003

|   | Note  | 2003<br>£   | 2002<br>£   |
|---|-------|-------------|-------------|
| Increase/(decrease) in cash in the year | 17(b) | 3,434,253   | (2,905,245) |
| Net debt at 1 January                   |       | (5,220,111) | (2,314,866) |
| Net debt at 31 December                 | 17(b) | (1,785,858) | (5,220,111) |



## Notes

*(forming part of the financial statements)*

### 1 Principal 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 are prepared on the historical cost basis and have been prepared in accordance with applicable Accounting Standards.

#### *Turnover*

Turnover represents amounts invoiced for goods and services supplied during the year, excluding value added tax, derived from its principal activity of producing bitumen and distillate products. In addition to the goods invoiced, there is also £2.7m turnover received in respect of processing raw materials on behalf of another entity.

#### *Depreciation*

The remaining life of the refinery complex is reassessed by the directors every five years. Following each such reassessment the net book value of the assets at that date is depreciated over the remaining useful economic life on a straight line basis. Subsequent additions are depreciated over the reassessed remaining useful economic life of the refinery complex. The last assessment was at 1 January 2003 when the directors reassessed their estimate of the remaining useful economic life of these assets at twenty years from that date.

Depreciation charges for other assets are based on historic cost and the cost less estimated residual value of fixed assets is depreciated on a straight line basis over their estimated useful economic lives. The principal annual rates used are based on the following asset lives:

|                              |            |
|------------------------------|------------|
| Leasehold land and buildings | - 20 years |
| Equipment                    | - 5 years  |
| Vehicles                     | - 4 years  |

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value.

#### *Leased assets*

Lease rentals in respect of operating leases are charged directly to the profit and loss account.

#### *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 in an independently administered fund.

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.

#### *Taxation*

The charge for taxation is based on the result for the period and takes in to account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

## Notes (continued)

### 1 Accounting policies (continued)

#### Foreign currencies

Transactions denominated 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 in to sterling using the rate of exchange ruling on the balance sheet date and any exchange differences arising are included in the profit and loss account.

#### Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

### 2 Turnover

All turnover arose in the United Kingdom from one class of business.

### 3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation has been arrived at after charging/(crediting) the following:

|  | 2003<br>£ | 2002<br>£ |
|--|-----------|-----------|
| Depreciation of tangible fixed assets  | 987,754   | 1,195,607 |
| Auditors' remuneration – audit         | 14,484    | 9,750     |
| Operating leases: hire of other assets | 103,377   | 69,076    |
| Profit on disposal of fixed assets     | -         | (1,600)   |
|  | <hr/>     | <hr/>     |

### 4 Directors' remuneration and staff costs

The average number of persons employed during the year comprised:

|                | 2003<br>Number | 2002<br>Number |
|----------------|----------------|----------------|
| Production     | 37             | 36             |
| Administration | 1              | 1              |
|                | <hr/>          | <hr/>          |
|                | 38             | 37             |
|                | <hr/>          | <hr/>          |

The aggregate payroll costs of these persons were as follows:

|                       | £         | £         |
|-----------------------|-----------|-----------|
| Wages and salaries    | 1,450,839 | 1,270,230 |
| Social security costs | 102,342   | 89,854    |
| Pension costs         | 235,760   | 121,391   |
|                       | <hr/>     | <hr/>     |
|                       | 1,788,941 | 1,481,475 |
|                       | <hr/>     | <hr/>     |

None of the company's directors received any remuneration during either year.

## Notes (continued)

### 5 Net interest payable

|                      | 2003<br>£       | 2002<br>£       |
|----------------------|-----------------|-----------------|
| Interest receivable: |                 |                 |
| Bank                 | 9,766           | -               |
| Other                | 5,039           | 10,703          |
|                      | <hr/> 14,805    | <hr/> 10,703    |
| Interest payable:    |                 |                 |
| Bank                 | (158,650)       | (371,591)       |
|                      | <hr/> (143,845) | <hr/> (360,888) |
| Net interest payable | <hr/> <hr/>     | <hr/> <hr/>     |

### 6 Taxation on profit on ordinary activities

#### Analysis of charge in year:

|  | 2003<br>£           | 2002<br>£          |
|--|---------------------|--------------------|
| <i>UK corporation tax</i>                  |                     |                    |
| Current tax on profit for the year         | 1,025,005           | 50,000             |
| Adjustments in respect of prior periods    | -                   | 149,806            |
|  | <hr/> 1,025,005     | <hr/> 199,806      |
| <i>Deferred tax (see note 11)</i>          |                     |                    |
| Origination/reversal of timing differences | (50,000)            | 7,000              |
| Adjustment in respect of previous periods  | -                   | (177,000)          |
|  | <hr/> (50,000)      | <hr/> (170,000)    |
| Tax on profit on ordinary activities       | <hr/> <hr/> 975,005 | <hr/> <hr/> 29,806 |

## Notes (continued)

### 6 Taxation (continued)

#### Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2002: higher) than the standard rate of corporation tax in the UK (30%, 2002: 30%). The differences are explained below.

|   | 2003<br>£ | 2002<br>£ |
|---|-----------|-----------|
| Current tax reconciliation  |           |           |
| Profit on ordinary activities before tax                          | 3,204,100 | 150,070   |
|   | <hr/>     | <hr/>     |
| Current tax at 30% (2002: 30%)                                    | 961,230   | 45,021    |
| Effects of:   |           |           |
| Expenses not deductible for tax purposes                          | 1,292     | 1,286     |
| Difference between capital allowances for period and depreciation | 50,092    | 111,837   |
| Utilisation of tax losses   | -         | (145,572) |
| Adjustments to tax charge in respect of previous periods          | -         | 149,806   |
| Other adjustments   | 12,391    | 37,428    |
|   | <hr/>     | <hr/>     |
| Total current tax charge (see above)                              | 1,025,005 | 199,806   |
|   | <hr/>     | <hr/>     |

### 7 Tangible fixed assets

|                                 | Long<br>leasehold<br>land and<br>buildings<br>£ | Refinery<br>complex<br>£ | Plant,<br>machinery<br>and<br>vehicles<br>£ | Total<br>£ |
|---------------------------------|---|--------------------------|---|------------|
| <b>Cost</b>                     |   |                          |   |            |
| At beginning of year            | 500,000   | 34,978,121               | 940,804                                     | 36,418,925 |
| Additions                       | -   | 858,204                  | 34,874                                      | 893,078    |
|                                 | <hr/>   | <hr/>                    | <hr/>                                       | <hr/>      |
| At end of year                  | 500,000   | 35,836,325               | 975,678                                     | 37,312,003 |
|                                 | <hr/>   | <hr/>                    | <hr/>                                       | <hr/>      |
| <b>Accumulated depreciation</b> |   |                          |   |            |
| At beginning of year            | 312,500   | 17,445,089               | 685,075                                     | 18,442,664 |
| Charge for the year             | 9,375   | 904,623                  | 73,756                                      | 987,754    |
|                                 | <hr/>   | <hr/>                    | <hr/>                                       | <hr/>      |
| At end of year                  | 321,875   | 18,349,712               | 758,831                                     | 19,430,418 |
|                                 | <hr/>   | <hr/>                    | <hr/>                                       | <hr/>      |
| <b>Net book value</b>           |   |                          |   |            |
| At 31 December 2003             | 178,125   | 17,486,613               | 216,847                                     | 17,881,585 |
|                                 | <hr/>   | <hr/>                    | <hr/>                                       | <hr/>      |
| At 31 December 2002             | 187,500   | 17,533,032               | 255,729                                     | 17,976,261 |
|                                 | <hr/>   | <hr/>                    | <hr/>                                       | <hr/>      |

## Notes (continued)

### 8 Stocks

|                | 2003<br>£        | 2002<br>£         |
|----------------|------------------|-------------------|
| Raw materials  | 2,982,864        | 8,763,946         |
| Finished goods | 5,744,251        | 5,914,006         |
|                | <u>8,727,115</u> | <u>14,677,952</u> |

### 9 Debtors

|                                | 2003<br>£        | 2002<br>£        |
|--------------------------------|------------------|------------------|
| Trade debtors                  | 5,867,245        | 6,536,708        |
| Corporation tax recoverable    | -                | 89,050           |
| Prepayments and accrued income | 826,673          | 658,098          |
|                                | <u>6,693,918</u> | <u>7,283,856</u> |

### 10 Creditors: amounts falling due within one year

|  | 2003<br>£         | 2002<br>£         |
|--|-------------------|-------------------|
| Bank loan and overdraft                    | 1,795,885         | 5,266,725         |
| Trade creditors                            | 356,348           | 893,067           |
| Corporation tax payable                    | 642,313           | 50,000            |
| Consortium relief payable to Nynas Limited | 89,050            | 89,050            |
| Other taxation and social security         | 124,414           | 3,181,854         |
| Accruals and deferred income               | 5,383,789         | 7,762,237         |
| Proposed final dividend                    | 3,000,000         | -                 |
|  | <u>11,391,799</u> | <u>17,242,932</u> |

### 11 Provision for liabilities and charges

|   | Pension<br>costs<br>(see note 18)<br>£ | Deferred<br>taxation<br>(see note 6)<br>£ | Total<br>£       |
|---|--|---|------------------|
| At beginning of year                      | 632,116                                | 4,250,000                                 | 4,882,116        |
| (Credited) to the profit and loss account | -                                      | (50,000)                                  | (50,000)         |
|   | <u>632,116</u>                         | <u>4,200,000</u>                          | <u>4,832,116</u> |

## Notes (continued)

### 11 Provisions for liabilities and charges (continued)

The amount provided for deferred taxation, which is the full potential liability, is set out below:

|                                | 2003<br>Amount<br>provided<br>£ | 2002<br>Amount<br>Provided<br>£ |
|--------------------------------|---------------------------------|---------------------------------|
| Accelerated capital allowances | 4,390,000                       | 4,440,000                       |
| Other timing differences       | (190,000)                       | (190,000)                       |
|                                | <hr/> 4,200,000 <hr/>           | <hr/> 4,250,000 <hr/>           |

### 12 Share capital

|  | 2003<br>£  | 2002<br>£  |
|--|------------|------------|
| <i>Authorised:</i>                         |            |            |
| 20,000,000 ordinary shares of £1 each      | 20,000,000 | 20,000,000 |
|  | <hr/>      | <hr/>      |
| <i>Allotted, called up and fully paid:</i> |            |            |
| 10,000,000 ordinary shares of £1 each      | 10,000,000 | 10,000,000 |
|  | <hr/>      | <hr/>      |

### 13 Profit and loss account

|                       | £               |
|-----------------------|-----------------|
| At beginning of year  | 7,859,635       |
| Transfer for the year | (770,905)       |
|                       | <hr/>           |
| At end of year        | 7,088,730 <hr/> |

### 14 Reconciliation of movements in equity shareholders' funds

|   | 2003<br>£        | 2002<br>£        |
|---|------------------|------------------|
| Profit for the financial year                   | 2,229,095        | 120,264          |
| Proposed final dividend                         | (3,000,000)      | -                |
|   | <hr/>            | <hr/>            |
| Movement in shareholders' funds                 | (770,905)        | 120,264          |
| Equity shareholders' funds at beginning of year | 17,859,635       | 17,739,371       |
|   | <hr/>            | <hr/>            |
| Equity shareholders' funds at end of year       | 17,088,730 <hr/> | 17,859,635 <hr/> |

## Notes (continued)

### 15 Financial and capital commitments

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

|                           | 2003<br>Land and<br>buildings<br>£ | 2002<br>Land and<br>Buildings<br>£ |
|---------------------------|------------------------------------|------------------------------------|
| Commitments which expire: |                                    |                                    |
| Over five years           | 103,377                            | 69,076                             |
|                           | <u>          </u>                  | <u>          </u>                  |

Capital commitments at year end were as follows:

|                                 | 2003<br>£         | 2002<br>£         |
|---------------------------------|-------------------|-------------------|
| Contracted for but not provided | 240,094           | 194,000           |
|                                 | <u>          </u> | <u>          </u> |

### 16 Related party transactions

The company is a joint venture company whose shares are owned equally by Shell UK Limited and Nynas Limited. The company sells all its finished products to and purchases certain goods and services from Shell UK Limited and Nynas (UK) AB, another company controlled by the same intermediate parent undertaking as Nynas Limited. The company buys some of its raw materials from Petroleos de Venezuela S.A., a company which owns 50% of the share capital of the intermediate parent undertaking of Nynas Limited.

|   | 2003<br>£         | 2002<br>£         |
|---|-------------------|-------------------|
| Purchases from related parties include: |                   |                   |
| Purchase of goods and raw materials     | 51,682,777        | 90,300,402        |
| Purchase of services                    | 313,098           | 330,657           |
|   | <u>          </u> | <u>          </u> |

Trade creditors and accruals include the following balances with related parties:

|                                       | 2003<br>£         | 2002<br>£         |
|---------------------------------------|-------------------|-------------------|
| In respect of goods and raw materials | 1,793,049         | 5,145,022         |
| In respect of services received       | 11,640            | -                 |
|                                       | <u>          </u> | <u>          </u> |

In addition, creditors include £89,050 (2002: £89,050) in respect of consortium relief payable to Nynas Limited.

Amounts included under trade debtors are due entirely from related parties.

## Notes (continued)

### 17 Notes to the cash flow statement

#### (a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

|   | 2003<br>£   | 2002<br>£   |
|---|-------------|-------------|
| Operating profit/(loss)                             | 3,347,945   | 510,958     |
| Profit on disposal of fixed assets                  | -           | (1,600)     |
| Depreciation charges                                | 987,754     | 1,195,607   |
| Decrease/(increase) in stocks                       | 5,950,837   | (6,341,760) |
| Decrease in debtors                                 | 500,888     | 217,280     |
| (Decrease)/increase in creditors                    | (5,972,606) | 1,845,067   |
| Increase in provisions                              | -           | 86,637      |
|   | <hr/>       | <hr/>       |
| Net cash inflow/(outflow) from operating activities | 4,814,818   | (2,487,811) |
|   | <hr/>       | <hr/>       |

#### (b) Analysis of changes in net debt

|                         | At 1 January<br>2003<br>£ | Cash flow<br>£ | At 31 December<br>2003<br>£ |
|-------------------------|---------------------------|----------------|-----------------------------|
| Cash in hand            | 46,614                    | (36,587)       | 10,027                      |
| Bank loan and overdraft | (5,266,725)               | 3,470,840      | (1,795,885)                 |
|                         | <hr/>                     | <hr/>          | <hr/>                       |
|                         | (5,220,111)               | 3,434,253      | (1,785,858)                 |
|                         | <hr/>                     | <hr/>          | <hr/>                       |

### 18 Pensions

The company operates a final salary pension scheme. Pension costs are assessed in accordance with the advice of a qualified actuary using the projected unit method. Valuations are carried out every three years, the latest full actuarial valuation being at 31 March 2002 ("2002 Valuation"). The market value of the scheme's assets at that date was £7,376,000.

It has been assumed for the 2002 Valuation that returns on new investments will be 6.5% and that increases in pensionable earnings, pensions and equity dividends will be 4.25%, 2.5% and Nil% respectively. Based on these assumptions the level of funding is sufficient to cover 100.4% of the benefits that had accrued to members at 31 March 2002.

The long term rate of normal company contributions to meet future service benefits has been calculated at 22.4% of pensionable earnings. Accordingly, the trustees have agreed with the company that actual contributions should increase to this amount with effect from 1 January 2003.

The provision held in the company's balance sheet at 31 December 2003 of £632,116 (see note 11) has been calculated in accordance with SSAP24: Accounting for Pension Costs.

The total pension cost charged for the period represents contributions payable by the company to the scheme during 2002 based on 12.2% of pensionable earnings, which amounts to £235,760 (2002: £121,391) as set out in note 4, and the movement in the provision brought forward which amounts to a charge of £Nil (2002: £86,637), as set out in note 11. There were no contributions outstanding at 31 December 2003 (2002: £Nil).



## Notes (continued)

### 18 Pensions (continued)

The following disclosures are provided in accordance with the transitional arrangements of FRS 17: Retirement Benefits.

#### Composition of the scheme

The 2002 Valuation (referred to above) has been updated to 31 December 2002 and 31 December 2003 by a qualified independent actuary.

The major actuarial assumptions used by the actuary for this update were:

|   | At<br>31 December<br>2003<br>% | At<br>31 December<br>2002<br>% | At<br>31 December<br>2001<br>% |
|---|--------------------------------|--------------------------------|--------------------------------|
| Rate of increase in salaries            | 4.0                            | 3.75                           | 4.00                           |
| Rate of increase in pensions in payment | 2.5                            | 2.25                           | 2.50                           |
| Discount rate                           | 5.4                            | 5.60                           | 5.75                           |
| Inflation assumption                    | 2.5                            | 2.25                           | 2.50                           |

The assets in the scheme and the expected rate of return were:

|  | Value at<br>31 December<br>2003<br>£000 | Value at<br>31 December<br>2002<br>£000 | Value at<br>31 December<br>2001<br>£000 |
|--|---|---|---|
| Equities                                   | 4,898                                   | 4,086                                   | 5,936                                   |
| Bonds                                      | 2,048                                   | 1,817                                   | 834                                     |
| Property                                   | -                                       | -                                       | 189                                     |
| Cash                                       | 11                                      | 38                                      | 237                                     |
| <b>Total market value of assets</b>        | <b>6,957</b>                            | <b>5,941</b>                            | <b>7,196</b>                            |
| <b>Present value of scheme liabilities</b> | <b>(8,736)</b>                          | <b>(7,724)</b>                          | <b>(6,807)</b>                          |
| <b>Deficit in the scheme</b>               | <b>(1,779)</b>                          | <b>(1,783)</b>                          | <b>389</b>                              |
| <b>Deferred tax (at 30% of above)</b>      | <b>534</b>                              | <b>535</b>                              | <b>(117)</b>                            |
| <b>Net pension liability</b>               | <b>(1,245)</b>                          | <b>(1,248)</b>                          | <b>272</b>                              |

|          | Long term rate<br>of return<br>expected at<br>31 December<br>2003<br>% | Long term rate<br>of return<br>expected at<br>31 December<br>2002<br>% | Long term rate<br>of return<br>expected at<br>31 December<br>2001<br>% |
|----------|--|--|--|
| Equities | 8.00   | 8.50   | 7.75   |
| Bonds    | 4.90   | 4.80   | 5.25   |
| Property | -  | -  | 6.50   |
| Cash     | 3.75   | 4.00   | 4.50   |

## Notes (continued)

### 18 Pensions (continued)

|   | Value at<br>31 December<br>2003<br>£000 | Value at<br>31 December<br>2002<br>£000 |
|---|---|---|
| <b>Net assets</b>   |   |   |
| Net assets excluding pension asset, as presented in these financial statements              | 20,089                                  | 17,860                                  |
| Pension liability   | (1,245)                                 | (1,248)                                 |
|   | <hr/>                                   | <hr/>                                   |
| Net assets including pension liability per FRS 17 assumptions                               | 18,844                                  | 16,612                                  |
|   | <hr/>                                   | <hr/>                                   |
| <b>Reserves</b>   |   |   |
| Profit and loss reserve excluding pension asset, as presented in these financial statements | 10,089                                  | 7,860                                   |
|   | (1,245)                                 | (1,248)                                 |
|   | <hr/>                                   | <hr/>                                   |
|   | 8,844                                   | 6,612                                   |
|   | <hr/>                                   | <hr/>                                   |
| <br><i>Movement in deficit during the year</i>  |   |   |
|   | Value at<br>31 December<br>2003<br>£000 | Value at<br>31 December<br>2002<br>£000 |
| Deficit in scheme at beginning of year  | (1,783)                                 | 389                                     |
| Current service cost  | (315)                                   | (307)                                   |
| Contributions paid  | 265                                     | 131                                     |
| Other finance income/cost   | 13                                      | 140                                     |
| Actuarial loss  | 41                                      | (2,136)                                 |
|   | <hr/>                                   | <hr/>                                   |
| Deficit in the scheme at end of year  | (1,779)                                 | (1,783)                                 |
|   | <hr/>                                   | <hr/>                                   |

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

#### *Analysis of other pension costs charged in arriving at operating profit*

|                      | 2003<br>£000 | 2002<br>£000 |
|----------------------|--------------|--------------|
| Current service cost | 315          | 307          |
|                      | <hr/>        | <hr/>        |

## Notes (continued)

### 18 Pensions (continued)

#### *Analysis of amounts included in other finance income/(costs)*

|  | 2003<br>£000 | 2002<br>£000 |
|--|--------------|--------------|
| Expected return on pension scheme assets | 437          | 523          |
| Interest on pension scheme liabilities   | (424)        | (383)        |
|  | <u>13</u>    | <u>140</u>   |

#### *Analysis of amount recognised in statement of total recognised gains and losses*

|   | 2003<br>£000 | 2002<br>£000   |
|---|--------------|----------------|
| Actual return less expected return on scheme assets                       | 575          | (1,671)        |
| Experience gains and losses arising on scheme liabilities                 | 96           | (488)          |
| Changes in assumptions underlying the present value of scheme liabilities | (630)        | 23             |
|   | <u>41</u>    | <u>(2,136)</u> |

#### *History of experience gains and losses*

|  | 2003 |      | 2002    |       |
|--|------|------|---------|-------|
|  | £000 | %    | £000    | %     |
| Difference between the expected and actual return on scheme assets:        |      |      |         |       |
| Amount   | 575  |      | (1,671) |       |
| Percentage of year end scheme assets                                       |      | 8.26 |         | 28.13 |
| Experience gains and losses on scheme liabilities                          |      |      |         |       |
| Amount   | 96   |      | (488)   |       |
| Percentage of year end present value of scheme liabilities                 |      | 1.10 |         | 6.32  |
| Total amount recognised in statement of total recognised gains and losses: |      |      |         |       |
| Amount   | 41   |      | (2,136) |       |
| Percentage of year end present value of scheme liabilities                 |      | 0.47 |         | 27.65 |