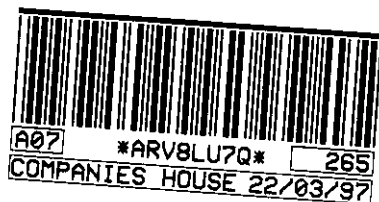


RIDLEY, QUINEY & CO LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 1996



Company No. 1100207

RIDLEY, QUINEY & CO LIMITED

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 1996

Company registration number: 1100207

Registered office: 22 Lamson Road
Off Ferry Lane
Rainham
Essex
RM13 9YY

Directors: P C Cotes
W D Evans
D J Harvey

Company secretary: P C Cotes

Bankers: Barclays Bank PLC

3i Plc
91 Waterloo Road
LONDON
SE1 8XP

Auditors: Grant Thornton
Registered auditors
Chartered accountants
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

RIDLEY, QUINEY & CO LIMITED

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 1996

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RIDLEY, QUINEY & CO LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 1996.

Principal activity

The principal activity of the company remained unchanged and comprises the wholesale purchasing, processing and sale of paper and other packaging materials.

Business review

The company was the subject of a management buyout on 27 February 1996 when Nigel Quiney and Chris Wright retired and RQ (Holdings) Limited purchased the whole issued share capital. Nigel and Chris had been directors of the company since its incorporation in 1973 and before that partners in the packaging business which the company took over. We would like to thank Nigel and Chris for all their hard work which grew the company to its present size and to wish them well in their retirements.

Trading conditions in 1996 were significantly more difficult than in 1995. We maintained our volumes in a competitive market but lower prices reduced our turnover and profit margins.

Financial results of the company and dividends

There was a profit for the year after taxation of £852,000 (1995: £955,000). The directors recommend a final dividend of £1,000,000 (1995: £160,000) which together with a scrip dividend of £30,000 reduces reserves brought forward by £178,000 (1995: addition of £795,000).

Fixed assets

Details of changes in tangible fixed assets are shown in note 9.

Directors

The directors who held office during the year and their interest together with that of their families in the shares of the company are as follows:

	Ordinary shares of 50p	
	31 December 1996	31 December 1995
P C Cotes	-	-
W D Evans (appointed 27 February 1996)	-	-
P Fecher (resigned 27 February 1996)	-	7,094
D J Harvey	-	-
N E Quiney (resigned 27 February 1996)	-	52,501
C S Wright (resigned 27 February 1996)	-	27,501
	<hr/>	<hr/>

RIDLEY, QUINEY & CO LIMITED

REPORT OF THE DIRECTORS

Directors (continued)

The interests of the directors in the shares of the ultimate holding company, RQ (Holdings) Limited, are set out in the directors' report of that company.

Directors' responsibilities for the financial statements

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 year. 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



P C COTES
Secretary
14 March 1997

REPORT OF THE AUDITORS TO THE MEMBERS OF

RIDLEY, QUINEY & CO LIMITED

We have audited the financial statements on pages 4 to 16 which have been prepared under the accounting policies set out on pages 4 and 5.

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 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 affairs of the company as at 31 December 1996 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

LONDON
14/3/ 1997

RIDLEY, QUINEY & CO LIMITED

PRINCIPAL ACCOUNTING POLICIES

The following policies which have been consistently applied are considered material in relation to the company's financial statements. The principal accounting policies of the company have remained unchanged from the previous year.

Basis of accounting

The financial statements have been prepared under the historical cost convention except that freehold property is shown at its revalued amount, and in accordance with applicable UK Accounting Standards.

Consolidation

The company has taken advantage of the exemption available under section 228 of the Companies Act 1985 and has not prepared consolidated accounts on the grounds that the company is a wholly owned subsidiary of RQ (Holdings) Limited, which has prepared group accounts for the period to 31 December 1996 (note 22).

Turnover

Turnover represents the invoiced value of goods and services supplied during the year, excluding sales between group companies and Value Added Tax.

Depreciation

Depreciation is provided on all tangible fixed assets save for land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life. The estimated useful lives are as follows:

Freehold buildings	50 years
Motor vehicles	4 years
Fixtures and fittings	10 years
Plant and equipment	10 years
Computer equipment	5 years

Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts are recorded in the balance sheet as tangible fixed assets and are depreciated in accordance with the policy above. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. Rental payments are apportioned between the finance element which is charged to the profit and loss account and the capital element which reduces the outstanding obligation for future instalments.

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

RIDLEY, QUINEY & CO LIMITED

PRINCIPAL ACCOUNTING POLICIES

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost comprises the purchase price of raw materials, plus the labour and appropriate overhead expenses incurred in bringing the stocks to their present location and condition. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is provided on all material timing differences except that no provision is made on the potential liability arising from the revaluation of freehold land and buildings as there is no proposal to dispose of the property in the foreseeable future and hence crystallise the liability.

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. All exchange differences are taken to the profit and loss account.

Goodwill

Future goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired is capitalised and classified as an asset on the balance sheet and amortised through the profit and loss account over an expected useful life of 20 years. This treatment is permitted under the existing standard SSAP22 and the directors, having regard for evolving best practice, follow the proposals set out in draft Financial Reporting Standard 'Goodwill and Intangible Assets' FRED12. Goodwill arising prior to 31 December 1995 continues to be treated on the basis that it is written off directly to reserves in the year it arises.

Company Pension Scheme

The company operates a defined benefit pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested by Norwich Union Life Insurance Society in Norwich Union mixed fund units. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

RIDLEY, QUINEY & CO LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 31 DECEMBER 1996

	Note	1996 £'000	1995 £'000
Turnover	1	22,139	22,968
Cost of sales		<u>(18,598)</u>	<u>(18,934)</u>
Gross profit		3,541	4,034
Selling and administrative costs		<u>(2,124)</u>	<u>(2,411)</u>
Operating profit	2	1,417	1,623
Interest payable	6	<u>(81)</u>	<u>(185)</u>
Profit on ordinary activities before taxation		1,336	1,438
Taxation charge	7	<u>(484)</u>	<u>(483)</u>
Profit on ordinary activities after taxation		852	955
Dividends	8	<u>(1,030)</u>	<u>(160)</u>
Retained (loss)/profit for the year	17	<u><u>(178)</u></u>	<u><u>795</u></u>

All of the company's operations are classified as continuing.

All recognised gains and losses are included in the profit and loss account.

The accompanying accounting policies and notes form an integral part of these financial statements.

RIDLEY, QUINEY & CO LIMITED

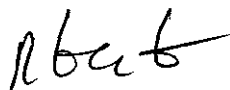
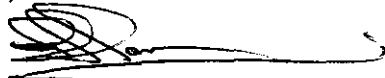
BALANCE SHEET AT 31 DECEMBER 1996

	Note	1996 £'000	1996 £'000	1995 £'000	1995 £'000
Fixed assets					
Tangible assets	9		3,332		3,470
Investments	10		92		142
			<u>3,424</u>		<u>3,612</u>
Current assets					
Stocks	11	2,812		3,248	
Debtors	12	3,958		4,258	
Cash at bank and in hand		<u>66</u>		<u>19</u>	
		6,836		7,525	
Creditors: amounts falling due within one year	13	<u>(3,090)</u>		<u>(3,762)</u>	
Net current assets			<u>3,746</u>		<u>3,763</u>
Total assets less current liabilities			7,170		7,375
Creditors: amounts falling due after more than one year	14	(600)		(704)	
Provision for liabilities and charges	15	<u>(263)</u>	<u>(863)</u>	<u>(216)</u>	<u>(920)</u>
Net assets			<u>6,307</u>		<u>6,455</u>
Capital and reserves					
Called up share capital	16		80		50
Share premium account			80		80
Profit and loss account	17		4,880		5,047
Revaluation reserve	17		<u>1,267</u>		<u>1,278</u>
Shareholders' funds	18		<u>6,307</u>		<u>6,455</u>

The financial statements were signed on behalf of the Board of Directors on 14 March 1997

P C Cotes

D J Harvey

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)

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Directors

The accompanying accounting policies and notes form an integral part of these financial statements.

RIDLEY, QUINEY & CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 1996

1 TURNOVER

	1996 £'000	1995 £'000
A geographical analysis of turnover is as follows:		
United Kingdom	19,769	20,668
Other EC Countries	<u>2,370</u>	<u>2,300</u>
	<u>22,139</u>	<u>22,968</u>

All turnover arose as a result of the company's principal activity.

2 OPERATING PROFIT

	1996 £'000	1995 £'000
The results are stated after charging/(crediting):		
Depreciation of tangible assets		
- owned assets	119	134
- leased assets	6	20
Hire of plant and machinery	80	71
Auditors' remuneration		
- audit	10	10
- other services	2	6
Loss/(profit) on sale of tangible assets	50	(13)
Loss on investments	<u>50</u>	<u>-</u>

3 DIRECTORS' EMOLUMENTS

	1996 £	1995 £
Remuneration in respect of directors was as follows:		
Management remuneration	<u>522,920</u>	<u>812,531</u>
The emoluments of the directors (excluding pension fund contributions) were as follows:		
Highest paid director	<u>255,612</u>	<u>235,280</u>

RIDLEY, QUINEY & CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 1996

DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of directors, (excluding pension fund contributions), fell in the following bands:

	1996	1995
	Number of directors	
£ 0 - £ 5,000	1	1
£ 5,001 - £ 10,000	2	-
£ 55,001 - £ 60,000	1	-
£125,001 - £130,000	-	1
£130,001 - £135,000	-	1
£180,001 - £185,000	-	1
£190,001 - £195,000	1	-
£235,001 - £240,000	-	1
£255,001 - £260,000	1	-

The above disclosures include sums paid to two of the directors where further particulars are set out in note 16.

4 EMPLOYEES

The average number of employees during the year was:

	1996	1995
Administration, sales and management	40	39
Factory	10	12
Warehouse	13	13
	<u>63</u>	<u>64</u>

The cost of employing the above employees was:

	1996	1995
	£'000	£'000
Wages and salaries	1,576	1,783
Social security costs	117	135
Other pension costs	150	244
	<u>1,843</u>	<u>2,162</u>

RIDLEY, QUINEY & CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 1996

5 COMPANY PENSION SCHEME

The most recent full valuation of the pension scheme as performed by the actuaries was as at 31 May 1996 and at that date the scheme was fully funded on a continuance basis. The assets of the scheme are held separately from those of the company, being invested by Norwich Union Life Insurance Society in Norwich Union mixed fund units. Their value at 31 May 1996 was £1,096,000. The actuaries' assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 9% per annum, that salary increases would average 8% per annum and that present and future pensions should increase at the rate of 5% per annum compound when in course of payment.

The pension charge for the year was £150,101 (1995: £243,670). The contributions made by the company were at a rate recommended by the actuarial advisers.

6 INTEREST PAYABLE

	1996 £'000	1995 £'000
On bank overdrafts and loans wholly repayable		
- within five years	14	109
- more than five years	67	76
	<u>81</u>	<u>185</u>

7 TAXATION

	1996 £'000	1995 £'000
Corporation tax based on the profit for the year at 32.7% (1995: 32.9%)	455	477
Deferred taxation - current year at 33% (1995: 33%)	7	5
Corporation tax - prior year	22	1
	<u>484</u>	<u>483</u>

RIDLEY, QUINEY & CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 1996

8 DIVIDENDS

	1996 £'000	1995 £'000
A scrip dividend was paid during the course of the year ended 31 December 1996 on the basis of 3 ordinary 50p shares for every 5 ordinary 50p shares held	30	-
A final dividend for the year ended 31 December 1996 is proposed of £6.25 per share (1995: £1.60 per share)	1,000	160
	<u>1,030</u>	<u>160</u>

9 TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Motor vehicles £'000	Fixtures and fittings £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
Cost or valuation:						
1 January 1996	3,385	224	214	369	103	4,295
Additions	7	19	11	4	6	47
Disposals	-	(123)	-	(2)	-	(125)
31 December 1996	<u>3,392</u>	<u>120</u>	<u>225</u>	<u>371</u>	<u>109</u>	<u>4,217</u>
Comprising:						
Valuation	3,000	-	-	-	-	3,000
Cost	<u>392</u>	<u>120</u>	<u>225</u>	<u>371</u>	<u>109</u>	<u>1,217</u>
Depreciation:						
1 January 1996	274	92	151	217	91	825
Charge for year	45	36	13	25	6	125
Disposals	-	(63)	-	(2)	-	(65)
31 December 1996	<u>319</u>	<u>65</u>	<u>164</u>	<u>240</u>	<u>97</u>	<u>885</u>
Net book value						
31 December 1996	<u>3,073</u>	<u>55</u>	<u>61</u>	<u>131</u>	<u>12</u>	<u>3,332</u>
31 December 1995	<u>3,111</u>	<u>132</u>	<u>63</u>	<u>152</u>	<u>12</u>	<u>3,470</u>

RIDLEY, QUINEY & CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 1996

TANGIBLE FIXED ASSETS (CONTINUED)

Included in the above are assets held under Finance Leases as follows:

	£'000
Motor vehicles	8
Plant and machinery	<u>5</u>

The freehold land and buildings stated above were valued by Messrs. Glenny, Chartered Surveyors at £3,000,000 on 31 December 1988.

The directors consider that the value to the business of the freehold property is not materially different from that at which it was valued.

10 INVESTMENTS

	Percentage of issued share capital held	1996 £'000	1995 £'000
Subsidiary Companies -	at cost		
R Q Paper Services Limited			
20,000 ordinary shares of £1 each	100%	15	15
D & D (Shipping & Forwarding) Limited			
2,000 ordinary shares of £1 each	100%	77	77
Ridley Quiney Converters Limited			
2 ordinary shares of £1 each	100%	-	-
		<u>92</u>	<u>92</u>
Other investment			
- at cost			
Northwood Paper Sales Limited			
50,000 non-cumulative, non-voting, non-redeemable preference shares of £1 each		50	50
Less provision for permanent diminution		<u>(50)</u>	<u>-</u>
		<u>92</u>	<u>142</u>

Each of the subsidiary companies is registered in England and Wales. These companies remained dormant during the year ended 31 December 1996.

Northwood Paper Sales Limited was placed into a Company Voluntary Arrangement on 14 October 1996. The investment has been fully provided for.

RIDLEY, QUINEY & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 DECEMBER 1996

11 STOCKS

	1996 £'000	1995 £'000
Raw materials and work in progress	282	373
Finished goods and goods for resale	<u>2,530</u>	<u>2,875</u>
	<u>2,812</u>	<u>3,248</u>

The basis of valuation is referred to in the statement of accounting policies.

12 DEBTORS

	1996 £'000	1995 £'000
Trade debtors	3,474	3,764
Other debtors and prepayments	<u>484</u>	<u>494</u>
	<u>3,958</u>	<u>4,258</u>

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996 £'000	1995 £'000
Bank overdrafts	390	1,177
Current portion of loan (note 14)	104	105
Trade creditors	505	613
Amounts owed to group undertakings	363	149
Corporation tax	382	478
Other taxes and social security	289	369
Other creditors	57	711
Proposed dividend	<u>1,000</u>	<u>160</u>
	<u>3,090</u>	<u>3,762</u>

The bank overdraft is secured by way of a 2nd legal mortgage over the freehold land and buildings together with a floating charge over all other assets. The bank has a specific right of set off between accounts held in the company's name.

RIDLEY, QUINEY & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 DECEMBER 1996

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1996 £'000	1995 £'000
Loan	700	800
Finance leases	<u>4</u>	<u>9</u>
	704	809
Less:		
Amounts repayable within one year (note 13)	<u>(104)</u>	<u>(105)</u>
	<u>600</u>	<u>704</u>

The loan is secured by a mortgage over the company's freehold property and a fixed and floating charge over all other assets, repayable by 30 half-yearly instalments, from 31 March 1989. At 28 February 1994 the interest rate was fixed at 9% for the remaining period of the loan.

The above finance leases are repayable in full within five years.

15 PROVISION FOR LIABILITIES AND CHARGES

	1996 £'000	1995 £'000
Deferred taxation		
1 January	256	251
Movement in provision	<u>7</u>	<u>5</u>
Deferred taxation provision	263	256
Less: ACT on proposed dividend	<u>-</u>	<u>(40)</u>
31 December	<u>263</u>	<u>216</u>

The deferred taxation provision consists of timing differences on capital allowances at a 33% tax rate.

RIDLEY, QUINEY & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 DECEMBER 1996

16 SHARE CAPITAL

	1996 £'000	1995 £'000
Authorised:		
176,000 ordinary shares of 50p each		
(1995: 110,000 ordinary shares of 50p each)	<u>88</u>	<u>55</u>
Allotted, issued and fully paid:		
159,994 ordinary shares of 50p each		
(1995: 100,000 ordinary shares of 50p each)	<u>80</u>	<u>50</u>

A scrip dividend was paid during the course of the year on the basis of 3 ordinary 50p shares for every 5 ordinary 50p shares held.

During the period the holders of options which had been previously granted under the Ridley Quiney & Co Limited Employee share option scheme released the company from the terms of such options. In consideration for such release Mr P C Cotes and Mr D J Harvey (directors of the company) received £128,724 and £193,086 respectively.

17 RESERVES

	Profit and loss account £'000	Revaluation reserve £'000
1 January 1996	5,047	1,278
Transfer of difference between an historical cost depreciation charge and the actual depreciation charge for the year	11	(11)
Retained loss for the year	<u>(178)</u>	<u>-</u>
31 December 1996	<u>4,880</u>	<u>1,267</u>

18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1996 £'000	1995 £'000
Profit for the financial year	852	955
Dividends	(1,030)	(160)
Issue of shares	<u>30</u>	<u>-</u>
Net (reduction in)/addition to shareholders' funds	(148)	795
Opening shareholders' funds	<u>6,455</u>	<u>5,660</u>
Closing shareholders' funds	<u>6,307</u>	<u>6,455</u>

RIDLEY, QUINEY & CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 1996

19 FINANCIAL COMMITMENTS

Capital commitments as at 31 December 1996 amounted to £42,000 (31 December 1995 £nil).

20 LEASING COMMITMENTS

Operating lease payments amounting to £54,000 are due within one year. The leases to which these amounts relate expire as follows:

	1996 £'000	1995 £'000
In one year or less	13	11
Between one and five years	<u>41</u>	<u>49</u>
	<u>54</u>	<u>60</u>

21 CONTINGENT LIABILITY

The company has given a guarantee to the bankers of the holding company in respect of such monies due by its parent to the bank. Were the freehold land and buildings to have been sold at 31 December 1995 at the value stated in note 9, a charge to taxation would have crystallised of £38,000. As at 31 December 1996 no such charge would have arisen.

22 CONTROLLING RELATED PARTY

The ultimate parent undertaking of the company is RQ (Holdings) Limited, a company registered in England and Wales. The smallest and largest group of undertakings for which group accounts have been drawn up is that headed by RQ (Holdings) Limited.

By virtue of being a wholly owned subsidiary of RQ (Holdings) Limited, the company is exempt from preparing group accounts under section 228 Companies Act 1985.

The consolidated accounts of RQ (Holdings) Limited are available from Companies House on payment of the appropriate fee.