GRAINGER SMITH LIMITED

DIRECTORS' REPORT
AND FINANCIAL STATEMENTS

for the year ended
30th SEPTEMBER 1997

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COMPANIES HOUSE 26/01/98

Company number 421802

GRAINGER SMITH LIMITED

DIRECTORS' REPORT
for the year ended 30th SEPTEMBER 1997

Directors: G G Weller (Chairman)
M Foster
M G Weller

The directors present herewith their report together with the audited financial statements of the company for the year ended 30th September 1997.

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were the conversion of polyethylene foams and bubblefilm for packaging purposes.

PERFORMANCE REVIEW

The directors are pleased to report that the Company Voluntary Arrangement under which the company had operated since 1993 has been formally concluded following the settlement of all the liabilities under the arrangement.

The company increased its sales by 10% over the previous year. This, coupled with tight cost controls and increases in product margins have accounted for the significant increase in the company's profitability.

The company continued to increase its market share within its selected markets and the new products introduced in the Spring of 1996 have continued to gain market acceptance.

New plant was commissioned during the Spring of 1997 with further additions being planned for commissioning in February 1998.

Although the problems in Japan and South East Asia will mean limited growth for the company within the electronics sector during 1998, further growth can be expected during next year through the acquisition of new contracts.

DIRECTORS AND THEIR INTERESTS

All the directors served throughout the year.

The directors in office at the balance sheet date and their beneficial interests in the issued share capital of the company at the beginning and end of the year were as follows:

	30.9.97	1.10.96
Ordinary shares:		
G G Weller	15,020	15,020
M Foster	15,008	15,008
M G Weller	-	-
	======	=====
1% non-cumulative preference shares:		
G G Weller	2,000	2,000
M Foster	800	800
M G Weller	-	-
	=====	=====
Preferred ordinary shares:		
G G Weller	-	-
M Foster	60,000	60,000
M G Weller	-	-
	======	======

GRAINGER SMITH LIMITED

DIRECTORS' REPORT
for the year ended 30th SEPTEMBER 1997 (continued)

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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

A resolution proposing the reappointment of The Kings Mill Partnership will be submitted to the annual general meeting.

Advantage is taken in preparing the directors' report of the special exemptions applicable to small companies conferred by Part II of Schedule 8 to the Companies Act 1985.

This report was approved by the board on 13.1.98

Director

AUDITORS' REPORT
TO THE MEMBERS OF GRAINGER SMITH LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we have 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 30th September 1997 and of its profit for the year then ended and have been properly prepared in accordance with those provisions of the Companies Act 1985 that are applicable to small companies.

The Kings Mill Partnership

Chartered Accountants
Registered Auditors

20th January 1998

Tubwell House,
New Road,
Crowborough,
East Sussex,
TN6 2QH.

GRAINGER SMITH LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 30th SEPTEMBER 1997

	Notes	1997 £	1996 as restated £
Turnover	2	1,456,997	1,324,544
Cost of sales		1,028,136	974,604
GROSS PROFIT		428,861	349,940
Administrative expenses		352,752	313,543
OPERATING PROFIT	3	76,109	36,397
Other income	5	791	549
		76,900	36,946
Interest payable	6	20,578	18,366
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		56,322	18,580
Tax on ordinary activities	7	178	223
RETAINED PROFIT FOR THE YEAR		£56,144	£18,357

	Notes	1997 £	1996 as restated £
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit for the financial year and total recognised gains relating to the year		56,144	18,357
Less: Prior year adjustment	8	(11,460)	-
TOTAL GAINS AND LOSSES RECOGNISED SINCE THE LAST ANNUAL REPORT		£44,684	£18,357

	1997 £	1996 as restated £
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		
Profit for the year and net additions to shareholders' funds	56,144	18,357
Opening shareholders' funds (originally £8,711 before deducting the prior year adjustment of £11,460)	(2,749)	(21,106)
CLOSING SHAREHOLDERS' FUNDS	£53,395	£(2,749)

GRAINGER SMITH LIMITED

BALANCE SHEET as at 30th SEPTEMBER 1997

	Notes	1997	1997	1996 as restated	1996 as restated
		£	£	£	£
FIXED ASSETS					
Tangible assets	9		144,768		137,132
CURRENT ASSETS					
Stocks	10	56,409		65,315	
Debtors	11	314,905		331,738	
Cash at bank and in hand		8,014		2,074	
		379,328		399,127	
CREDITORS: amounts falling due within one year	12	426,889		462,176	
NET CURRENT LIABILITIES			(47,561)		(63,049)
TOTAL ASSETS LESS CURRENT LIABILITIES			97,207		74,083
CREDITORS: amounts falling due after more than one year	13		43,812		76,832
			£53,395		£(2,749)
CAPITAL AND RESERVES					
Called up share capital	14		94,040		94,040
Profit and loss account	15		(40,645)		(96,789)
SHAREHOLDERS' FUNDS - EQUITY			£53,395		£(2,749)

Advantage is taken in the preparation of the financial statements of the special exemptions applicable to small companies conferred by Part I of Schedule 8 to the Companies Act 1985. In the directors' opinion, the company is entitled to those exemptions as a small company.

The financial statements on pages 4 to 12 were approved by the Board on 13.1.98

Director

Director

GRAINGER SMITH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th SEPTEMBER 1997

1. ACCOUNTING POLICIES

The following are the more important accounting policies adopted by the company.

(a) Basis of accounting
The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

(b) Depreciation of tangible fixed assets
Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset fairly over its expected useful life.

As explained in Note 9 on page 9, the rates have been reviewed and several assets which were found to have been depreciated too much were revalued in 1995. The rates applied following this review are as follows:

Short leasehold property	- evenly over the minimum lease term
Motor vehicles	- 25% per annum on the reducing balance
Plant and machinery	- 20% per annum on the reducing balance
Office equipment and fittings	- 20% to 33% per annum on the reducing balance

(c) Assets held under hire purchase agreements and finance lease agreements
Tangible fixed assets acquired under hire purchase agreements and finance lease agreements are capitalised and included with other tangible fixed assets. All interest and charges are written off to the profit and loss account on a straight line basis over the life of the agreements.

(d) Operating leases
Charges arising under operating leases are written off to the profit and loss account as incurred.

(e) Stocks
Stocks and work in progress are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. 'Cost' includes all direct expenditure.

(f) Deferred taxation
Provision is made for taxation deferred in respect of material timing differences, except where the liability to taxation is not expected to arise in the foreseeable future. The provision is calculated using the liability method at the maximum rate of taxation expected to apply at the time of the crystallisation of the liability.

(g) Pension costs
The company contributes to a defined contribution pension scheme in respect of certain directors. Pension costs are charged to the profit and loss account in the period to which they relate.

(h) Compliance with accounting standards
The financial statements have been prepared in accordance with applicable accounting standards.

GRAINGER SMITH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th SEPTEMBER 1997 (continued)

2. TURNOVER

Turnover represents the invoiced amounts of goods sold and provided and is stated net of value added tax.

Both the turnover and pre-tax profit are wholly attributable to the company's principal activity. The geographical analysis of turnover is as follows:

	1997	1996
	£	£
United Kingdom	1,435,679	1,277,386
Other E U countries	21,318	47,158
	£1,456,997	£1,324,544

3. OPERATING PROFIT

The operating profit is stated after charging:

	£	£
Directors' emoluments (as executives) (Note 4)	104,096	59,381
Auditors' remuneration	2,200	2,100
Depreciation of tangible fixed assets	25,033	27,829
Loss on disposal of tangible fixed assets	5,601	1,519
Loss on disposal of investments	-	204
Operating lease rentals - plant and machinery	1,229	1,054
land and buildings	37,300	40,900

4. DIRECTORS' EMOLUMENTS AND TRANSACTIONS WITH DIRECTORS

Directors' emoluments include pension contributions of £7,852 (1996: £5,949).

Further details, excluding pension contributions:	1997	1996
Chairman and highest paid director	£64,316	£43,384
Numbers:		
£Nil - £5,000	1	2
£5,001 - £10,000	-	1
£30,001 - £35,000	1	-
£40,001 - £45,000	-	1
£60,001 - £65,000	1	-

GRAINGER SMITH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th SEPTEMBER 1997 (continued)

5. OTHER INCOME

	1997	1996
	£	£
Bank interest receivable	£791	£549

6. INTEREST PAYABLE

On bank overdraft	-	9
On hire purchase and finance lease agreements	6,001	2,234
On factored debts	14,577	16,123
	£20,578	£18,366

7. TAXATION

Corporation tax on non-trading profits at the rate of 22.5% (1996: 24.5%)	178	135
Adjustment in respect of a prior period	-	88
	£178	£223

The company has tax trading losses available to carry forward to offset against future corporation tax liablities amounting to approximately £334,000 (1996: £390,000).

8. PRIOR YEAR ADJUSTMENT

The prior year adjustment of £11,460 comprises the final adjustments required to the creditors under the terms of the company voluntary arrangement. The original adjustment based on the estimated effect of the arrangement on the level of creditors was contained in the financial statements for the year ended 31st December 1993 as an extraordinary item.

GRAINGER SMITH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th SEPTEMBER 1997 (continued)

9. TANGIBLE FIXED ASSETS

	Short leasehold property £	Office equipment & fittings £	Plant and machinery £	Motor vehicles £	Total £
Cost or valuation:					
At 1st October 1996	25,859	40,218	102,662	42,995	211,734
Additions	925	2,803	68,072	18,170	89,970
Disposals	-	(33,179)	(53,848)	(13,750)	(100,777)
At 30th September 1997	26,784	9,842	116,886	47,415	200,927
Depreciation:					
At 1st October 1996	3,637	34,794	25,580	10,591	74,602
Charge for the year	1,109	2,981	14,447	6,496	25,033
Eliminated on disposals	-	(33,179)	(6,000)	(4,297)	(43,476)
At 30th September 1997	4,746	4,596	34,027	12,790	56,159
Net book value:					
At 30th September 1997	£22,038	£5,246	£82,859	£34,625	£144,768
At 30th September 1996	£22,222	£5,424	£77,082	£32,404	£137,132

The company's plant and machinery was revalued in November 1995 by Calmtek Limited, dealers in polyethylene, foam and bubble film processing machinery. The valuation was on the basis of the open market value of the equipment as at the date of the valuation.

The company entered into a sale and leaseback agreement during the year whereby it sold plant and machinery with a cost of £53,848 and accumulated depreciation of £6,000 for a consideration of £43,600, and entered into a finance lease agreement to lease the assets from the purchaser.

Plant and machinery includes assets which are held under a finance lease agreement with a net book value of £34,880 (1996: £Nil). The depreciation charge in respect of those assets was £8,720 (1996: £Nil).

Tangible fixed assets include assets which are held under hire purchase agreements with a net book value of £39,608 (1996: £38,565). The depreciation charge in respect of those assets was £7,673 (1996: £7,082).

GRAINGER SMITH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th SEPTEMBER 1997 (continued)

10. STOCKS

	1997	1996
	£	£
Raw materials and consumables	51,952	61,928
Work in progress and finished goods	4,457	3,387
	£56,409	£65,315

11. DEBTORS

Trade debtors	282,633	288,351
Loans to directors	7,386	13,730
Corporation tax recoverable	2,191	725
Other debtors	9,325	8,725
Prepayments	13,370	20,207
	£314,905	£331,738

The loans to directors comprise advances made to Mr G Weller and Mr M Foster. The loans are unsecured and interest free.

The loan to Mr G Weller amounted at the beginning of the year to £5,143 and was cleared in the course of the year.

The loan to Mr M Foster amounted at the balance sheet date to £7,386 (1996: £8,587), £1,201 having been repaid in the course of the year.

12. CREDITORS: amounts falling due within one year

	1997	1996
	£	£
Amounts advanced by factors	160,189	110,379
Obligations under hire purchase agreements	6,969	11,139
Obligations under finance lease agreements	10,000	-
Liabilities under the Corporate Voluntary Arrangement	-	30,000
Trade creditors	212,108	269,081
Corporation tax payable	178	135
Indirect taxes and social security costs	17,421	24,165
Accruals	20,024	17,277
	£426,889	£462,176

GRAINGER SMITH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th SEPTEMBER 1997 (continued)

13. CREDITORS: amounts falling due after more than one year

	1997 £	1996 £
Obligations under hire purchase agreements	28,812	21,226
Obligations under finance lease agreements	15,000	-
Liabilities under the Corporate Voluntary Arrangement	-	55,606
	£43,812	£76,832

The net obligations under hire purchase and finance lease agreements fall due as follows:

	1997 £	1996 £
Within one to two years	16,969	10,043
Within two to five years	26,843	11,183
In more than five years	-	-
	£43,812	£21,226

14. CALLED UP SHARE CAPITAL

	1997 £	1996 £
Authorised		
75,040 ordinary shares of £1 each	75,040	75,040
4,000 1% non-cumulative preference shares of £1 each	4,000	4,000
60,000 preferred ordinary shares of £1 each	60,000	60,000
	£139,040	£139,040
Allotted, issued and fully paid		
30,040 ordinary shares of £1 each	30,040	30,040
4,000 1% non-cumulative preference shares	4,000	4,000
60,000 preferred ordinary shares of £1 each	60,000	60,000
	£94,040	£94,040

GRAINGER SMITH LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th SEPTEMBER 1997 (continued)

15. PROFIT AND LOSS ACCOUNT

	£
At the beginning of the period as previously stated	(85,329)
Prior year adjustment	(11,460)
	(96,789)
Transferred from profit and loss account for the year	56,144
	£(40,645)

16. FINANCIAL COMMITMENTS UNDER NON-CANCELLABLE OPERATING LEASES

At 30th September 1997, the company was committed to making the following payments under non-cancellable operating leases during the year ending 30th September 1998:

	1997 £	1996 £
Buildings:		
Commitment expires in over five years	£37,300	£37,300
Plant and machinery:		
Commitment expires in less than one year	£Nil	£733
Commitment expires in one to five years	£777	£Nil
Commitment expires in more than five years	£432	£Nil