Company Registration No. SC006195

# TULLIS RUSSELL PAPERMAKERS LIMITED

## Report and Financial Statements

## 31 March 2009

# TULLIS RUSSELL PAPERMAKERS LIMITED

## REPORT AND FINANCIAL STATEMENTS

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# TULLIS RUSSELL PAPERMAKERS LIMITED

# REPORT AND FINANCIAL STATEMENTS

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

F A W Bowden
C A G Parr
M M Sinclair
N J Fedo
N Shepherd
G D Wallace
G D Miller (appointed - 30 March 2009)
S N Forbes (appointed - 30 March 2009)

### SECRETARY

G D Miller

### REGISTERED OFFICE

Rothesfield
Markinch
Glenrothes
Fife

### BANKERS

The Royal Bank of Scotland plc
18 Crossgate
Cupar
Fife
KY15 5HL

### SOLICITORS

Dundas & Wilson CS LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

### INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

# DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2009.

## ACTIVITIES

The Company's principal activity is the manufacture and coating of high printing grades of paper and board. It operates in the UK and through overseas branches in France, Germany, Benelux and the USA.

## BUSINESS REVIEW

Volumes were 6.7% lower than in 2008. Margins were again under pressure this year as a result of increased costs. Despite these factors the gross margin percentage was 21% (2008 18.9%). Return on Capital Employed was (1.8%) in 2009 (2008 – 1.5%).

There was a cash inflow of £0.5m in 2009 increasing bank and cash balances to £7.1m. Net funds finished at £2.1m which includes the loan taken out to finance the purchase of the Gemini brand, the loan amount outstanding is £5m. We have no gearing as at 2009 (Nil – 2008).

### Key Business Risks

The main risks the Company is exposed to are weak markets for our products, pulp and energy costs and foreign currency exposures.

Energy costs are a significant burden to the company and we work towards minimising energy costs by optimising the use of our coal and gas fired boilers. A comprehensive review of our power requirements is currently being undertaken to ensure that we have an appropriate strategy going forward to meet our needs and comply with legislative requirements.

### Financial instruments

The Company has significant operations outside the UK and as such is exposed to movements in exchange rates. The currency risk is managed by entering into fixed forward contracts over the period of our business plan for key foreign currencies, which will fix a significant proportion of these exposures thereby giving certainty over a substantial part of our income stream and costs. The Company does not enter into any speculative financial instruments.

The Company's principal financial assets are bank balances and trade debtors. The Company manages its credit risk in relation to trade debtors by spreading exposure over a large number of customers and holding credit insurance in respect of trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The credit risk on liquid funds is limited because the counterparties are UK banks.

### Future Outlook

The external commercial environment is expected to be challenging in 2010, as a result of the economic downturn.

### Environmental

It is the Company's objective to continually improve the environment for its workforce and the local communities in which it operates. Implicit within that objective is to continually work towards minimising any practice or elements of the manufacturing process that would have a negative impact on the environment.

# DIRECTORS' REPORT (CONTINUED)

## REVIEW OF DEVELOPMENTS

The trading performance was excellent considering the difficult market conditions. The industry faced the impact of the global slowdown and demand was reduced.

The Loss on the ordinary activities before taxation was £1,244,000 (2008: Profit £6,457,000). The taxation charge was a charge of £24,000 (2008: charge £1,303,000), leaving a Loss after taxation of £1,268,000 (2008 Profit £5,154,000).

## DIVIDENDS

There were dividends paid in the year of £Nil. (2008: £13,138,000).

## DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. All directors served throughout the year. G D Miller and S N Forbes were appointed as a Directors as at 30 March 2009. F A W Bowden, C A G Parr, S N Forbes and G D Miller are also directors of the parent undertaking Tullis Russell Group Limited.

## EMPLOYEE INVOLVEMENT

Employee involvement is central to the management approach of the group. Systems operate in each of the group's businesses to provide all employees with information of concern to them, including information regarding financial and economic conditions affecting the group and its business and the results achieved. Principal communication methods used are monthly team briefings, the issue of a quarterly magazine, the distribution of annual financial information and annual reporting meetings.

Employees are encouraged to participate fully in the performance of their place of work. There is commitment to total quality management. There are cash bonuses, under which employees participate in the profits of their place of work. The amount charged in respect of the schemes to 31 March 2009 was £288,000 (2008: £331,000). All employees with qualifying service share in the group's profits, receiving free shares under the Share Incentive Plan ("SIP"). Employees also have the opportunity to purchase Partnership Shares and receive Matching Shares under the SIP. In respect of the year ended 2009, £36,971 (2008: £50,103) has been charged against profits to buy shares. Consulting with employee representatives takes place at group and company level. Representative bodies include: the Share Council, Information and Consultation Committee, Management Safety Policy Committees, Trade Unions and the Staff Association.

# DIRECTORS' REPORT (CONTINUED)

## DISABLED EMPLOYEES

The Company complies with the requirements of the Disability Discrimination Act 1996. The Company policy is to give full and fair consideration to applications for employment by disabled persons having regard to their particular aptitudes and abilities. In the event of members of staff becoming disabled, the Company policy is to continue their employment and arrange for appropriate training where suitable positions exist. Disabled employees have the same training, career development and promotion opportunities as all other employees.

## CHARITABLE DONATIONS

Donations to charitable organisations amounted to £8,012 (2008: £11,881).

## SUPPLIER PAYMENT POLICY

The Company's policy is to pay suppliers within agreed payment terms. The employees who are responsible for the administration of payments are fully aware of the Company policy. The ratio, expressed in days, between the amounts invoiced to the Company by its suppliers in the year ended 31 March 2009 and the amounts owed to its trade creditors at the end of the year was 68 days (2008 – 83 days).

## AUDIT INFORMATION

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- So far as each of the directors are aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- Each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

## AUDITORS

Our auditors, PricewaterhouseCoopers LLP, are willing to remain in office and a resolution concerning their re-appointment and remuneration will be proposed at the forthcoming Annual General Meeting.

## APPROVAL OF ACCOUNTS

The accounts were approved by the Board of the Directors on 28 May 2009 and were signed on behalf of the directors by C A G Parr and G D Miller on that date.

Approved by the Board of Directors
and signed by order of the Board

G D Miller
Secretary
28 May 2009

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with UK GAAP of the state of affairs of the Company and of the profit or loss of the Company for that period and comply with UK GAAP and the Companies Act 1985. 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; and
- 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 are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TULLIS RUSSELL PAPERMAKERS LIMITED

We have audited the financial statements of Tullis Russell Papermakers Limited for the year ended 31 March 2009 which comprise the profit and loss account, statement of total recognised gains and losses, the note of historical cost profits and losses, the balance sheet, and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 into 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

***PricewaterhouseCoopers LLP***
***Chartered Accountants and Registered Auditors***
***Edinburgh***

4 June 2009

## PROFIT AND LOSS ACCOUNT
**For the year ended 31 March 2009**

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **TURNOVER: continuing operations** | 2 | 124,553 | 116,553 |
| Cost of sales | | (98,545) | (92,059) |
| Gross profit | | 26,008 | 24,494 |
| Distribution costs | | (19,750) | (18,370) |
| Administrative expenses | | (6,875) | (4,794) |
| **OPERATING (LOSS)/PROFIT: continuing operations** | 4 | (617) | 1,330 |
| Exceptional items: Profit on sale of land | 5 | - | 5,826 |
| Net interest payable | 6 | (627) | (699) |
| **(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | (1,244) | 6,457 |
| Tax on (loss)/profit on ordinary activities | 7 | (24) | (1,303) |
| **(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION** | 22 | (1,268) | 5,154 |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
**For the year ended 31 March 2009**

| | 2009 | 2008 |
|---|---|---|
| (Loss)/profit for the financial year | (1,268) | 5,154 |
| Actuarial (loss)/gain relating to the pension scheme | (3,332) | 9,285 |
| Movement in deferred tax relating to pension liability | 932 | (2,595) |
| Total recognised gains and losses related to the year | (3,668) | 11,844 |

## NOTE OF HISTORICAL COST PROFITS AND LOSSES
**For the year ended 31 March 2009**

| | | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|---|
| Reported (loss)/profit on ordinary activities before taxation | | (1,244) | 6,457 |
| Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount | 22 | 418 | 324 |
| Historical cost (loss)/profit on ordinary activities before taxation | | (826) | 6,781 |
| Historical cost(loss)/profit retained after taxation | | (850) | 5,478 |

# BALANCE SHEET
## 31 March 2009

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 9 | 3,799 | 6,843 |
| Tangible assets | 10 | 30,756 | 34,065 |
| Investments | 11 | - | 30 |
| | | 34,555 | 40,938 |
| **CURRENT ASSETS** | | | |
| Stocks | 12 | 15,958 | 12,643 |
| Debtors | 13 | 14,508 | 14,551 |
| Cash at bank and in hand | | 7,073 | 6,568 |
| | | 37,539 | 33,762 |
| **CREDITORS: amounts falling due within one year** | 14 | (34,674) | (31,599) |
| **NET CURRENT ASSETS** | | 2,865 | 2,163 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 37,420 | 43,101 |
| **CREDITORS: amounts falling due after more than one year** | | | |
| Loans | 15 | (4,000) | (5,000) |
| Deferred tax | 19 | (3,249) | (3,534) |
| | | (7,249) | (8,534) |
| **ACCRUALS AND DEFERRED INCOME** | | | |
| Deferred government grants | 20 | (1,026) | (1,337) |
| **NET ASSETS EXCLUDING PENSION LIABILITY** | | 29,145 | 33,230 |
| **PENSION LIABILITY** | 18 | (609) | (1,026) |
| **NET ASSETS** | | 28,536 | 32,204 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 21 | 5,449 | 5,449 |
| Share premium account | 22 | 876 | 876 |
| Revaluation reserve | 22 | 4,489 | 4,907 |
| Profit and loss account | 22 | 17,722 | 20,972 |
| **TOTAL SHAREHOLDERS' FUNDS** | 23 | 28,536 | 32,204 |

These financial statements were approved by the Board of Directors on 28 May 2009.

Signed on behalf of the Board of Directors

CAG Parr
Director

GD Miller
Director

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

1. **ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding financial year.

**Accounting convention**

The accounts are prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable United Kingdom accounting standards.

**Cash flow statement**

As permitted by FRS 1, a cash flow statement is not included because the company is a wholly owned subsidiary undertaking of a parent undertaking which produces group accounts including a consolidated cash flow statement.

**Government Grants**

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account over the expected useful lives of the relevant assets by equal annual instalments.

**Leased assets**

Assets held under finance leases and hire purchase agreements are capitalised as tangible fixed assets at fair value and are depreciated over the shorter of the lease term and the economic life. The obligation for lease and capital payments less finance charges allocated to future periods is included in creditors. Finance charges for each contract are charged to the profit and loss account on a basis which reflects the owner's estimated net cash investment in the contract.

Rentals paid under operating leases are charged to the profit and loss account in accordance with the terms of the relevant lease agreements.

**Intangible fixed assets**
Intangible assets acquired separately from a business are capitalised at cost.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

The anticipated life of the intangible asset is:

Gemini Brand – between 4 and 5 years.

**Tangible fixed assets**

Tangible fixed assets are stated at cost or valuation, net of any depreciation and provision for impairment.

Depreciation is provided on all tangible fixed assets, other than land and assets in the course of construction, at rates calculated to write off the cost or valuation, less estimated realisable value, of each asset over its expected useful life.

The range of anticipated lives of the assets is :

| | | |
|---|---|---|
| Freehold buildings | - | 50 years |
| Plant and equipment | - | 4 to 20 years |

The Company's tangible fixed assets were revalued as at 30 June 1994 on the basis of open market value for the existing use and the values incorporated in the books at that date. Transitional arrangements for FRS15 are being adopted and the company is not continuing the revaluation policy in relation to these assets.

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 1. ACCOUNTING POLICIES (Continued)

**Stocks**

Stocks (including work in progress) are valued at the lower of cost and estimated net realisable value on a first-in, first-out basis. The cost of stocks comprises direct materials and related costs of conversion being direct labour and production overheads.

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items as appropriate.

**Research and development**

Research and development expenditure is charged to profit and loss account in the year in which it is incurred.

**Turnover and revenue recognition**

Turnover comprises sales in the normal course of business, excluding value added tax. Revenue is recognised when goods are despatched.

**Current and Deferred Taxation**

Current tax, including United Kingdom corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or at the rate used to hedge the balances, if different. These transaction differences are dealt with in the profit and loss account.

**Pension costs**

The principal group pension scheme encompasses both a defined benefit section for service up to 5 April 2002 and a defined contribution section for service from 6 April 2002.

For the defined benefit section the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount within interest payable. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit section is funded, with the assets held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

## 1. ACCOUNTING POLICIES (Continued)

### Financial instruments and derivatives

The Company uses forward foreign currency contracts to minimise the financial risk attaching to future sales of finished goods or purchases of raw materials, services or capital equipment denominated in foreign currencies. Gains and losses on these contracts are deferred and realised when the underlying transactions are recognised in the financial statements.

### Share based payments

The Company has a share compensation scheme, the Share Incentive Plan ("SIP") and the Company accounts for this scheme in accordance with FRS 20.

Under the terms of the SIP, all employees are eligible for an annual award of Free shares. All employees have the right to subscribe for Partnership shares by way of a deduction to salary. Employees who have subscribed for Partnership shares may be eligible to receive Matching shares on a maximum ratio of two Matching shares to every one Partnership share.

The Fair value of the free shares is charged to the profit and loss account over the period from the beginning of the financial year from which qualifying service commences to the date at which the compensation is expected to vest in the employees. Shares are deemed to vest in the employees when all the risks and rewards have substantially transferred. The corresponding credit is included as a liability. No charge is taken to the profit and loss account for Partnership shares as the Company deducts employee remuneration equivalent to the fair value awarded. The fair value of Matching share awards is charged to the profit and loss account at the date any awards are granted. The fair value of any awards granted by way of Free or Matching shares is calculated by reference to the approved valuation with HM Revenue and Customs agreed for this purpose.

The cash cost of settling these awards is borne by the Company.

## 2. TURNOVER

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Turnover by destination: | | |
| United Kingdom | 50,816 | 48,828 |
| Europe | 63,908 | 57,492 |
| North America | 684 | 950 |
| Asia | 5,180 | 5,067 |
| Other | 3,965 | 4,216 |
| | 124,553 | 116,553 |

All turnover originates from manufacturing in the U.K.

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 3. STAFF COSTS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Wages and salaries | 17,025 | 15,217 |
| Social security costs | 1,775 | 1,541 |
| Other pension costs | 549 | 1,101 |
| | 19,349 | 17,859 |

The average monthly number of employees during the year was made up as follows:-

| | 2009 No. | 2008 No. |
|---|---|---|
| Management and administration | 45 | 43 |
| Manufacturing and production | 445 | 448 |
| Distribution | 55 | 59 |
| | 545 | 550 |

| **Directors' remuneration:** | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Remuneration | 608 | 664 |
| Pension contributions | 126 | 122 |
| | 734 | 786 |
| Remuneration of highest paid director: | | |
| Remuneration | 213 | 208 |
| Pension accrued | 32 | 31 |

| | 2009 No. | 2008 No. |
|---|---|---|
| Directors who are members of the pension scheme (who are not also directors of the parent company) | 4 | 4 |

All directors are members of the Long Term Incentive Plan which was approved at the 2002 Annual General Meeting as part of the remuneration policy. No payment was made during the year and no further entitlement was earned.

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 4. OPERATING (LOSS)/PROFIT

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Operating (loss)/profit is after charging/(crediting): | | |
| Depreciation and amortisation | | |
| Intangible owned assets (note 9) | 3,044 | 3,044 |
| Tangible owned assets (note 10) | 4,733 | 4,700 |
| Rentals under operating leases | | |
| Plant and machinery | 458 | 501 |
| Land and buildings | 526 | 520 |
| Pension settlement gain | 767 | 352 |
| Government grant release (note 20) | (311) | (311) |
| Directors' remuneration (note 3) | 734 | 786 |
| Loss on foreign currency exchange | 2,568 | 953 |
| Redundancy costs | - | 152 |
| Auditors' remuneration | | |
| Audit fees | 42 | 42 |
| Other services | 12 | 12 |

### 5. EXCEPTIONAL ITEM

There were no exceptional items during the year. (2008 – The company sold land for a net consideration of £5,826,000.)

### 6. NET INTEREST PAYABLE

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Bank interest payable | 537 | 528 |
| Interest on bank loan | 282 | 771 |
| Bank interest receivable | (418) | (622) |
| Pension scheme financing (note 18) | 226 | 22 |
| | 627 | 699 |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

## 7. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| *Current taxation* | | |
| UK corporation tax charge for the period | (716) | 1,396 |
| Adjustment in respect of prior years | (70) | 103 |
| Total current tax | (786) | 1,499 |
| *Deferred taxation* | | |
| Origination and reversal of timing differences | 810 | (196) |
| | 24 | 1,303 |

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 28%. The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation.

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| (loss)/profit on ordinary activities before tax | (1,244) | 6,457 |
| Tax on (loss)/profit on ordinary activities at standard rate | (348) | 1,937 |
| *Factors affecting the charge for the period:* | | |
| Expenses not deductible for tax purposes | 435 | 114 |
| Tax at marginal rates | - | (2) |
| Capital allowances in excess of depreciation | 367 | 781 |
| Chargeable gains | - | (17) |
| Release of IBA Deferred tax | - | (312) |
| Transfer pricing adjustment | - | 48 |
| Movement on Pension | - | (1,013) |
| Short term timing differences | (1,169) | (140) |
| Adjustments to tax in respect of prior periods | (71) | 103 |
| Total actual amount of current tax | (786) | 1,499 |

## 8. DIVIDENDS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| 2009: No dividend was paid (2008: £13,138,000) | - | 13,138 |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 9. INTANGIBLE FIXED ASSETS

| | Brand £'000 |
|---|---|
| **Cost:** | |
| At 1 April 2008 and 31 March 2009 | 14,218 |
| **Amortisation:** | |
| At 1 April 2008 | 7,375 |
| Provided during the year | 3,044 |
| At 31 March 2009 | 10,419 |
| **Net book value:** | |
| At 31 March 2009 | 3,799 |
| At 1 April 2008 | 6,843 |

The brand "Gemini" was acquired on 8 June 2005 for a total consideration of £14m of which £1m was deferred contingent consideration and is included in creditors at 31 March 2009. No revision has been made to the amount of the deferred contingent consideration during the year.

## NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 10. TANGIBLE FIXED ASSETS

| | Land & buildings | Plant and equipment | Assets in course of construction | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Cost or valuation** | | | | |
| At 1 April 2008 | 15,070 | 67,885 | 72 | 83,027 |
| Additions | 975 | 459 | - | 1,434 |
| Commissioned | | 72 | (72) | - |
| Disposals | (54) | (100) | - | (154) |
| At 31 March 2009 | 15,991 | 68,316 | - | 84,307 |
| **Depreciation** | | | | |
| At 1April 2008 | 4,322 | 44,640 | - | 48,962 |
| Charge for the year | 392 | 4,341 | - | 4,733 |
| Disposals | (54) | (90) | - | (144) |
| At 31 March 2009 | 4,660 | 48,891 | - | 53,551 |
| **Net book value** | | | | |
| At 31 March 2009 | 11,331 | 19,425 | - | 30,756 |
| **Net book value** | | | | |
| At 31 March 2008 | 10,748 | 23,245 | 72 | 34,065 |

The Company's tangible fixed assets were revalued as at 30 June 1994 on the basis of open market value for the existing use and the values incorporated in the books at that date. No subsequent revaluations have taken place in accordance with the company's policy. Assets acquired subsequently have been included at original historic cost.

Had the assets not been valued, the amounts at 31 March 2009 would have been:-

| | £'000 | £'000 | £'000 | £'000 |
|---|---|---|---|---|
| Historical cost | 11,678 | 102,012 | - | 113,690 |
| Depreciation | (4,788) | (82,635) | - | (87,423) |
| Historical cost net book value | 6,890 | 19,377 | - | 26,267 |
| Historical cost depreciation charge for the year | 233 | 3,328 | - | 3,561 |

## NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 11. INVESTMENTS

| | Subsidiary Undertakings £'000 |
|---|---|
| Cost: At 1 April 2008 | 30 |
| Write down | (30) |
| Net book value at 31 March 2009 | - |

### 12. STOCKS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Raw materials | 4,985 | 3,123 |
| Work in progress | 2,177 | 2,194 |
| Finished goods | 8,796 | 7,326 |
| | 15,958 | 12,643 |

The replacement cost of stocks is not materially different from the above.

### 13. DEBTORS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Trade debtors | 13,200 | 13,604 |
| Amounts owed by group undertakings | - | 550 |
| Prepayments and accrued income | 366 | 375 |
| VAT recoverable | 876 | - |
| Corporation tax receivable | 66 | 22 |
| | 14,508 | 14,551 |

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

### 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Trade creditors | 20,647 | 19,014 |
| Amounts due to group undertakings | 8,022 | 3,706 |
| Other taxes and social security | 453 | 2,824 |
| Other creditors and accrued expenses | 4,552 | 5,055 |
| Loans (note 16) | 1,000 | 1,000 |
| | 34,674 | 31,599 |

The supplier payment policy is disclosed in the Directors' Report on page 2. The directors consider that the carrying amount of trade payables approximates to their fair value. Amounts owed to group undertakings are unsecured, interest free and are payable on demand.

## NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 15. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| Loans (note 16) | 4,000 | 5,000 |
| Deferred tax (note 19) | 3,249 | 3,534 |
| | 7,249 | 8,534 |

### 16. LOANS

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| Amounts falling due: | | |
| In one year or less | 1,000 | 1,000 |
| In more than one year but not more than two years | 4,000 | 1,000 |
| In more than two years but no more than five years | - | 4,000 |
| | 5,000 | 6,000 |

The long-term loan is repayable in two payments. These are £1m on 31 May 2009 and £4m on 31 May 2010. Interest is payable on the loan monthly at 1% above LIBOR and the loan is unsecured.

### 17. OBLIGATIONS UNDER LEASE CONTRACTS

At 31 March 2009 the Company had annual commitments under non-cancellable operating leases for assets expiring as follows:-

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Land & Buildings<br>£'000 | Other<br>£'000 | Land & Buildings<br>£'000 | Other<br>£'000 |
| Operating leases which expire: | | | | |
| Within one year | - | 13 | - | 1 |
| In the second to fifth years inclusive | - | 523 | - | 492 |
| After five years | 530 | - | 523 | - |
| | 530 | 536 | 523 | 493 |

### 18. PENSION COMMITMENTS

Eligible employees of the company are members of The Tullis Russell Pension Scheme and particulars of the actuarial valuation of the scheme are contained in the accounts of Tullis Russell Group Limited.

The group operates one principal pension scheme in the UK which provides defined benefits for service earned before 6 April 2002 and defined contribution for service from 6 April 2002.

**Defined Benefit Scheme**

The assets of the scheme are held separately from those of the group and are invested by trustees in pooled managed funds. An actuarial valuation was carried out at 6 April 2007 and updated to 31 March 2009 by Aon Consulting, independent consulting actuaries using the Projected Unit Method.

## NOTES TO THE FINANCIAL STATEMENTS
**Year ended 31 March 2009**

**18. PENSION COMMITMENTS (CONTINUED)**

| The major assumptions used by the actuary were: | 2009 | 2008 |
|---|---|---|
| Rate of increase in pensions in payment | 3.0% | 3.5% |
| Discount rate | 6.7% | 6.7% |
| Rate of inflation | 3.0% | 3.5% |

Mortality for current and future pensioners has been based on PMA/PFA 00 Medium Cohort Birth Year Age Adjustment of +2 Years for both 2009 and 2008.

The company's share of the assets in the scheme, the present value of liabilities in the scheme and the expected rates of return at each balance sheet date were:

| The assets in the scheme and the expected rates of return were: | 2009 | | 2008 | |
|---|---|---|---|---|
| | Long-term Rate of Return Expected | Fair Value £000 | Long-term Rate of Return Expected | Fair Value £000 |
| Equities | 8.2% | 2,990 | 7.8% | 29,158 |
| Bonds | 6.7% | 6,814 | 6.9% | 33,553 |
| Property | 6.0% | 1,287 | 6.0% | 1,622 |
| Cash | 3.0% | 2,483 | 5.0% | 683 |
| Annuity policy | 6.7% | 37,821 | n/a | - |
| Total market value of assets | | 51,395 | | 65,016 |
| Present value of scheme liabilities | | (52,241) | | (66,441) |
| Deficit in scheme | | (846) | | (1,425) |
| Related deferred tax asset | | 237 | | 399 |
| **Net pension deficit** | | (609) | | (1,026) |

| Reconciliation of present value of scheme liabilities | 2009 | 2008 |
|---|---|---|
| | £000 | £000 |
| At 1 April | (66,441) | (86,290) |
| Defined benefit service cost | (205) | (427) |
| Interest cost | (2,137) | (4,750) |
| Actuarial gain | (139) | 14,875 |
| Liabilities extinguished on settlements | 12,877 | 5,943 |
| Benefits paid | 3,804 | 4,208 |
| **At 31 March** | (52,241) | (66,441) |

## NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 18. PENSION COMMITMENTS (CONTINUED)

| **Reconciliation of fair value of scheme assets** | **2009 £000** | **2008 £000** |
|---|---|---|
| At 1 April | 65,016 | 72,203 |
| Expected return | 1,911 | 4,727 |
| Actuarial loss | (3,409) | (5,607) |
| Assets distributed on settlements | (12,109) | (5,590) |
| Contributions paid by employer | 3,790 | 3,491 |
| Benefits paid | (3,804) | (4,208) |
| **At 31 March** | 51,395 | 65,016 |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual negative return on scheme assets in the year was 1,498,000 (2008: £880,000).

| **Amounts charged/(credited) to the profit and loss are as follows:** | **2009 £000** | **2008 £000** |
|---|---|---|
| Current Service cost | - | 27 |
| Expected return on pension scheme assets | (1,911) | (4,727) |
| Interest on pension scheme liabilities | 2,137 | 4,750 |
| Settlement gain | (768) | (353) |
| | (542) | (303) |

**Actuarial valuation**

The full actuarial valuation at 6 April 2007 showed a decrease in the deficit from £19,724,000 to £15,084,000. It has been agreed with the trustees that the group will make annual cash payments of £3,800,000 over the next four years to make good the deficit. The scheme is closed to new entrants and to future accrual for existing members.

| **Amounts for current and previous four years** | **2009 £000** | **2008 £000** | **2007 £000** | **2006 £000** | **2005 £000** |
|---|---|---|---|---|---|
| Defined benefit obligation | (52,241) | (66,441) | (86,290) | (90,029) | (76,374) |
| Plan assets | 51,395 | 65,016 | 72,203 | 68,378 | 58,926 |
| Deficit | (846) | (1,425) | (14,087) | (21,651) | (17,448) |
| Experience adjustments on plan assets | (3,409) | (5,607) | 11 | 6,845 | 3,495 |
| Experience adjustments on plan liabilities | (1,981) | 3,212 | (1,657) | (174) | (2,392) |
| Total amount recognised in the statement of total recognised gains and losses | (3,332) | 9,285 | 4,445 | (5,513) | 212 |

**Defined Contribution Scheme**

The defined contribution pension cost for the group was £227,000 (2008: £243,000). Outstanding contributions of £24,000 (2008:£25,000) are included in Creditors: amounts falling due within one year.

## NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 19. PROVISION FOR LIABILITIES AND CHARGES

| | Deferred Taxation £'000 |
|---|---|
| Balance at 1 April 2008 | 3,534 |
| Current year credit | (285) |
| Balance at 31 March 2009 | 3,249 |

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Provision for deferred taxation consists of the following amounts: | | |
| Capital allowances in excess of depreciation | 3,636 | 3,981 |
| Other timing differences | 477 | 402 |
| Losses | (864) | (849) |
| | 3,249 | 3,534 |

### 20. DEFERRED GOVERNMENT GRANTS

| | £'000 |
|---|---|
| At 1 April 2008 | 1,337 |
| Amortised during the year | (311) |
| At 31 March 2009 | 1,026 |

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Deferred government grants can be split as follows: | | |
| Release due within one year | 311 | 311 |
| Release due after more than one year | 715 | 1,026 |
| | 1,026 | 1,337 |

### 21. CALLED UP SHARE CAPITAL

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Authorised** | | |
| 54,691,000 ordinary shares of 10p each | 5,469 | 5,469 |
| **Called up, allotted and fully paid** | | |
| 54,490,000 ordinary shares of 10p each | 5,449 | 5,449 |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 March 2009

### 22. STATEMENT OF RESERVES

| | Share premium account £'000 | Profit and loss account £'000 | Revaluation reserve £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 April 2008 | 876 | 20,972 | 4,907 | 26,755 |
| Loss after taxation for the year | - | (1,268) | - | (1,268) |
| Dividends paid | - | - | - | - |
| Actuarial loss relating to pension scheme (net of deferred tax movement) | - | (2,400) | - | (2,400) |
| Transfer of amount equivalent to additional depreciation on revalued assets | - | 418 | (418) | - |
| At 31 March 2009 | 876 | 17,722 | 4,489 | 23,087 |

### 23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2009 £ | 2008 £ |
|---|---|---|
| Opening shareholders' funds | 32,204 | 33,498 |
| Profit for the year | (3,668) | 11,844 |
| Dividends paid | - | (13,138) |
| Net reduction to shareholders' funds | (3,668) | (1,294) |
| Closing shareholders' funds | 28,536 | 32,204 |

### 24. CAPITAL COMMITMENTS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Contracted | 1 | 2 |

### 25. GUARANTEES

The company has guaranteed the bank borrowings of certain other group companies. At March 2009 the amount of borrowings covered by this guarantee was £5,998,000 (2008: £5,663,000).

### 26. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary of Tullis Russell Group Limited and has therefore taken advantage of the exemption permitted by FRS8 'Related Party Disclosures', with regard to the disclosure of Related Party transactions with other group companies. There have been no other related party transactions

### 27. ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking and ultimate controlling party is Tullis Russell Group Limited. This is the only group of undertakings of which the company is a member. Copies of the accounts of Tullis Russell Group Limited may be obtained from Companies House, 4th floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 .