

R T TANNER & COMPANY LIMITED

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1994

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS

(Registered number 96467)

R T TANNER & COMPANY LIMITED

DIRECTORS' REPORT

The directors submit their report and audited accounts for the year to 31 March 1994.

Principal Activity and Business Review

The principal activity of the Company continues to be the merchandising of paper and envelope manufacture.

As stated in last year's annual report the directors recognised in early 1993 that without the introduction of new management expertise and a significant injection of new equity the Company could no longer continue to trade and, following a review of possibilities, in July 1993 the Company agreed arrangements with two senior executives (C A Mathias and M J Gill) with experience in general management, sales and marketing and financial planning whereby their services are now available to the Company. In addition these executives have provided the Company with new loan capital, arranged for the sale and leaseback of the Company's freehold property and obtained new working capital financing.

These changes were finalised in July 1993 and since that time the Company's annual cost base has been reduced significantly through a programme of staff rationalisation and production scheduling improvements. Furthermore, actions have also been taken to stabilise the customer base and provide improved management information from which commercial decision making can now be made with greater confidence.

During the year the Company reported a loss excluding exceptional items and reorganisation costs of £174,754 (1993 - £697,641). This loss is further analysed into losses incurred in the 4 months to 31 July 1993 of £168,296 and a loss of £6,458 in the 8 months to 31 March 1994, a significant improvement arising from the direct measures initiated from the management changes noted above.

The net costs of implementing these changes were £109,133 and are shown as reorganisation costs in Note 3 to the Accounts.

Current targets are for a return to overall profitability in the year to 31 March 1995 but retention of key customers, maintenance of sales levels and the need for a more normal pricing approach from our competitors in the market place are critical in the attempts to meet this target.

Results and Dividends

Dividends in respect of the Company's Preference Shares amounted to £1,166 (1993 - £1,166). No dividends are proposed in respect of the Company's Ordinary Shares (1993 - £Nil).

The loss for the year of £283,887 (1993 - loss of £427,098) has been deducted from the Company's reserves.

Share Capital

On 31 August 1993 the Company created and issued 100 B Ordinary Shares, of nominal value 25p per share, for cash consideration of £25.

RT TANNER & COMPANY LIMITED

Directors and their interests

The directors who held office during the year and to date are as follows:

A D P Tanner (resigned 30 July 1993)
P D Tanner
G Rosser

The interests of the directors in office at the year end in the shares of the Company and Auctor Limited, the ultimate holding company were as follows:

	<u>1 April 1993</u>		<u>31 March 1994</u>	
	Ordinary Shares	Auctor Limited	Ordinary Shares	Auctor Limited
P D Tanner	267	140 (*)	267	140(*)
G Rosser	200	-	200	-
Tanner Family Holding	25,541	-	25,541	-

* 20 held non-beneficially

In addition C A Mathias and M J Gill, consultants to the Company, are interested in 66.6% of the Company's Ordinary Share capital though the conversion rights attaching to £80,000 of Loan Stock Notes and 100% of the Company's B Ordinary Share capital both held by Entropy (CMG) Limited, a company in which they have a controlling interest.

Close Company status

The Company is a close company within the provisions of the Income and Corporation Taxes Act 1988.

Fixed Assets

Information relating to changes in tangible fixed assets is given in Note 5 to the Accounts.

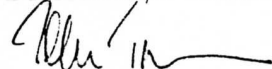
Charitable and Political Contributions

The Company made no charitable or political contributions during the year (1993 - £Nil).

Change in Auditors

Following a review of the Company's professional advisors the previous auditors, Ridley Marrecco, resigned in April 1994 and were replaced by Coombes Wales Quinnell.

BY ORDER OF THE BOARD



P D Tanner
Secretary
Wheatsheaf Works
Maxim Road
Dartford
Kent
17 October 1994

R T TANNER & COMPANY LIMITED


DIRECTORS' RESPONSIBILITY

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BY ORDER OF THE BOARD



P D Tanner
Secretary

17 October 1994

**AUDITORS' REPORT TO THE MEMBERS OF
R T TANNER & COMPANY LIMITED**

We have audited the accounts on pages 6 to 19.

Respective responsibilities of directors and auditors

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

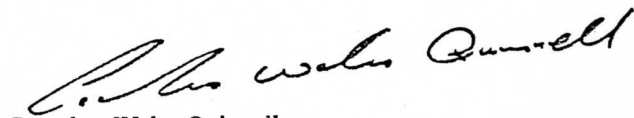
Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Accounts.

Opinion

In our opinion the Accounts give a true and fair view of the state of affairs of the Company at 31 March 1994 and of its loss, total recognised losses and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coombes Wales Quinnell
Chartered Accountants and Registered Auditors
100 Baker Street
London
W1M 1LA

Date: 20th October 1994

R T TANNER & COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 1994

	Notes	1994 £	1993 £
Turnover	1	4,694,191	6,061,138
Cost of sales		(3,608,050)	(5,054,323)
Gross profit		<u>1,086,141</u>	<u>1,006,815</u>
Distribution costs		(419,076)	(440,510)
Administrative costs		(742,603)	(1,136,787)
Exceptional items	3	-	270,543
Operating loss		<u>(75,538)</u>	<u>(299,939)</u>
Loss on disposal of tangible fixed assets		(6,510)	(17,910)
Re-organisation costs	3	(109,133)	-
Interest	2	(92,706)	(109,249)
Loss on ordinary activities	3	<u>(283,887)</u>	<u>(427,098)</u>
Retained earnings at beginning of year		493,303	778,721
Dividends payable		(1,166)	(1,166)
Transfer from other reserves		-	142,846
Retained earnings at end of year	12	<u>208,250</u>	<u>493,303</u>

The accompanying notes form an integral part of these accounts.

Note: All Income and Expenditure has been derived from continuing operations and there are no other items of recognised gains or losses.

R T TANNER & COMPANY LIMITED

BALANCE SHEET
AS AT 31 MARCH 1994

	Notes	1994 £	1993 £
Fixed assets			
Tangible fixed assets	5	614,562	861,729
Investments	6	303	303
		<hr/>	<hr/>
		614,865	862,032
		<hr/>	<hr/>
Current assets			
Stocks	7	306,898	331,064
Debtors	8	872,195	1,535,281
Cash at bank and in hand		117,841	107
		<hr/>	<hr/>
		1,296,934	1,866,452
		<hr/>	<hr/>
Creditors: amounts falling due within one year	9	(1,471,784)	(2,188,781)
		<hr/>	<hr/>
Net current liabilities		(174,850)	(322,329)
		<hr/>	<hr/>
Total assets less current liabilities		440,015	539,703
		<hr/>	<hr/>
Creditors: amounts falling due after more than one year	10	(185,340)	-
		<hr/>	<hr/>
Net assets		254,675	539,703
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	11	46,425	46,400
Profit and loss account	12	208,250	493,303
		<hr/>	<hr/>
Shareholders funds	13	254,675	539,703
		<hr/>	<hr/>

APPROVED BY THE BOARD OF DIRECTORS ON 17 OCTOBER 1994


P D Tanner)

G Rosser)


Directors

The accompanying notes form an integral part of these balance sheets.

R T TANNER & COMPANY LIMITED

CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 1994

	Notes to cash flow statement	1994 £	1993 £
Net inflows from continuing operating activities	A	259,159	107,242
Servicing of finance			
Interest received		288	1,075
Interest and other charges paid		(85,994)	(110,324)
Dividends paid		(1,166)	(1,166)
Net outflows on servicing of finance		(86,872)	(110,415)
Investing activities			
Acquisition of tangible fixed assets		(7,339)	(3,920)
Disposal of tangible fixed assets		201,750	19,626
Re-organisation costs paid		(199,238)	-
Net inflows/(outflows) on investing activities		(4,827)	15,706
Financing			
Issue of new share capital		25	-
Principal repayments on H.P. lease contracts		(9,071)	-
Change in short-term debt		(219,020)	(15,515)
Change in long-term debt		178,340	-
Net outflows from financing		(49,726)	(15,515)
Net inflows (outflows)		117,734	(2,982)
Cash at beginning of year		107	3,089
Cash at end of year		117,841	107

The accompanying notes form an integral part of these statements.

NOTES TO CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 1994

A. Reconciliation of operating loss to net cashflows from continuing operating activities	1994 £	1993 £
Operating loss	(75,538)	(299,939)
Depreciation charge	71,664	87,851
Decrease in stocks	124,166	394,742
Decrease (increase) in debtors	663,086	(33,993)
Decrease in creditors	(524,219)	(41,419)
Net inflows from continuing operating activities	<u>259,159</u>	<u>107,242</u>

STATEMENT OF ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and with the preceding period is set out below.

a) **Basis of accounting**

The Accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

b) **Tangible fixed assets**

Tangible fixed assets are shown at historical cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost of each asset on a reducing balance basis, as follows:

Plant & machinery	- 10% per annum
Computers, motor vehicles, furniture and equipment	- 7.5% to 25% per annum

No depreciation is provided in respect of Freehold Land.

The Freehold Property is maintained, as a matter of Company policy, by a programme of repair and refurbishment such that the residual value of the property remains in excess of book value. Having regard to this, it is the opinion of the directors that depreciation on the property as required by the Companies Act 1985 and accounting standards would not be material. No value is attributable to Leasehold Properties.

c) **Investments**

Investments are stated in the balance sheet at cost.

d) **Stock**

Raw materials and bought in finished goods for resale are valued at the lower of cost or net realisable value. Manufactured goods and work-in-progress are valued at standard cost.

e) **Turnover**

Turnover is the invoiced value of sales during the period exclusive of VAT.

f) **Taxation**

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items in the accounts and by the tax authorities) has been calculated on the liability method. Deferred tax is provided on timing differences, which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

g) Pension costs

The Company provides pensions to certain of its employees through a defined benefit scheme. The assets of the scheme are held independently of the Company. The amount charged to the profit and loss account is calculated so as to spread the cost of the pensions over the employees' estimated working lives with the Company.

h) Leases

Assets held under finance leases are capitalised within tangible fixed assets and depreciated at the appropriate rate. The capital element of future lease payments is included in creditors.

Rentals under operating leases are charged on a straight-line basis over the lease term.

R T TANNER & COMPANY LIMITED

NOTES TO THE ACCOUNTS

1. TURNOVER ANALYSIS

The Company's turnover is earned principally from sales to customers in the United Kingdom.

2. INTEREST

	1994	1993
	£	£
Bank	8,701	55,738
HP and finance leases	2,417	6,018
Factoring charges	74,876	47,023
Loan stocks redemption premiums - group undertaking	2,500	-
- other	4,500	-
Other	-	1,545
	<hr/>	<hr/>
	92,994	110,324
Interest income	(288)	(1,075)
	<hr/>	<hr/>
	92,706	109,249
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS CONTINUED

3. LOSS ON ORDINARY ACTIVITIES

	1994	1993
	£	£
Loss on ordinary activities is stated after charging (crediting):		
Rental of plant and machinery	41,952	31,682
Depreciation of tangible fixed assets	71,664	87,851
Auditors' remuneration	15,000	11,000
Auditors' non-audit remuneration	-	6,500
Pension costs (defined benefit scheme)	29,111	48,991
	<u> </u>	<u> </u>
Exceptional items:		
Litigation settlement proceeds	-	(300,000)
Compensation for loss of office	-	29,457
	<u> </u>	<u> </u>
	-	(270,453)
	<u> </u>	<u> </u>
Re-organisation costs:		
Waiver of inter-group debt	(20,449)	-
Redundancy costs	200,000	-
Profit on disposal of land & buildings	(25,418)	-
Costs of restructuring and fund raising	55,000	-
Re-assessment of stock standard costs	(100,000)	-
	<u> </u>	<u> </u>
	109,133	-
	<u> </u>	<u> </u>

4. STAFF COSTS

Employee costs during the year amounted to:

Wages and salaries	1,082,298	1,588,827
Social security costs	103,033	152,284
Other pension costs (defined benefit scheme)	29,111	48,991
	<u> </u>	<u> </u>
	1,214,442	1,790,102
	<u> </u>	<u> </u>

The average weekly number of persons employed by the Company during the year was as follows:-

	<u>1994</u>	<u>1993</u>
	<u>No.</u>	<u>No.</u>
Production	51	72
Sales	14	20
Administration	8	9
	<u> </u>	<u> </u>
	73	101
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS CONTINUED

4. STAFF COSTS (continued)

	1994	1993
	£	£
Director's remuneration in respect of the directors of the Company was as follows:		
Director's emoluments for services as director	86,024	189,863
Compensation for loss of office	637	29,457
	<u>86,661</u>	<u>219,320</u>

The director's remuneration shown above (excluding pension contributions and compensation for loss of office) included:

Chairman	1,645	10,126
Highest paid director	<u>39,249</u>	<u>43,270</u>

Director's received emoluments (excluding pension contributions) in the following ranges:

	No.	No.
£0 - £5000	1	-
£10,001 - £15,000	-	1
£30,001 - £35,000	-	-
£35,001 - £40,000	2	1
£40,000 - £45,000	-	3
	<u> </u>	<u> </u>

During the year the Company made payments of £32,000 to Conduit Communications Limited in respect of the services of C A Mathias.

R T TANNER & COMPANY LIMITED

NOTES TO THE ACCOUNTS CONTINUED

5. TANGIBLE FIXED ASSETS

	Freehold Land & Buildings £	Plant & Machinery £	Other £	Total £
Cost				
Beginning of year	182,561	1,392,200	325,685	1,900,446
Additions	-	1,339	6,000	7,339
Disposals	(145,306)	-	(115,618)	(260,924)
End of year	<u>37,255</u>	<u>1,393,539</u>	<u>216,067</u>	<u>1,646,861</u>
Depreciation				
	-	818,291	220,426	1,038,717
	-	57,528	14,136	71,664
	-	-	(78,082)	(78,082)
End of year	<u>-</u>	<u>875,819</u>	<u>156,480</u>	<u>1,032,299</u>
Net book value				
Beginning of year	<u>182,561</u>	<u>573,909</u>	<u>105,259</u>	<u>861,729</u>
End of year	<u>37,255</u>	<u>517,720</u>	<u>59,587</u>	<u>614,562</u>

The net book value of assets held under finance leases and hire purchase contracts amounts to £6,652 (1993 - £30,685).

As part of the re-organisation the Company sold its principal freehold property to Entropy (CMG) Limited on 30 July 1994 for £200,000 and has entered into a five year lease at a rent of £24,000 per annum.

R T TANNER & COMPANY LIMITED

NOTES TO THE ACCOUNTS CONTINUED

6. INVESTMENTS

	1994	1993
	£	£
Cost	303	303

7. STOCKS

Raw materials	80,647	30,856
Work in progress	29,884	22,500
Finished goods	196,367	277,708
	<u>306,898</u>	<u>331,064</u>

8. DEBTORS

Trade debtors	821,959	1,094,602
Amounts owed by related undertakings	-	12,369
Litigation settlement proceeds (net)	-	357,261
Prepayments and other debtors	50,236	71,049
	<u>872,195</u>	<u>1,535,281</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank loans and overdrafts (*)	124,731	48,570
Bills of exchange payable	-	21,800
Amounts due to factoring company	363,712	646,933
Trade creditors	778,280	1,201,121
Hire purchase and finance lease obligations	4,219	13,290
Other taxes and social security costs	80,208	137,980
Dividends payable	1,259	1,259
Amounts owed to group undertakings	-	18,837
Accruals	52,346	84,754
Other creditors	67,029	14,237
	<u>1,471,784</u>	<u>2,188,781</u>

* The overdraft provided to the Company by its principal banker, Bank of Scotland, is secured by a first fixed and floating legal charge over the Company's assets with the exception of its trade debtors which are subject to an assignment to a factoring company.

R T TANNER & COMPANY LIMITED

NOTES TO THE ACCOUNTS CONTINUED

10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1994	1993
	£	£
Loan Stock Notes	105,000	-
Loan stock redemption premium	7,000	-
Other creditors	73,340	-
	<u>185,340</u>	<u>-</u>

The Company issued two zero coupon discounted Loan Stock Notes on 30 July 1993. One, for £25,000 is redeemable for £37,500 on 30 July 1998 and was issued to Auctor Limited. The second, for £80,000 is redeemable for £120,000 on 30 July 1998 if not converted, at the option of the holder Entropy (CMG) Limited, into 66.5% of the Company's Ordinary Share capital. The Loan Stock Notes are secured by a second charge over the Company's assets.

11. CALLED UP SHARE CAPITAL

Authorised Share Capital	1994 No.	1993 No.	1994 £	1993 £
3.5% cumulative 1st preference shares of £1 each	15,000	15,000	15,000	15,000
2.8% cumulative 2nd preference shares of £1 each	40,000	40,000	40,000	40,000
Ordinary "A" shares of 25p each	60,000	60,000	15,000	15,000
Ordinary "B" shares of 25p each	120,000	-	30,000	-
	<u>235,000</u>	<u>115,000</u>	<u>100,000</u>	<u>70,000</u>
Allotted, Called Up and Fully Paid				
3.5% cumulative 1st preference shares of £1 each	8,200	8,200	8,200	8,200
2.8% cumulative 2nd preference shares of £1 each	31,398	31,398	31,398	31,398
Ordinary "A" shares of 25p each	27,208	27,208	6,802	6,802
Ordinary "B" shares of 25p each	100	-	25	-
	<u>66,906</u>	<u>66,806</u>	<u>45,425</u>	<u>46,400</u>

On 31 August 1993 the Company increased its authorised share capital by £30,000 creating a new class of 25p Ordinary "B" shares of which 100 were issued for cash consideration of £25.

Rights of each class of share

The preference shares have the right to a fixed cumulative preferential dividend. Neither category of preference shares holds any voting rights. On winding-up each class is entitled to be paid the paid up capital together with any arrears and accruals of dividends. For both payment of dividend and on winding-up the first class of preference shares has priority. The Ordinary shares classes "A" and "B" rank pari passu after the 2nd class preference shares. The "A" and "B" shares are entitled to dividends when voted and an equal share of remaining assets on winding-up. Upon any resolution of the Company the holders of the "B" shares are entitled to twice the total number of votes as may be exercised by all other shareholders.

R T TANNER & COMPANY LIMITED

NOTES TO THE ACCOUNTS CONTINUED

12. PROFIT AND LOSS ACCOUNT

	Profit & Loss account £
The movement for the year comprised:	
Beginning of year	493,303
Loss for the financial year	(283,887)
Dividends payable (1st and 2nd Preference Shares)	(1,166)
End of year	<u>208,250</u>

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1994 £	1993 £
Loss for the financial year	(283,887)	(427,098)
Dividends	(1,166)	(1,166)
New equity	25	-
Net reduction in shareholders' funds	<u>(285,028)</u>	<u>(428,264)</u>
Shareholders' funds brought forward	539,703	967,967
Shareholders' funds carried forward	<u>254,675</u>	<u>539,703</u>

14. PENSION SCHEME - DEFINED BENEFIT

Retirement and death benefits are provided for certain employees. Members of the scheme are contracted out of the state earnings related pension scheme and the assets of the scheme are invested with insurance companies and are held separately from the Company's assets.

Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 6 April 1991. The significant assumptions were that wages and salaries would increase on average by 8.5% per annum, the return on investments would be 9.5% per annum, and that annuities would be purchased for retiring members at a yield of 9% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £868,000 and that the actuarial value of those assets represented 114% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the Company and employees have been 10% and 5% of earnings respectively. Qualified actuaries are currently performing a new triennial valuation as of 6 April 1994 and, on the advice of the actuaries, the Company has made and will continue to make contributions at the rate of 10% of earnings until the results of this valuation are known.

NOTES TO THE ACCOUNTS CONTINUED

15. HIRE PURCHASE AND FINANCE LOANS

	1994 £	1993 £
Total repayments due	5,276	16,764
Interest not yet due	(1,057)	(3,474)
Payable within one year	<u>4,219</u>	<u>13,290</u>

16. COMMITMENTS

Capital commitments:

The Company has no authorised capital commitments (1993 - £Nil)

Lease Commitments:

The Company has entered into non-cancellable leases in respect of plant & machinery and certain land & buildings. The minimum annual rentals under these leases are as follows.

	Land & Buildings £	Plant & Machinery £
1994		
Operating leases which expire:		
- within one year	9,750	843
- within two to five years	24,000	25,366
- after five years	-	-
	<u>33,750</u>	<u>26,209</u>
1993		
Operating leases which expire:		
- within one year	-	637
- within two to five years	19,500	40,443
- after five years	-	-
	<u>19,500</u>	<u>41,080</u>

17. ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is Auctor Limited a company registered in England and Wales. Copies of Auctor Limited's financial statements can be obtained at Wheatsheaf Works, Maxim Road, Dartford, Kent.