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1377658

# David S. Smith

(Holdings) PLC

1377658



Annual Report 1988

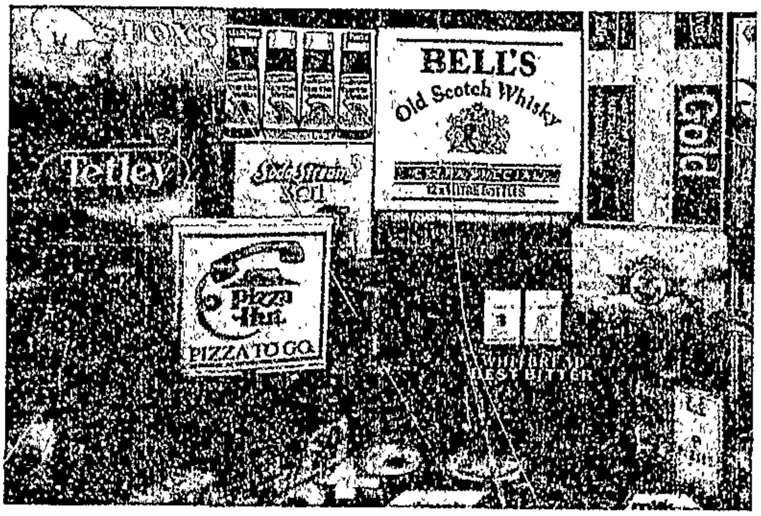
# Strength in Depth

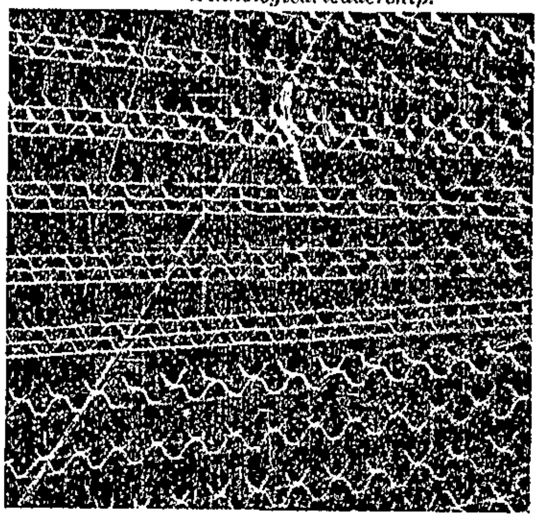
David S. Smith (Holdings) PLC has grown in just five years to become the largest UK papermaker and a market leader in corrugated and specialist packaging. The original company was formed in 1940 and in 1983 became the nucleus of the new Group which has achieved such dramatic growth. This success is a result of applying clear principles:

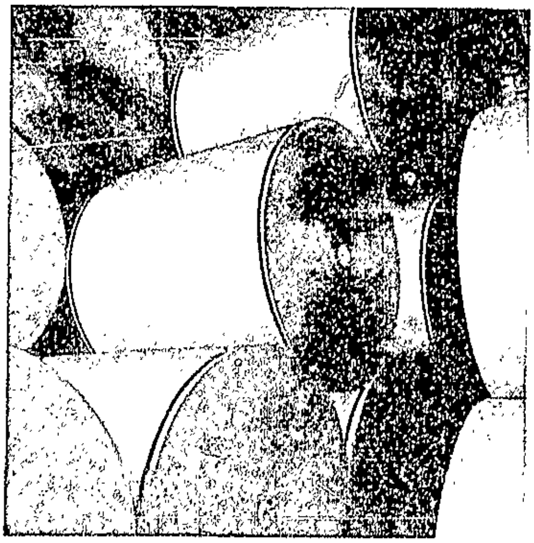
- encouraging management excellence
- specialisation in key markets
- technological leadership
- commitment to autonomous business units
- long-term strategic direction

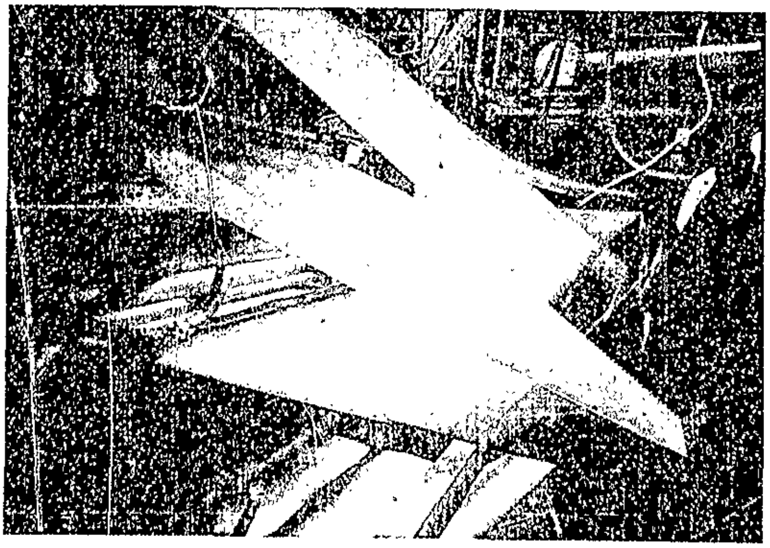
All these strengths distinguish David S. Smith as a special Group. It employs 4,800 people at 45 locations throughout the UK operating through two major divisions: Paper and Packaging.

*Specialist packaging, corrugated board and papermaking have all benefited from the Group's technological leadership.*





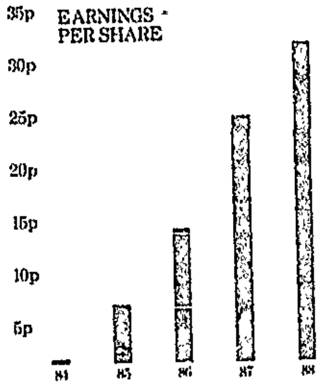


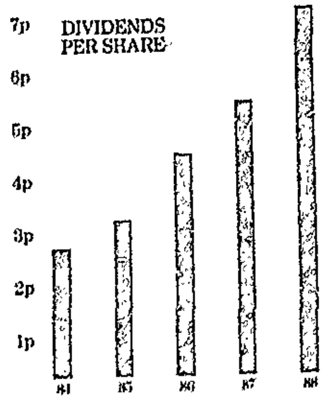
David S. Smith (Holdings) PLC

# Chairman's Statement

by David Smith

*“Substantial growth and increased earnings”*




I am pleased to report another excellent financial performance which clearly shows the operational strength the Group has developed in recent years. We are now the market leaders in UK papermaking and a major force in the packaging industry. This is directly due to the professionalism, enterprise and high level of commitment shown by the senior executive team led by chief executive Richard Brewster. Under his firm leadership, the Group has evolved by capitalising on acquisition opportunities and moulding them into autonomous business units, where local management are judged on individual performance. This developed approach and firm central financial controls have enabled the Group to generate substantial growth and increased earnings.

**Results**

The financial summary appearing on page 13 shows, for the year, Group turnover up by 33% to £268 million and profits before tax increasing by 27% to £30.7 million. The Review of Operations appearing on pages 3 to 11 contains commentary on our financial performance.

**Earnings and Dividends**

There is a significant growth in earnings per share from 24.0p to 30.3p - an increase of 26%. The Board is recommending a final dividend of 4.9p per ordinary share and following the interim dividend of 2.1p declared in January 1988, this makes a total dividend for the year of 7p, an increase of 33% over the previous year. The proposed final dividend reflects the Group's outstanding performance and also recognises the equalisation of capital gains tax and income tax introduced by the Government.

**Board of Directors and Company Secretary**

As the Group expands, we continue to strengthen our executive team. John Bence joined the Board in December as head of the Packaging Division and his knowledge will be invaluable in our future expansion plans. I wish to pay tribute to Alan Leigh who, in June 1988, took up a new position in our enlarged Packaging Division and resigned from the holding company Board and also to John MacSweeney who resigned as company secretary pending his early retirement in September this year. Both Alan and John were part of the team which was so instrumental in laying the foundation for the Group which you see today.

**Employees**

We have loyal and dedicated employees and their valued support has been a key factor in our success. An indication of their commitment to the Group's future was their excellent response to the Savings Related Share Option Scheme which was well above the national average. I wish to express my warm thanks to all employees.

**Prospects**

We have created in a short time a dynamic Group. Given the skills and determination of our executive team, I confidently expect the benefits of our ongoing investment programme and acquisitions to show through increasingly in future financial results.

30 August 1988

David Smith

# Chief Executive's Report

by Richard Brewster

The purpose of this Review of Operations is to put our results into context, to examine in greater detail the activities and strengths behind our performance, and to explain the fundamental philosophies and strategies which set the Group apart from others in the industry.

It also gives the opportunity to introduce two close working colleagues, Sandy Stratton, managing director of the Paper Division, and John Bence, managing director of the Packaging Division.

**Five Year Record**

Results for the year confirm the effectiveness of our strategy for growth which has been spectacular during the five years to 30 April 1988. In that time turnover has increased from £5 million to £268 million, profit before tax from breakeven to £30.7 million and earnings per share from 0.2p to 30.3p.

Five years ago, David S. Smith had a market capitalisation of just £2.5 million and by April 1988 that figure had increased to £250 million.

The graphs on this page chart our financial performance over the last five years. The Group is justly proud of the upward trend in all areas but at the same time recognises that we are only as good as our last job and any complacency is unacceptable.

**Philosophy**

The philosophy which has enabled the Group to become the UK's largest papermaker and a major packaging group is based on three simple beliefs - belief in paper-based products, commitment to manufacturing in the UK and, most importantly, confidence in the ability of employees to improve their performance. Five years ago it was considered unfashionable to support these beliefs.

Our acquisition policy is to buy companies which complement the Group's strategy. In the search for suitable acquisitions David S. Smith looks for companies with something special to offer, such as technological supremacy, capacity potential or specialist products. Good quality management is always a high priority. A strength of agreed takeovers is that the skilled people stay on to further mutual objectives.

Other companies in the industry are often held back by inheriting businesses which are no longer appropriate to their needs. We, on the other hand, have been able to fashion a group of our choice.

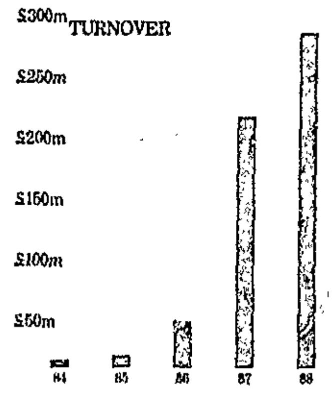
We strongly believe that our growth strategy, combined with creating an environment in which people are allowed to flourish, is one which results in a group of quality businesses run by enthusiastic people.

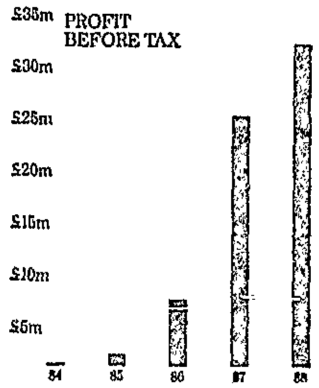
**Strategy**

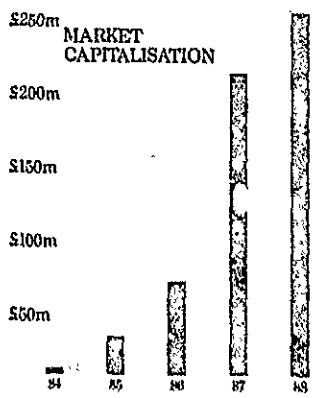
Our acquisition policy has created a group of special businesses in paper and packaging. But it is not enough to buy good companies. Hard work and investment in the right technology are essential to stay ahead of the competition.

David S. Smith's great advantage is that the companies in which we are investing to build technological leadership already have strong, market-orientated management teams with an understanding of customers' needs.

In niche packaging we are investing in new processes to provide the customer



# Chief Executive's Report

continued

*❛ A group of quality businesses run by enthusiastic people ❜*

**ACQUISITIONS**

| | |
|---|---|
| December 1984 | Western Board Mills PLC |
| June 1985 | Abbitrin Holdings Ltd |
| June 1986 | St Regis Holdings PLC |
| February 1987 | Corrugated Products Ltd |
| April 1987 | Severnside Waste Paper Co Ltd |
| July 1987 | A. A. Griggs & Co Ltd |
| August 1987 | Hollins Mill |
| February 1988 | Kemsley Mill |
| February 1988 | Carfax |

with more elaborate and decorative boxes, and in papermaking we are investing in the means to produce better quality paper at lower cost.

David S. Smith is an integrated company. We own wastepaper merchants, mills, corrugators and box plants. Indeed, we handle the manufacture of a box or carton through all the stages from wastepaper collection to delivery of the finished product to the customer. But in practice each process in the chain is an autonomous business in its own right which must trade freely in the market to survive in our competitive environment.

This has not been difficult to achieve as each business was independent before it joined the Group. What is important is to preserve the concept of each business standing on its own two feet.

**New Developments and Acquisitions**

The year has been active with four acquisitions and one disposal. These moves are part of our logical plan to expand and re-direct our Paper and Packaging Divisions, whilst starting to invest in publishing and exhibitions.

The major acquisition this year was the purchase of Kemsley Mill in Kent for £10.7 million, a move which firmly established the Paper Division as the UK market leader. *The potential of Kemsley's three large paper machines underwrites our* capacity needs for many years to come. At the same time the Group acquired Carfax, a wastepaper business operating in London and the South East which is the key source of supply for Kemsley.

In July 1987 we disposed of two packaging plants whose products were not unique to the Group. Their disposal released valuable resources and will not prejudice our position in the packaging market.

Also in July we acquired the outstanding 60% stake of the commercial transport company, A. A. Griggs & Co Limited, for £1.5 million. In August 1987, we acquired the Hollins Mill which manufactures wallpaper grades.

In March 1988 we made a 50% investment in a fast-growing media company called Focus Investments Limited. After only two years' trading, Focus organises eleven exhibitions and publishes nine magazines, but needs extra capital to help finance new launches and small acquisitions.

We feel this provides the ideal first step for the Group in this sector as it gives us an interest in a company with an ambitious management team. Every encouragement will be given to grow the business sensibly so that in 1992 or 1993 the outstanding 50% of the shares will be acquired by us.

The investment in Focus assumes the Group financing several of their acquisitions and arrangements have been made to subscribe for up to £10 million of preference shares in Focus over the five-year period. Of this, £1 million has already been provided and a further £2 million is committed subject to it being used for genuine expansion and £7 million is only payable at our discretion. We continue to be optimistic about the earnings potential in this sector and are actively seeking other opportunities.

# Chief Executive's Report

continued

However, our overriding Group philosophy is to pay a realistic price for any acquisition and ensure its long-term positive contribution to Group earnings; in the short term this may abate certain opportunities.

### Investment

Whilst acquisitions are important in positioning the Group in the right long term markets, strategic capital expenditure is the life blood by which we maintain future internal profit growth.

*Chief executive Richard Brewster - investing in advanced technology.*

# Chief Executive's Report

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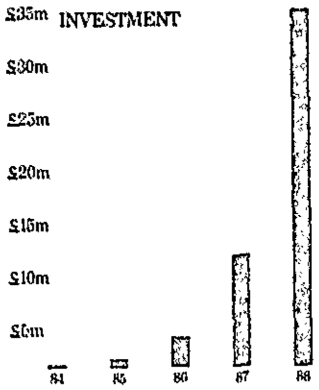
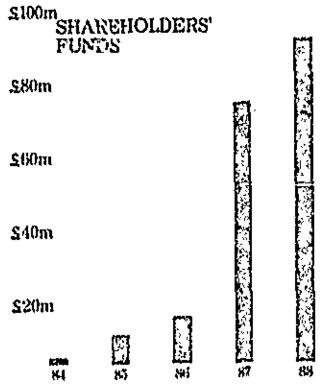



*Innovative design has won the Packaging Division one of the premier awards in its field.*


During the year under review fixed asset additions totalled £34.2 million, which includes the purchase of the businesses of Kemsley Mill, Carfax and Hollins Mill. Of this total, £19.4 million was paid out in cash.

Major projects cannot be mentioned without singling out the Abbey expansion costing £6 million. Here we have seen refurbishment of 145,000 square feet of manufacturing facility, installation of a new 2.5 metre continuous-run corrugator and the move of the first of two of our existing corrugators to this new site. When fully operational it will produce more corrugated sheetboard than any other site in Europe. This will bring service and cost advantages through production efficiencies.

Elsewhere in this Review we have described the other major investments and how they benefit the Group. As at the date of this Review, over £20 million is planned for fixed asset expenditure during this year.

### Funding Capacity

The financial position and standing of the Group has grown in strength during the year. Shareholders funds are now £88.2 million rising from £72.7 million last year. Term borrowings have increased and our gearing has moved to 28.6% as a direct result of acquisitions. The multi-option facility of £30 million agreed with a consortium of bankers led by National Westminster Bank PLC has been increased to £60 million within recent months. This provides a substantial capacity to finance further expansion.

### Management

I am very pleased that in the past year we have attracted the services of key executives into our Packaging Division. Effective management means high calibre individuals capable of motivating others within a professional team.

The Paper Division is run by Sandy Stratton who has a reputation second to none in the industry. Sandy's expertise and driving enthusiasm has created a dynamic management team which has expanded the Division enormously in recent years. Although I have covered some of the major achievements Sandy gives a fuller account later in this Review.

Having seen the benefits of an autonomous Paper Division we decided early in the year to bring the five independent packaging companies together and create a Packaging Division. This had to be done whilst retaining the benefits that make each company a dynamic business in its own right. Therefore it was important to choose a man for the job who had the wisdom to allow others to flourish in his team but with the experience to provide orderly guidance to the individual companies in pursuit of their separate ambitions.

We were indeed fortunate to be able to persuade John Bence to join us in December 1987 as head of the Packaging Division. I am particularly encouraged by the many areas where we lead in technology and product design, which are described by John later in this Review.

# Chief Executive's Report

continued

## Summary

The creation of two Divisions has brought significant benefits. Firstly, each Division has an executive concentrating purely on its own strategy; secondly, bringing in new experienced management provides a greater resource at the centre to maintain the Group's expansion programme.

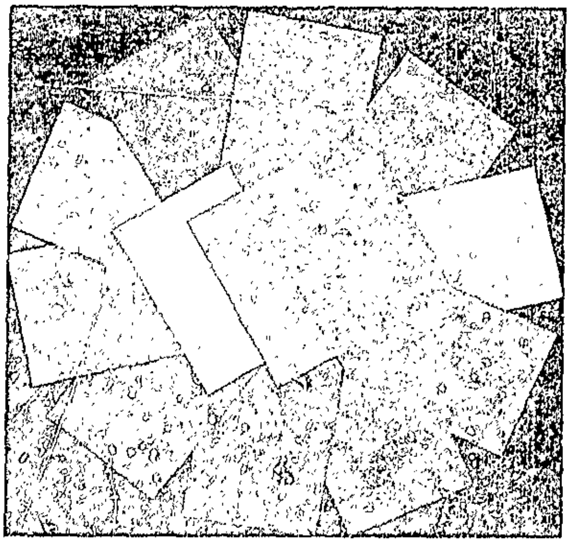
By achieving market leadership in most of our specialist activities and building up strong financial resources we are in a powerful position to deal with both good and bad times. We look to the future with confidence.

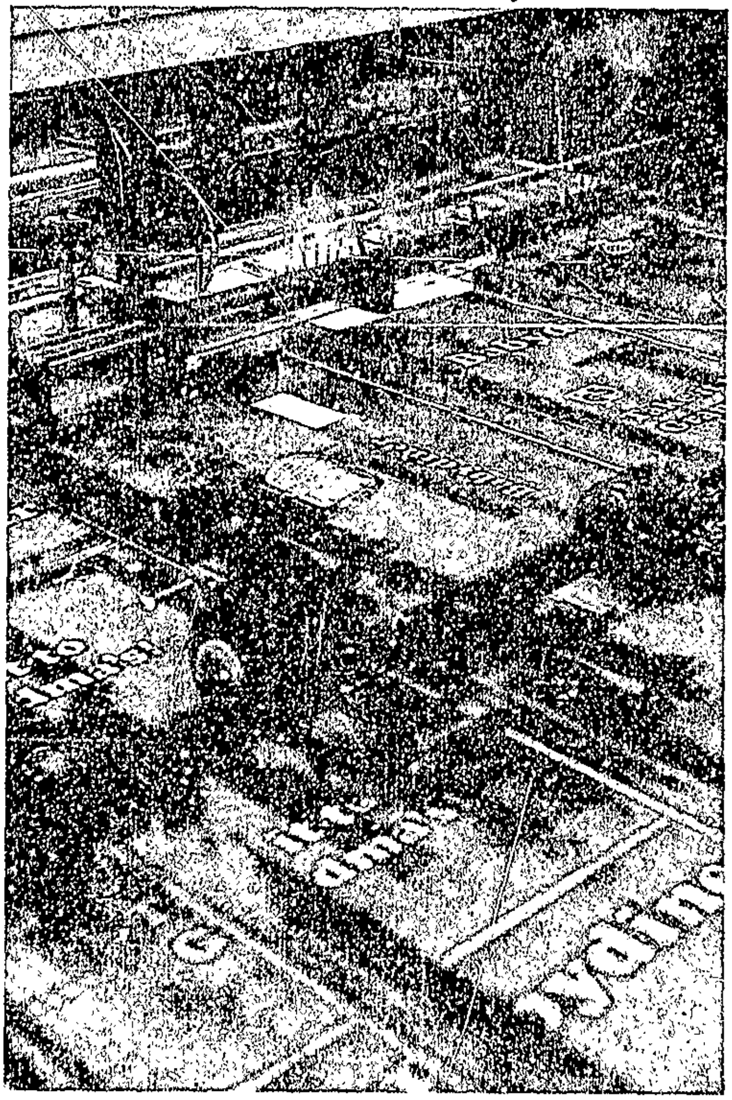
Richard D. Brewster

30 August 1988 Richard Brewster

**DISTRICT AWARD WINNER**
**Mars Awards for Environmental Improvement in Berkshire**
**1987**

*The Group handles all aspects of paper and packaging production – from wastepaper recycling to print of the finished product – and earns awards for excellence.*





# Paper Division

by Sandy Stratton

*“Success... depends upon constant product development and ever greater production efficiency”*

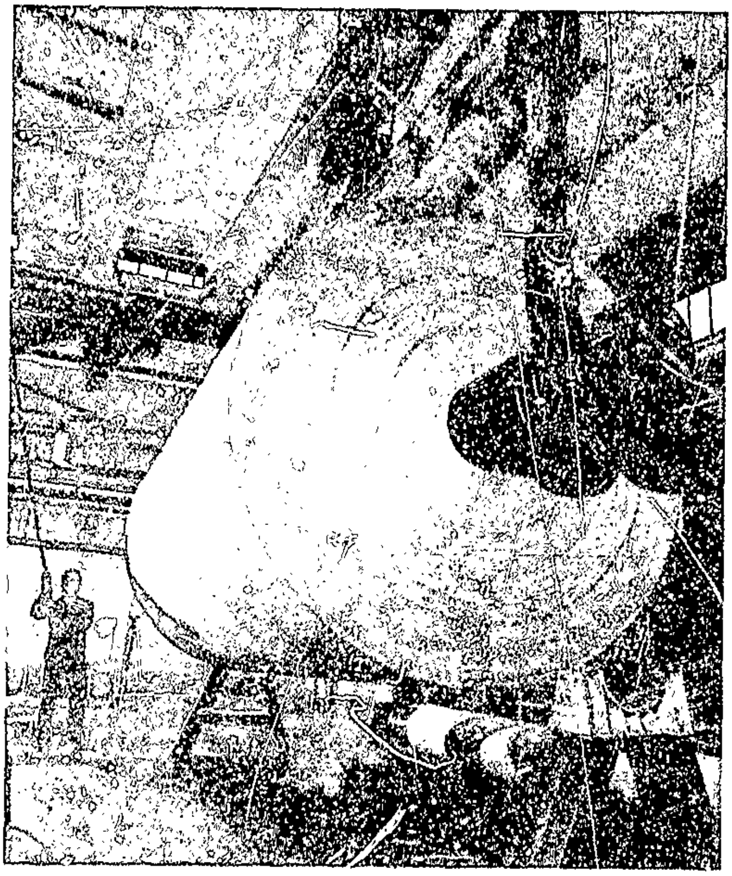
David S. Smith is now the largest papermaker in the UK. The main products range from fine printing and writing papers through to special wallpapers. A growth strategy has been developed for all products.

Operating under the name of St Regis Paper Company, the Division operates nine mills, the common link between the various activities being their aggressive commitment to market niches and an appetite for continuing production efficiencies.

The Division specialises in the manufacture of corrugated case materials, although its other papermaking activities are no less important. During the year it produced 400,000 tonnes of corrugating paper and 200,000 tonnes of quality material for decorating, printing and other specialist uses including shank board for the shoe industry.

Refurbishment and modernisation of the Kemsley Mill will absorb £7 million during the current year which compares with £6 million spent on the total Division during the past year. This investment is aimed at increasing the output of Kemsley substantially over the next two years. Part of this mill's attraction to the Group is its three world-class high capacity papermaking machines and, with Sudbrook, we now own two of the major mills in the UK capable of producing pulp and converting it into packaging paper.

*St Regis Paper Company, the largest papermaker in the UK.*



Market success in today's highly competitive paper industry depends upon constant product development and ever greater production efficiency.

Throughout the Division the emphasis is on attention to detail and the quest for lower operating costs. It has been an evolutionary rather than revolutionary process with each of the sites run as separate profit centres.

St Regis is a specialist in wastepaper recycling technology and continues to improve and refine the recycling of wastepaper and board which makes up a high proportion of the raw material for its paper mills.

Waste material is abundant in a consumer society and the use of it not only overcomes the industry's traditional threat of dependence on buying market pulp, but also helps the environment. Governments in developed countries are becoming increasingly aware of the problems of non-recyclable packaging materials and this provides an added impetus to our products.

The acquisition of Carfax under the dynamic management of Severnside makes us one

# Paper Division

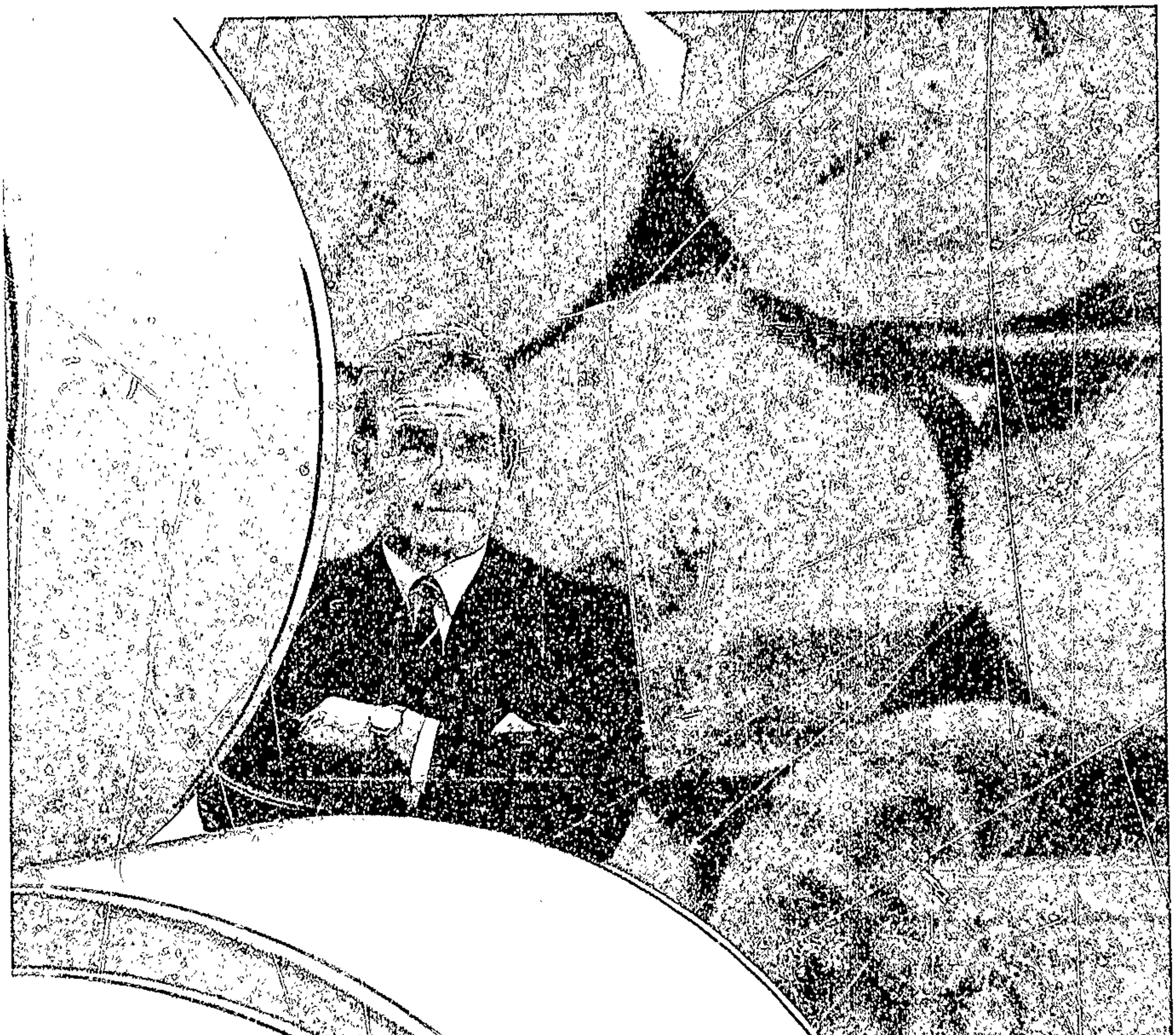
continued

of the largest wastepaper merchants in the UK. Wastepaper material is now being used more effectively and in greater proportions in the Division's paper products, from the volume end to the quality end of the market. This trend has lowered production costs without sacrificing the quality of the paper products.

The level of operating costs have been further pegged through effective transport. The Group now owns the haulage firm A.A. Griggs & Co Ltd and has the added benefit of all the paper mills being located close to the motorway network.

The achievements of the past year give the Paper Division a sound base for continuing growth.

*Managing director Sandy Stratton – emphasis on attention to detail and lower operating costs.*

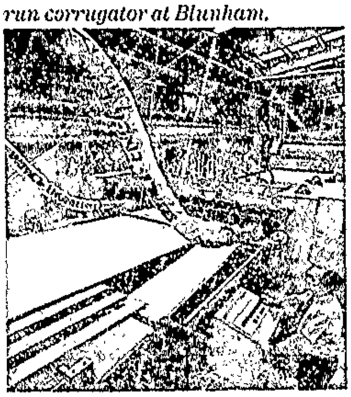


# Packaging Division

by John Bence

*"A reputation for excellence over a range of products"*

*The Division's new continuous-run corrugator at Blunham.*



*Computer control – the key to improved efficiency.*

David S. Smith is the second largest producer of corrugated board in the UK, and a market leader in a number of specialist packaging areas. The Division, operating through five principal subsidiary companies, is targeted at specific market niches where it has established a reputation for excellence over a range of products. Substantial investment in new machinery and the development of one of the most advanced and innovative packaging design centres in the country maintains that leadership.

A highlight of the Division's year was the installation of a 2.5 metre continuous-run corrugator at Abbey Corrugated in Blunham, Bedfordshire. This new 'state of the art' machine will make Abbey Corrugated the largest producer of corrugated sheet board in Europe. Benefits arising from the £6 million project will be implemented at other corrugator sites leading to similar operating gains and efficiencies. Other plants will feature the same technology during their corrugator updates in the current year.

This year British Sisalkraft at Strood will be spending £3 million on a new co-extrusion and laminating facility, keeping the operation in the forefront of technology in a rapidly growing field, with markets in the UK, Europe and the Far East.

Throughout the Division operating locations are identifying and responding to new specialist packaging opportunities. Carry-home packs for the drinks industry and a new type of postal packet are two successful additions to the St Regis Packaging product range. St Regis at Monmouth, operating in association with partners Tri-Wall Limited, produces heavy duty corrugated board and is enjoying great export success, with more than 30% of its production going to Europe. This operation is capitalising on the growing demand for high-strength board by promoting it as a substitute for other materials, such as wooden crates, in the handling of items such as engine transmissions, electronics and engineering components.

Corrugated display cases featuring high quality graphics are a speciality of Corrugated Products, which was acquired in February 1987. The traditional expertise of producing flexible single-face corrugated packaging for light bulbs and tubes, which has for so long served the 'lamp wrap' market, has successfully been applied to produce specialist packaging for items such as take-away pizzas and anti-static containers for sensitive electronics. Pre-print for point of sale packaging was first introduced into the UK by two well established plants within the Division. Their skills have been further developed to combine die-cutting and litho or silkscreen printing to provide distinctive packaging for an extensive variety of goods ranging from small domestic appliances to premium whisky. Liqui-Box has identified a niche in supplying bag-in-box catering size containers to the food and drinks industry and now has the facility to make these with a capacity of up to 1000 litres.

The flexible packaging activity has also broadened its market base. It formerly concentrated on coated paper and sisal fibre material for the building industry but over recent years has successfully moved into more diverse specialist packaging niches such as extrusion coating, Pillo-Flex air bubble film and CushionWrap, a self-adhesive wrapping which is used for postal packaging. It has also maximised the

# Packaging Division

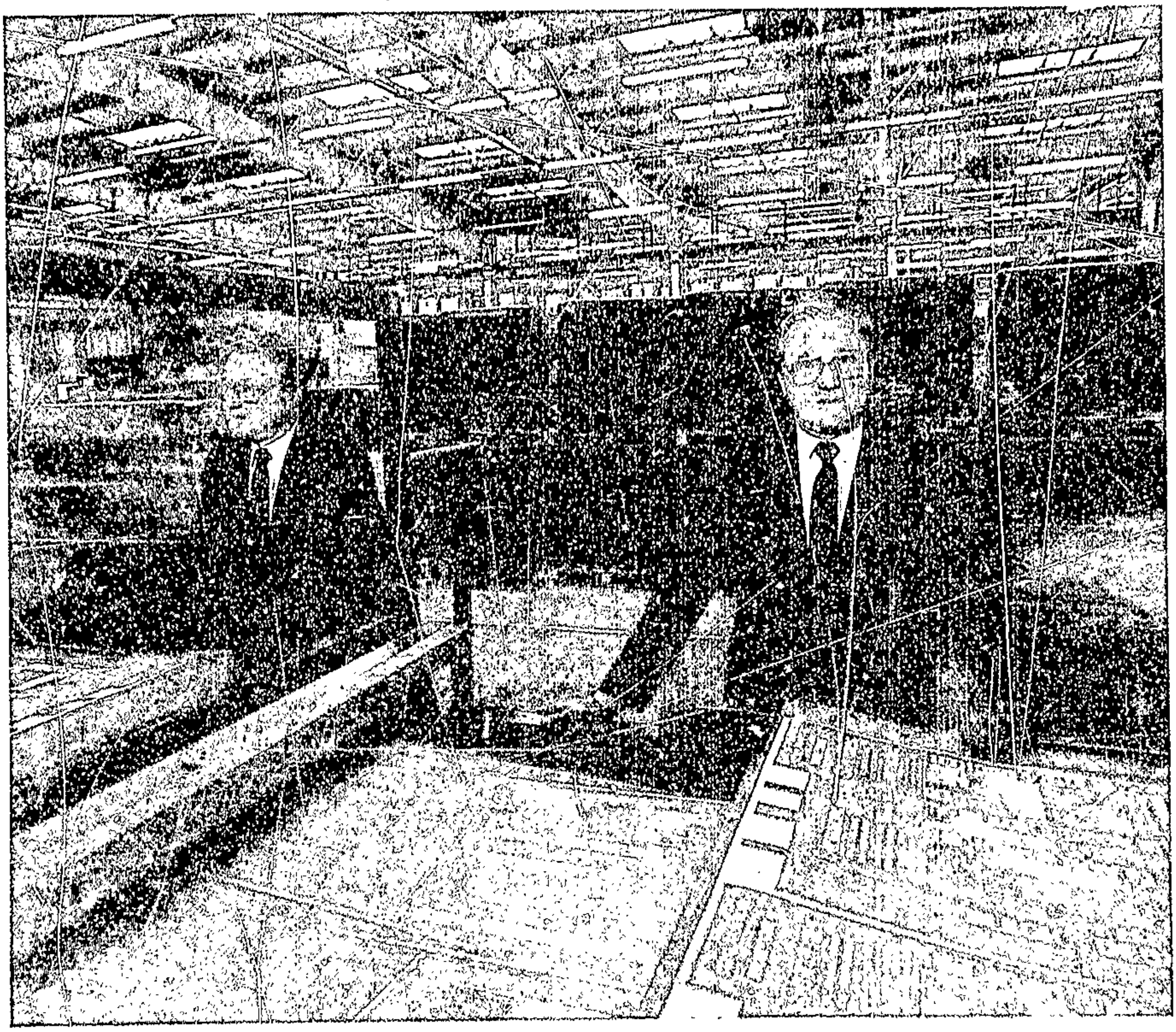
continued

potential of flexographic pre-printers and specialises in producing wallpapers and films for food packaging.

The year was the most successful ever for the original carton company at Neath, which has diversified into other markets. Skills in cutting and creasing, learnt in supplying the traditional tobacco market have been applied to open up new business opportunities in such items as video tape sleeves and cartons for dairy products.

Across the Packaging Division, future profitable growth will come from continuing emphasis on segmentation and upgrading performance through capital investment and innovative design. The Division has demonstrated that the specialist packaging market offers great opportunities for those who are efficient and respond to the added value needs of the discerning customer.

*Managing director John Bence – targeting specialist packaging niches.*



# Officers and Advisers

**Directors**
David Smith (chairman)
Richard Brewster (chief executive)
John Bence
Nigel Chancellor
Neil Greig
Brian Smith
Sandy Stratton

**Secretary and Registered Office**
Stuart Russell
16 Great Peter Street,
London
SW1P 2BX
01-222 8855

**Auditors**
Peat Marwick McLintock
1 Puddle Dock,
Blackfriars,
London
EC4V 3PD

**Registrars**
Connaught St Michaels Ltd
P.O. Box 30,
C.S.M. House,
Victoria Street,
Luton,
Beds
LU1 2PZ

# Five Year Financial Summary

to 30 April 1988

David S. Smith (Holdings) PLC

| | 1988 | 1987 | 1986 | 1985 | 1984 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Turnover | 268,258 | 201,222 | 38,445 | 8,307 | 5,395 |
| Operating profit | 32,302 | 23,871 | 5,691 | 702 | 151 |
| Investment income | 415 | 2,178 | 577 | 345 | 74 |
| Interest payable | (2,035) | (1,823) | (58) | – | – |
| Exceptional items | – | – | – | – | (201) |
| Profit on ordinary activities before tax | 30,682 | 24,226 | 6,210 | 1,047 | 24 |
| Shareholders' funds | 88,196 | 72,733 | 12,697 | 7,626 | 1,642 |
| Earnings per share (weighted) | 30.3p | 24.0p | 12.5p | 5.9p | 0.2p |
| Dividends per share | 7.0p | 5.25p | 4.2p | 3.0p | 2.5p |
| Net assets per share | 126.9p | 106.4p | 39.8p | 35.8p | 30.3p |

# Directors' Report

The Directors have pleasure in submitting their annual report and the audited accounts for the year ended 30 April 1988.

**Principal Activities and Business Review**

The Company acts as the holding company of a group, the principal activities of which are the manufacture of paper, the production and conversion of board, and other packaging related services. A full review of these activities and future developments are shown in the Chairman's Statement and Review of Operations on pages 2 to 11.

**Results for the Year**

Group turnover for the year ended 30 April 1988 was £268 million (1987: £201 million) and the Group profit before tax was £30.7 million, an increase of 27% over the previous year. The detailed results for the Group are set out on page 17.

**Dividends and Reserves**

An interim dividend of 2.1p per ordinary share was paid on 17 March 1988 and the Directors recommend a final dividend of 4.9p per ordinary share making a total for the year of 7.0p per ordinary share. Subject to approval of Shareholders at the Annual General Meeting to be held on 26 September 1988 the final dividend will be paid on 3 October 1988 to Shareholders on the register at the close of business on 19 August 1988. The Directors recommend that retained profits of £16 million be transferred to reserves.

**Acquisitions and Disposals**

On 6 July 1987 the Group sold two packaging companies, St Regis Packaging (Midlands) Ltd and St Regis Packaging (Southern) Ltd realising £8.2 million from the repayment of intercompany balances, the transfer of overdraft debt and the sale of shares. The interest in a freehold property has been retained by the Group and is expected to be sold shortly.

On 21 July 1987 the Group acquired the 60%, which it did not already own, of the issued share capital of A.A.Griggs & Co Limited, a haulage contractor, for a consideration of £1.5 million satisfied by the issue of 7½% Unsecured Redeemable Loan Notes, redeemable by the Company on or before 21 July 1991.

On 1 August 1987 the Group acquired the stock and fixed assets of Hollins Mill at net book value.

On 29 February 1988 the Group acquired the paper making business carried on at Kemsley Mill and the wastepaper collection and processing business of Carfax for a consideration totalling £10.7 million in cash of which £6.5 million is deferred as shown in Notes 17 and 18 on the Accounts.

On 23 March 1988 the Group purchased a 50% interest in the ordinary share capital of Focus Investments Limited for a total consideration of £1.2 million paid in cash. In addition the Group subscribed for one million 5% 'A' cumulative preference shares of £1 each in that company. Details of further commitments are included in Note 23 on the Accounts.

**Fixed Assets**

Changes in tangible fixed assets during the year are shown in note 12 on the Accounts. In the opinion of the Directors there is no material difference between the book and the current value of interests in land and buildings.

**Directors**

The present Directors are shown on page 12. Mr. A. Leigh who acted as a Director throughout the financial year resigned on 14 June 1988. Mr. J. D. Bence was appointed a Director on 9 December 1987 and, being eligible, offers himself for election at the Annual General Meeting. The Directors retiring by rotation are Mr. D. S. Smith and Mr. B. Smith who, being eligible, offer themselves for re-election at the Annual General Meeting. Mr. J. D. Bence has a Service Agreement with the Company which entitles him to two years notice of termination, Mr. D. S. Smith does not have a Service Agreement and Mr. B. Smith has a Service Agreement with a subsidiary company whereby he is entitled to receive six months notice of termination from that company.

# Directors' Report

continued

David S. Smith (Holdings) PLC

**Directors' Interests**

The interests of the Directors and their families in the ordinary shares of 20p each of the Company, including options granted but not yet exercised under the Executive Share Option Scheme and the Employee Savings Related Share Option Scheme were as follows:-

| | At 30 April 1988 | | At 1 May 1987 (or date of appointment, if later) | |
|---|---|---|---|---|
| | Ordinary Shares | Ordinary Shares Under Option | Ordinary Shares | Ordinary Shares Under Option |
| D. S. Smith | – | – | – | – |
| R. D. Brewster | 437,500 | 192,530 | 437,500 | 190,000 |
| J. D. Bence (appointed 9 Dec 1987) | 1,000 | – | 1,000 | – |
| N. H. M. Chancellor | 1,040,983 | 43,032 | 942,033 | 43,032 |
| W. N. Greig | 1,085,417 | 43,032 | 1,085,417 | 43,032 |
| A. Leigh | 1,250 | 40,000 | 1,250 | 40,000 |
| B. Smith | 1,000,172 | 43,032 | 938,832 | 43,032 |
| O. A. Stratton | 746,885 | 40,000 | 796,885 | – |

Of the shareholdings shown above, Mr. R. D. Brewster, Mr. W. N. Greig and Mr. B. Smith are respectively non-beneficially interested in 93,750, 134,097 and 100,592 ordinary shares.

The share options are exercisable at varying dates up to 8 December 1997 and at prices ranging between 81.5p and 332p inclusive.

During the year and included in the above share interests, Mr. N. H. M. Chancellor, Mr. W. N. Greig and Mr. B. Smith were respectively allotted 209,340 and 241,545 and 209,340 ordinary shares. This is in respect of vendors deferred consideration under the sale agreement dated 8 May 1985 whereby the Company acquired the whole of the issued share capital of Abbitrin Holdings Limited.

There were no changes in the interests of the Directors or of their immediate families in the ordinary share capital of the Company between 1 May 1988 and 30 August 1988 inclusive except that, on 8 August 1988 ordinary shares of the Company were sold at 351.5p per share as to Mr. R. D. Brewster 12,500 shares, Mr. N. H. M. Chancellor 169,389 shares, Mr. W. N. Greig 130,000 shares (including a non-beneficial interest in 15,000 shares), Mr. B. Smith 120,172 shares (including a non-beneficial interest in 20,592 shares) and Mr. O. A. Stratton 50,000 shares.

Other than as disclosed above and Service Agreements, no Director either during or at the end of the financial year has been materially interested in any significant contract or arrangement in relation to the Group's business.

**Substantial Shareholdings**

As at 8 August 1988 the Directors had received notification that the Prudential Corporation PLC were registered as being interested in 3,608,945 shares being 5.19% of the issued ordinary share capital of the Company. So far as the Directors are aware there is no other person interested in more than 5% of the issued ordinary share capital of the Company.

# Directors' Report

continued

**Research and Development**
It is Group policy to develop new product specifications required by customers and to continue research into more cost-efficient production methods. Additional information on research and development appears in the Review of Operations on pages 3 to 11.

**Employee Involvement and Communications**
The Group philosophy continues to be that of devolving responsibility to operating companies wherever possible and personnel policies have therefore been introduced in line with local business needs. A variety of methods of communication have been used to keep employees informed of Group performance whilst, each employee's strong sense of identity with their particular operating company is satisfied by employee briefings and consultative meetings at a local level.

**Equal Opportunities**
The Group is committed to the principle and achievement of equal opportunities in employment and policies are designed to provide such equality irrespective of sex, religion, race or marital status. Depending upon their skills and abilities, the Group applies the same criteria to disabled persons as it does to other employees whether in selection, promotion or training. If any employee becomes disabled during employment with the Group every effort is made to ensure their continued employment.

**Health and Safety**
The Group continues to promote all aspects of health and safety in the interests of its employees and the public.

**Charitable Donations**
The Group contributed £32,837 (1987-£17,276) to charities.

**Close Company Status**
The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1970.

**Annual General Meeting**
At the Annual General Meeting, to be held on 26 September 1988, resolutions will be proposed as special business so as to permit the issue of shares by the Directors and for the partial disapplication of pre-emption rights together with the approval and adoption of new Articles of Association. The Notice of Meeting and Explanatory Notes are contained in the separate document accompanying this Annual Report.

**Auditors**
The auditors, Peat Marwick McLintock, have expressed their willingness to continue in office. Resolutions to reappoint them and to authorise the Directors to fix their remuneration will be put to the Annual General Meeting.

By Order of the Board
30 August 1988 J. S. Russell, Secretary

J. S. Russell

David S. Smith (Holdings) PLC

# Group Profit and Loss Account

for the year ended 30 April 1988

| | Note | 1988 £000 | 1987 £000 |
|---|---|---|---|
| Turnover | 2 | 268,258 | 201,222 |
| Cost of sales | | (205,658) | (155,917) |
| Gross profit | | 62,600 | 45,305 |
| Distribution costs | | (9,403) | (5,082) |
| Administrative costs | | (20,895) | (16,352) |
| Operating profit | | 32,302 | 23,871 |
| Investment and other income | 3 | 415 | 2,178 |
| Interest payable and other charges | 4 | (2,035) | (1,823) |
| Profit on ordinary activities before taxation | 5 | 30,682 | 24,226 |
| Taxation | 6 | (9,832) | (7,874) |
| Profit on ordinary activities after taxation | | 20,850 | 16,352 |
| Minority interest | | – | (696) |
| Profit for the year | 7 | 20,850 | 15,656 |
| Dividends paid and proposed | 8 | (4,865) | (3,590) |
| Retained profit for the year | 22 | 15,985 | 12,066 |
| Earnings per share | 9 | 30.3p | 24.0p |

The notes on pages 21 to 36 form part of these accounts

# Group Balance Sheet

at 30 April 1988

| | Note | 1988 £000 | 1987 £000 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Tangible assets | 12 | 105,007 | 79,933 |
| Investments | 13 | 2,308 | 982 |
| | | 107,315 | 80,915 |
| **Current Assets** | | | |
| Stocks | 14 | 34,730 | 27,249 |
| Debtors | 15 | 63,913 | 51,907 |
| Investments | 16 | 2,635 | 88 |
| Cash at bank and in hand | | 5,213 | 11,260 |
| | | 106,491 | 90,504 |
| **Current Liabilities** | | | |
| Creditors: amounts falling due within one year | 17 | (92,325) | (78,079) |
| **Net Current Assets** | | 14,166 | 12,425 |
| **Total Assets Less Current Liabilities** | | 121,481 | 93,340 |
| Creditors: amounts falling due after more than one year | 18 | (30,701) | (15,991) |
| Provisions for liabilities and charges | 19 | (2,486) | (4,518) |
| **Net Assets** | | 88,294 | 72,831 |
| **Capital and Reserves** | | | |
| Called up share capital | 20 | 13,904 | 13,675 |
| Share capital to be issued | 20 | – | 217 |
| Share premium | 20 | 36 | – |
| Acquisition reserve | 22 | 41,802 | 42,322 |
| Revaluation reserve | 22 | 1,318 | 1,368 |
| Profit and loss account | 22 | 31,136 | 15,151 |
| **Shareholders' funds** | | 88,196 | 72,733 |
| Minority interests | 21 | 98 | 98 |
| **Total Capital Employed** | | 88,294 | 72,831 |

Signed on behalf of the Board on 30 August 1988
D. S. Smith
R. D. Brewster

The notes on pages 21 to 36 form part of these accounts.

David S. Smith (Holdings) PLC

# Company Balance Sheet

at 30 April 1988

| | Note | 1988 £000 | 1987 £000 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Tangible assets | 12 | 121 | 744 |
| Investments | 13 | 128,912 | 125,205 |
| | | 129,033 | 125,949 |
| **Current Assets** | | | |
| Debtors | 15 | 32,482 | 51,173 |
| Investments | 16 | 2,635 | 61 |
| Cash at bank and in hand | | 8,856 | 4,895 |
| | | 43,973 | 56,129 |
| **Current Liabilities** | | | |
| Creditors: amounts falling due within one year | 17 | (7,405) | (25,450) |
| **Net Current Assets** | | 36,568 | 30,679 |
| **Total Assets Less Current Liabilities** | | 165,601 | 156,628 |
| Creditors: amounts falling due after more than one year | 18 | (53,068) | (47,991) |
| **Net Assets** | | 112,533 | 108,637 |
| **Capital and Reserves** | | | |
| Called up share capital | 20 | 13,904 | 13,675 |
| Share capital to be issued | 20 | – | 217 |
| Share premium | 20 | 36 | – |
| Acquisition reserve | 22 | 88,155 | 88,155 |
| Revaluation reserve | 22 | – | 408 |
| Profit and loss account | 22 | 10,438 | 6,182 |
| **Total Capital Employed** | | 112,533 | 108,637 |

Signed on behalf of the Board on 30 August 1988

D. S. Smith

R. D. Brewster

The notes on pages 21 to 36 form part of these accounts.

# Group Funds Flow Statement

for the year ended 30 April 1988

| | 1988 £000 | 1987 £000 |
|---|---|---|
| **Source of Funds** | | |
| Profit before taxation | 30,682 | 24,226 |
| Adjustments not involving the movement of funds: | | |
| Depreciation | 6,716 | 4,942 |
| Net loss on fixed assets and investments | 103 | (821) |
| Share of related company profits | (116) | (332) |
| Total generated from operations | 37,385 | 28,015 |
| Funds from other sources: | | |
| Shares issued in consideration of the acquisition of subsidiary company | – | 73,978 |
| Share options exercised | 48 | – |
| Sale of fixed assets and investments | 1,130 | 1,870 |
| Proceeds from disposal of subsidiary companies | 925 | – |
| | 39,488 | 103,863 |
| **Application of Funds** | | |
| (Increase)/Decrease in working capital: | | |
| Stocks | (10,460) | (1,825) |
| Debtors | (14,924) | 118 |
| Creditors | 30,891 | 5,713 |
| | 5,507 | 4,006 |
| Purchase of fixed assets including Kemsley Mill and Carfax | (34,161) | (10,724) |
| Purchase of investments | (5,361) | (9) |
| Increase/(decrease) in creditors falling due after more than one year | 7,174 | (1,610) |
| Tax paid | (10,868) | (5,623) |
| Dividends paid | (3,853) | (3,389) |
| Payment of deferred considerations | (17,581) | – |
| Acquisition of subsidiary companies | (407) | (85,750) |
| | (59,550) | (103,099) |
| **Net Inflow/(Outflow) of Funds** | (20,062) | 764 |
| Represented by: | | |
| Increase/(decrease) in cash and overdrafts | (10,666) | 286 |
| Proceeds from loans | (24,000) | (2,602) |
| Repayment of loans | 14,604 | 3,080 |
| | (20,062) | 764 |

ANALYSIS OF THE NET EFFECTS OF ACQUISITIONS AND DISPOSALS OF SUBSIDIARY COMPANIES DURING THE YEAR

| Net assets acquired/disposed of | £000 | Discharged by | £000 |
|---|---|---|---|
| Tangible fixed assets | (1,594) | Cash received | (925) |
| Goodwill | 520 | Cash paid | 407 |
| Investments | (1,042) | Loan notes issued | 1,500 |
| Stocks | (2,980) | | |
| Debtors | (2,910) | | |
| Cash | 4,517 | | |
| Creditors | 4,016 | | |
| Provision for liabilities and charges | (444) | | |
| | 982 | | 982 |

# Notes on the Accounts

David S. Smith (Holdings) PLC

**1 Accounting Policies**

A summary of the principal accounting policies is set out below, all of which have been applied consistently.

(a) Accounting basis

The accounts are prepared under the historical cost convention except that certain freehold and long leasehold land and buildings are included at valuation.

(b) Basis of consolidation

(i) The Group accounts consolidate the accounts of the Company and its subsidiary companies made up to 30 April 1988. Subsidiaries acquired during the year are consolidated from the effective date of acquisition. In addition the accounts consolidate the results of a partnership to which the Group has contributed all of the fixed assets and working capital, exerts considerable managerial control and is entitled to 50.1% of the profits. The proportion of profits due to the other party for services rendered are included in administrative costs.

(ii) All companies purchased during the year have been accounted for as acquisitions in accordance with recognised acquisition accounting standards. Where such acquisitions are satisfied by the issue of new shares and the proportion of the equity acquired represents over 90% of total equity of the acquired company then the surplus of the market value of the shares issued over their nominal value is credited to an acquisition reserve. Goodwill (representing the excess of the fair value of the consideration given over the fair value of the net assets acquired) is taken directly to this reserve.

(c) Turnover

Turnover represents the amount receivable for goods and services supplied to third parties net of value added tax and trade discounts.

(d) Fixed assets investments

(i) In related companies

Companies other than subsidiaries in which the Group has an interest in more than 20% of the voting capital and is actively involved in the management of the company are treated as related companies. The Group profit and loss account includes the appropriate share of these companies' profits and the investments are shown in the Group balance sheet at cost plus the Group's share of post acquisition profit.

(ii) In trade investments

Other investments excluding subsidiaries or related companies in which the Group has a long term interest are treated as trade investments.

(e) Depreciation

Depreciation is calculated to write off the cost of all tangible fixed assets in equal annual instalments over their estimated useful lives at the following rates:

| | |
|---|---|
| Plant, machinery, fixtures and fittings | – 6-20% p.a. |
| Motor vehicles | – 20-25% p.a. |
| Freehold and long leasehold properties | – 2% p.a. |
| Short leasehold properties | – over period of lease |

Freehold land is not depreciated.

# Notes on the Accounts

continued

(f) Capital grants
The cost of fixed assets is shown after deduction of regional development grants.

(g) Stocks and work in progress
Stocks and work in progress are valued at the lower of cost and net realisable value.

(h) Deferred taxation
Deferred taxation is provided, using the liability method, at the existing corporation tax rate of 35% in respect of material timing differences which are expected to reverse in the foreseeable future. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance. Where there is no deferred taxation balance, advance corporation tax is shown as a current debtor.

(i) Research and development
Research and development expenditure is written off as it is incurred.

(j) Company pension contributions
Company pension contributions paid over to the company pension funds or held by the company pending the outcome of formal actuarial valuation reports are charged against profits in the year in which they are paid or expected to be paid.

(k) Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the accounting year. Profits and losses arising on translation are taken to the profit and loss account.

(l) Leasing transactions
Fixed assets acquired under a lease that transfers substantially all the risks and rewards of ownership to the Group are capitalised as tangible assets. Outstanding obligations due under the leases, net of finance charges, are included as a liability. The finance element of the rental payments is charged to the profit and loss account over the term of the lease. All other leases are operating leases and the annual rentals are charged to the profit and loss account.

**2 Turnover**
Turnover is attributable to the manufacture of paper, the production and conversion of board and other packaging related services.

| | 1988 £000 | 1987 £000 |
|---|---|---|
| Turnover is analysed by market as follows: | | |
| UK | 248,725 | 189,328 |
| Continental Europe | 18,285 | 10,928 |
| Outside Europe | 1,248 | 966 |
| | 268,258 | 201,222 |

# Notes on the Accounts

continued

## 3 Investment and Other Income

| | 1988 £000 | 1987 £000 |
|---|---|---|
| Investment and other income comprises: | | |
| Interest receivable | 211 | 973 |
| Income from current asset investments | 43 | 195 |
| Profit on disposal of investments | 45 | 209 |
| Share of profits of related company | 116 | 332 |
| Profit on redemption of debentures | – | 469 |
| | 415 | 2,178 |

## 4 Interest Payable and Other Charges

| | 1988 £000 | 1987 £000 |
|---|---|---|
| Interest payable:- | | |
| On bank loans and overdrafts | | |
| – repayable within five years | 1,262 | 1,638 |
| – repayable in more than five years | – | 36 |
| On other loans | | |
| – repayable within five years by instalments | 109 | – |
| – repayable within five years, not by instalments | 228 | – |
| On finance leases | 18 | 149 |
| Provision for loss on investments | 418 | – |
| | 2,035 | 1,823 |

## 5 Profit Before Tax

| | 1988 £000 | 1987 £000 |
|---|---|---|
| Profit before tax is stated after charging: | | |
| Directors' emoluments (Note 10) | 516 | 589 |
| Auditors' remuneration | 169 | 116 |
| Depreciation | 6,716 | 4,942 |
| Hire of plant | 1,590 | 785 |

## 6 Taxation

| | 1988 £000 | 1987 £000 |
|---|---|---|
| UK corporation tax on the profit for the year at a rate of 35% (1987-35%) | 11,761 | 8,628 |
| Tax attributable to income of related company | 56 | 170 |
| Adjustments in respect of prior years | 226 | (15) |
| Deferred taxation | (2,211) | (909) |
| | 9,832 | 7,874 |

# Notes on the Accounts

continued

**7 Profit for the Year**

No separate profit and loss account is presented for the Company as permitted by Section 228(7) of the Companies Act 1985.

The Company made a profit for the year of £9,121,000 (1987-£8,569,000).

| | 1988 £000 | 1987 £000 |
|---|---|---|
| **8 Dividends** | | |
| Interim dividend paid of 2.1p per share (1987-1.75p) | 1,459 | 1,196 |
| Final dividend proposed of 4.9p per share (1987-3.5p) | 3,406 | 2,394 |
| | 4,865 | 3,590 |

**9 Earnings Per Share**

Earnings per share are calculated on profit for the year of £20,850,000 (1987-£15,656,000) and on 68,889,000 (1987-65,336,000) ordinary shares being the weighted average in issue and fully paid during the year.

| | 1988 £000 | 1987 £000 |
|---|---|---|
| **10 Directors' and Employees' Emoluments** | | |
| Directors' remuneration was paid in respect of the Company as follows: | | |
| Emoluments (including pension contributions) | 516 | 439 |
| Compensation for loss of office | – | 150 |
| | 516 | 589 |
| Directors' emoluments, excluding pension contributions, are as follows: | | |
| Chairman | 32 | 32 |
| Highest paid Director | 93 | 73 |

# Notes on the Accounts

continued

David S. Smith (Holdings) PLC

**10 Directors' and Employees' Emoluments (continued)**

| | 1988 No. | 1987 No. |
|---|---|---|
| Other Directors' remuneration is within the following bands: | | |
| £10,001-£15,000 | – | 1 |
| £20,001-£25,000 | – | 2 |
| £30,001-£35,000 | 1 | 1 |
| £35,001-£40,000 | 1 | - |
| £55,001-£60,000 | – | 3 |
| £65,001-£70,000 | 4 | – |
| Higher paid employees' remuneration is within the following bands: | | |
| £30,000-£35,000 | 8 | 6 |
| £35,001-£40,000 | 8 | 10 |
| £40,001-£45,000 | 8 | 5 |
| £45,001-£50,000 | 2 | 2 |
| £55,001-£60,000 | – | 1 |
| £60,001-£65,000 | 1 | – |

**11 Particulars of Employees**

| | 1988 No. | 1987 No. |
|---|---|---|
| The average number of persons employed by the Group (including Directors and part-time employees) during the year was: | | |
| Productive | 3,463 | 2,971 |
| Selling and administrative | 849 | 707 |
| | 4,312 | 3,678 |

| | 1988 £000 | 1987 £000 |
|---|---|---|
| Their total remuneration was: | | |
| Wages and salaries | 47,300 | 35,590 |
| Social security costs | 3,869 | 2,876 |
| Other pension costs | 1,731 | 1,671 |
| | 52,900 | 40,137 |

# Notes on the Accounts

continued

**12 Tangible Fixed Assets**

**Group Owned Assets**

| | Land and Buildings | | | Plant Machinery Fixtures and Fittings | Motor Vehicles | Total |
|---|---|---|---|---|---|---|
| | Freehold | Long Leasehold | Short Leasehold | | | |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation: | | | | | | |
| At 1 May 1987 .......... | 38,368 | 9,241 | 828 | 69,487 | 3,406 | 121,330 |
| Subsidiaries acquired.. | 735 | 174 | – | 114 | 4,164 | 5,187 |
| Additions.............. | 11,911 | 17 | 3 | 16,719 | 1,217 | 29,867 |
| Disposals.............. | (203) | – | – | (796) | (453) | (1,452) |
| Transfers.............. | 11 | 1 | (25) | 1,825 | (1,644) | 168 |
| Subsidiary disposals... | (2,053) | – | – | (6,848) | (97) | (8,998) |
| At 30 April 1988........ | 48,769 | 9,433 | 806 | 80,501 | 6,593 | 146,102 |
| Depreciation: | | | | | | |
| At 1 May 1987 .......... | 633 | 283 | 271 | 39,196 | 2,064 | 42,447 |
| Subsidiaries acquired.. | 24 | 14 | – | 64 | 2,764 | 2,866 |
| Provision for the year.. | 572 | 152 | 73 | 5,009 | 649 | 6,455 |
| Disposals.............. | (1) | – | – | (612) | (356) | (969) |
| Transfers.............. | – | – | (24) | 1,143 | (1,048) | 71 |
| Subsidiary disposals... | (43) | – | – | (4,957) | (88) | (5,088) |
| At 30 April 1988........ | 1,185 | 449 | 320 | 39,843 | 3,985 | 45,782 |
| **Net Book Value At 30 April 1988.......** | **47,584** | **8,984** | **486** | **40,658** | **2,608** | **100,320** |
| Net Book Value At 30 April 1987........ | 37,735 | 8,958 | 557 | 30,291 | 1,342 | 78,883 |

# Notes on the Accounts

continued

## 12 Tangible Fixed Assets (continued)

**Group Leased Assets**

| | Land and Buildings | | | Plant Machinery Fixtures and Fittings | Motor Vehicles | Total |
|---|---|---|---|---|---|---|
| | Freehold £000 | Long Leasehold £000 | Short Leasehold £000 | £000 | £000 | £000 |
| Cost or valuation: | | | | | | |
| At 1 May 1987 .......... | | | | 3,374 | 300 | 3,674 |
| Additions ............. | | | | 3,794 | 500 | 4,294 |
| Disposals ............. | | | | (199) | (44) | (243) |
| Grants ................ | | | | (272) | – | (272) |
| Transfers .............. | | | | (405) | (167) | (572) |
| Subsidiary disposals .. | | | | (80) | – | (80) |
| At 30 April 1988 ........ | | | | 6,212 | 589 | 6,801 |
| Depreciation: | | | | | | |
| At 1 May 1987 .......... | | | | 2,379 | 245 | 2,624 |
| Provision for the year .. | | | | 251 | 10 | 261 |
| Disposals ............. | | | | (182) | (39) | (221) |
| Transfers .............. | | | | (348) | (127) | (475) |
| Subsidiary disposals .. | | | | (75) | – | (75) |
| At 30 April 1988 ........ | | | | 2,025 | 89 | 2,114 |
| **Net Book Value At 30 April 1988 ......** | | | | **4,187** | **500** | **4,687** |
| Net Book Value At 30 April 1987 ........ | | | | 995 | 55 | 1,050 |
| **TOTAL NET BOOK VALUE** | | | | | | |
| **At 30 April 1988.......** | **47,584** | **8,984** | **486** | **44,845** | **3,108** | **105,007** |
| At 30 April 1987 ........ | 37,735 | 8,958 | 557 | 31,286 | 1,397 | 79,933 |

# Notes on the Accounts

continued

**12 Tangible Fixed Assets (continued)**

**Company Owned Assets**

| | Freehold Land and Buildings £000 | Plant Machinery Fixtures and Fittings £000 | Motor Vehicles £000 | Total £000 |
|---|---|---|---|---|
| Cost or valuation: | | | | |
| At 1 May 1987 | 700 | 51 | 50 | 801 |
| Additions | – | 4 | 94 | 98 |
| Group transfers | (700) | – | 58 | (642) |
| Disposals | – | (48) | (33) | (81) |
| At 30 April 1988 | – | 7 | 169 | 176 |
| Depreciation: | | | | |
| At 1 May 1987 | – | 24 | 33 | 57 |
| Provision for the year | 11 | 16 | 28 | 55 |
| Group transfers | (11) | – | 20 | 9 |
| Disposals | – | (38) | (28) | (66) |
| At 30 April 1988 | – | 2 | 53 | 55 |
| **Net Book Value At 30 April 1988** | **–** | **5** | **116** | **121** |
| Net Book Value At 30 April 1987 | 700 | 27 | 17 | 744 |

a) Freehold land amounting to £13,146,000 (1987 – £8,650,000) has not been depreciated.

b) The Group assets listed on page 26 are stated at cost with the exception of certain freehold land and buildings which are included at valuation as follows:

| | Freehold | | Long Leasehold | |
|---|---|---|---|---|
| | **1988 £000** | 1987 £000 | **1988 £000** | 1987 £000 |
| Professionally valued in 1987 | **3,588** | 3,788 | **865** | 865 |
| At cost | **45,181** | 34,580 | **8,568** | 8,376 |
| | **48,769** | 38,368 | **9,433** | 9,241 |

# Notes on the Accounts

continued

David S. Smith (Holdings) PLC

## 12 Tangible Fixed Assets (continued)

If the Group land and buildings had not been revalued they would have been included on the historical cost basis at the following amounts:

| | Freehold | | Long Leasehold | |
|---|---|---|---|---|
| | 1988 | 1987 | 1988 | 1987 |
| | £000 | £000 | £000 | £000 |
| Cost | 2,783 | 2,828 | 314 | 435 |
| Accumulated depreciation | (115) | (98) | (32) | (26) |
| Net book amount | 2,668 | 2,730 | 282 | 409 |

## 13 Fixed Assets Investments

| Group | Cost | Profits | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Investment in related company | | | |
| At 1 May 1987 | 69 | 913 | 982 |
| Share of retained profits | – | 60 | 60 |
| Reclassification as subsidiary | (69) | (973) | (1,042) |
| At 30 April 1988 | – | – | – |
| Trade investments | | | |
| Additions in year | 2,308 | – | 2,308 |
| At 30 April 1988 | 2,308 | – | 2,308 |

The investment in the related company at 1 May 1987 was in respect of a 40% holding in the ordinary share capital of A. A. Griggs & Co Limited, a company registered in England, which operates as a haulage contractor. On 21 July 1987 the Group acquired the outstanding 60% of the ordinary share capital of A. A. Griggs & Co Limited and the company has been consolidated from that date.

On 23 March 1988 the Group acquired 97,764 ordinary shares of 15p each (being 50% of the issued ordinary share capital) and subscribed for one million 5% 'A' cumulative preference shares of £1 each (being 76% of the total such 'A' preference shares in issue) in Focus Investments Limited, a company incorporated, registered and operating in England, which trades as a publisher of magazines and organiser of exhibitions. The shareholdings are treated as a trade investment. The total issued share capital of Focus Investments Limited is as follows:

| | No. |
|---|---|
| ordinary shares of 15p each | 195,528 |
| 'A' cumulative preference shares of £1 each | 1,316,800 |

# Notes on the Accounts

continued

## 13 Fixed Assets Investments (continued)

| | Investment in Subsidiaries £000 | Trade Investment £000 | Total £000 |
|---|---|---|---|
| Shares at cost: | | | |
| At 1 May 1987 | 125,205 | – | 125,205 |
| Additions | 1,399 | 2,308 | 3,707 |
| At 30 April 1988 | 126,604 | 2,308 | 128,912 |

## 14 Stocks

| Group | 1988 £000 | 1987 £000 |
|---|---|---|
| Raw materials and consumables | 20,547 | 18,968 |
| Work in progress | 1,827 | 1,683 |
| Finished goods | 12,356 | 6,598 |
| | 34,730 | 27,249 |

## 15 Debtors

| | Group 1988 £000 | Group 1987 £000 | Company 1988 £000 | Company 1987 £000 |
|---|---|---|---|---|
| Recoverable within one year | | | | |
| Trade debtors | 59,113 | 48,352 | – | – |
| Amounts owed by Group companies | – | – | 2,945 | 5,733 |
| Other debtors | 1,166 | 1,218 | 100 | 615 |
| Prepayments and accrued income | 3,634 | 2,337 | 654 | 190 |
| | 63,913 | 51,907 | 3,699 | 6,538 |
| Recoverable after more than one year | | | | |
| Amounts owed by Group companies | – | – | 27,648 | 43,750 |
| Advance corporation tax | – | – | 1,135 | 885 |
| | – | – | 28,783 | 44,635 |
| | 63,913 | 51,907 | 32,482 | 51,173 |

# Notes on the Accounts

continued

## 16 Investments

| | Group 1988 £000 | Group 1987 £000 | Company 1988 £000 | Company 1987 £000 |
|---|---|---|---|---|
| Listed on The Stock Exchange | 2,635 | – | 2,635 | – |
| Unlisted | – | 88 | – | 61 |
| | 2,635 | 88 | 2,635 | 61 |

The listed investments are included at the lower of cost or market value at 30 April 1988.

## 17 Creditors

(Amounts falling due within one year)

| | Group 1988 £000 | Group 1987 £000 | Company 1988 £000 | Company 1987 £000 |
|---|---|---|---|---|
| Bank overdraft | 642 | 540 | – | 2,620 |
| Other loans | 7 | – | – | – |
| Trade creditors | 37,867 | 30,433 | – | – |
| Bills of exchange | 432 | 398 | – | – |
| Amounts owed to Group companies | – | – | 844 | – |
| Other creditors | 19,014 | 22,937 | 2,341 | 19,674 |
| Corporation tax | 12,683 | 11,062 | 295 | 273 |
| Other taxes and social security | 7,136 | 3,894 | 44 | 23 |
| Accruals and deferred income | 11,021 | 6,124 | 475 | 466 |
| Proposed dividend | 3,406 | 2,394 | 3,406 | 2,394 |
| Finance leases | 117 | 297 | – | – |
| | 92,325 | 78,079 | 7,405 | 25,450 |

Other creditors include an amount of £3 million (1987 - Nil) which represents the first deferred purchase consideration for the assets of Kemsley Mill and Carfax. Other creditors also includes an amount of £3.8 million (1987 - Nil) representing the lease liability not assigned at 30 April 1988 from UK Paper plc following the purchase of the assets of Kemsley Mill and Carfax.

# Notes on the Accounts

continued

| 18 Creditors | Group | | Company | |
|---|---|---|---|---|
| (Amounts falling due after more than one year) | 1988 | 1987 | 1988 | 1987 |
| | £000 | £000 | £000 | £000 |
| Banks loans | 24,000 | 12,500 | 24,000 | 12,000 |
| Other loans | 1,686 | 2,298 | – | 2,102 |
| Finance leases | 137 | 264 | – | – |
| Other creditors | 3,532 | 6 | – | – |
| Corporation tax (payable 1 October 1989) | 1,346 | 923 | – | – |
| Amounts owed to Group companies | – | – | 29,068 | 33,889 |
| | 30,701 | 15,991 | 53,068 | 47,991 |

Other creditors includes an amount of £3.5 million (1987-Nil) representing the second deferred purchase consideration for the assets of Kemsley Mill and Carfax.

Bank overdrafts, bank loans and other loans are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 1988 | 1987 | 1988 | 1987 |
| | £000 | £000 | £000 | £000 |
| Total due | | | | |
| within one year - bank overdrafts | 642 | 540 | – | 2,620 |
| - other loans | 7 | – | – | – |
| Total due within one year | 649 | 540 | – | 2,620 |
| within 1-2 years - other loans | 40 | 2,110 | – | 2,102 |
| within 2-5 years - bank loans | 24,000 | 459 | 24,000 | – |
| - other loans | 1,646 | 120 | – | – |
| after five years - bank loans | – | 12,041 | – | 12,000 |
| - other loans | – | 68 | – | – |
| Total due after one year | 25,686 | 14,798 | 24,000 | 14,102 |
| | 26,335 | 15,338 | 24,000 | 16,722 |

The bank loan of £12 million was repaid on 12 July 1987 and was replaced by a Multi-Option Facility of up to £30 million. This facility was subsequently increased to £60 million on 29 April 1988 and is repayable on or before 24 June 1992. Amounts drawn down under this facility are guaranteed by the Company and certain subsidiaries. Interest is payable at a rate determined by LIBOR.

Other loans include loan notes arising on the acquisition of A.A. Griggs & Co Limited of £1.5 million. Interest is payable at a rate of 7½% per annum and the loan is repayable on or before 21 July 1991.

# Notes on the Accounts

continued

David S. Smith (Holdings) PLC

## 18 Creditors (continued)

| Group | 1988 £000 | 1987 £000 |
|---|---|---|
| Analysis of finance lease liability: | | |
| Due within one year | 117 | 297 |
| Due within 1-5 years | 137 | 264 |
| | 254 | 561 |
| Lease payments | | |
| Due within one year | 128 | 326 |
| Due after one year | 144 | 300 |
| | 272 | 626 |
| Finance charges | (18) | (65) |
| | 254 | 561 |

## 19 Provisions for Liabilities and Charges

| Group | 1988 £000 | 1987 £000 |
|---|---|---|
| Deferred taxation: | | |
| At 1 May 1987 | 4,518 | 1,224 |
| Subsidiaries acquired | 444 | 4,306 |
| Transfer to profit and loss account | (2,211) | (909) |
| Advance corporation tax recoverable | (250) | (103) |
| Adjustment in respect of prior years | (15) | – |
| At 30 April 1988 | 2,486 | 4,518 |

| | Full potential liability | | Actual provision | |
|---|---|---|---|---|
| | 1988 £000 | 1987 £000 | 1988 £000 | 1987 £000 |
| Accelerated capital allowances | 8,954 | 8,878 | 3,853 | 4,588 |
| Capital gains tax on revalued property | 4,279 | 6,787 | 815 | 815 |
| Advance corporation tax recoverable | (1,135) | (885) | (1,135) | (885) |
| Short term timing differences | (1,030) | – | (1,030) | – |
| Losses | (17) | – | (17) | – |
| | 11,051 | 14,780 | 2,486 | 4,518 |

# Notes on the Accounts

continued

## 20 Share Capital and Share Premium

| | Ordinary shares of 20p | | | |
|---|---|---|---|---|
| | Authorised | | Allotted and fully paid | |
| Called up share capital: | £000 | Thousands | £000 | Thousands |
| At 1 May 1987 | 18,900 | 94,500 | 13,675 | 68,373 |
| Increase – 14 November 1987 | – | – | 217 | 1,087 |
| Increase – 18 January 1988 | – | – | 12 | 60 |
| At 30 April 1988 | 18,900 | 94,500 | 13,904 | 69,520 |

On 14 November 1987, share capital with a nominal value of £217,392 and comprising 1,086,956 ordinary shares was issued representing the share element of the second deferred consideration for the acquisition of Abbitrin Holdings Ltd.

On 18 January 1988, options were exercised by senior executives in respect of 60,000 ordinary shares with a nominal value of £12,000 at an option price of 81.5p per share.

The Company has outstanding options granted to directors and senior executives in respect of ordinary shares as follows:

| Date Granted | Number of Shares | Option Price | Dates Exercisable |
|---|---|---|---|
| 25 September 1984 | 120,000 | 81.5p | 25.9.87-24.9.94 |
| 7 November 1985 | 600,000 | 137.5p | 7.11.88-6.11.95 |
| 10 November 1986 | 485,000 | 235.0p | 10.11.89-9.11.96 |
| 9 December 1987 | 870,000 | 293.0p | 9.12.90-8.12.97 |

In addition, there are outstanding options granted to directors and employees under the Savings Related Share Option Scheme, as follows:

| Date Granted | Number of Shares | Option Price | Maturity Date(s) |
|---|---|---|---|
| 5 March 1987 | 157,146 | 244.0p | 1.5.92 or 1.5.94 |
| 12 August 1987 | 152,872 | 393.0p | 16.11.92 or 16.11.94 |
| 26 February 1988 | 869,014 | 332.0p | 15.6.93 or 15.6.95 |

The share premium arose as a result of the exercise of share options by senior executives.

## 21 Minority Interests

| | Group £000 |
|---|---|
| At 1 May 1987 and at 30 April 1988 | 98 |

# Notes on the Accounts

continued

**22 Reserves**

Group

| | Acquisition Reserve £000 | Revaluation Reserve £000 | Profit and Loss Account £000 |
|---|---|---|---|
| At 1 May 1987 | 42,322 | 1,368 | 15,151 |
| Goodwill arising on acquisitions | (520) | – | – |
| Revaluation eliminated on disposal | – | (50) | – |
| Retained profit | – | – | 15,985 |
| At 30 April 1988 | 41,802 | 1,318 | 31,136 |

Company

| | Acquisition Reserve £000 | Revaluation Reserve £000 | Profit and Loss Account £000 |
|---|---|---|---|
| At 1 May 1987 | 88,155 | 408 | 6,182 |
| Revaluation eliminated on disposal | – | (408) | – |
| Retained profit | – | – | 4,256 |
| At 30 April 1988 | 88,155 | – | 10,438 |

**23 Capital Commitments**

| | Group 1988 £000 | Group 1987 £000 |
|---|---|---|
| Contracted | 1,700 | 1,814 |
| Authorised by Directors but not contracted | 6,389 | 1,629 |
| | 8,089 | 3,443 |

The Group has entered into a commitment to purchase various consumable stocks at Kemsley Mill for a minimum consideration of £1.5 million.

The Group is committed to subscribing for an additional two million 'B' cumulative preference shares of £1 each in Focus Investments Limited at a rate linked to National Westminster Bank PLC base rate. In 1993 the Group has the option to purchase the outstanding 50% of the equity unless required to do so earlier by the other Focus shareholders but not before 1992. The purchase price for these remaining shares will be calculated by reference to the profits of Focus in the two previous financial years, subject to an overall maximum price of £16.9 million.

# Notes on the Accounts

continued

## 24 Pensions

The Group has two main defined benefit pension schemes which are designed to provide retirement benefits to eligible employees. The latest actuarial valuation reports referred to periods between April 1984 and May 1986 and since then indications have been given by the Company's actuaries that if no company contributions were paid over to those schemes for the year ended 30 April 1988, there would be sufficient assets in the funds to secure the benefits of existing pensioners and to meet other future liabilities. No contributions have therefore been paid over to the pension funds although a full year's level of contributions has been charged in the profit and loss account. The amount so charged is being held in creditors pending the outcome of the formal actuarial valuations.

# Report of the Auditors

We have audited the accounts set out on pages 17 to 36 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 30 April 1988 and of the profit and funds flow of the Group for the year to that date and have been properly prepared in accordance with the Companies Act 1985.

Peat Marwick McLintock

Peat Marwick McLintock,
Chartered Accountants,
London
30 August 1988

## David S. Smith (Holdings) PLC

# Principal Subsidiary Companies

The names and activities of the principal subsidiary companies are set out below. The Group's interest is in respect of ordinary issued share capital which is wholly owned unless otherwise stated. All the subsidiary companies listed below are incorporated and registered in England.

| | | |
|---|---|---|
| **PAPER**<br>**St Regis Paper Company Limited and St Regis Kemsley Limited** | New Taplow Paper Mill,<br>Mill Lane,<br>Taplow,<br>Maidenhead,<br>Berkshire SL6 0AF<br>0628-39741 | Manufacturer of case making paper at four mills and Silverton Mill's high grade printing and publishing paper |
| | Wansbrough Paper Mill,<br>Watchet,<br>Somerset TA23 0AY<br>0984-31456 | Manufacturer of machine glazed paper for wrapping, stationery and wallpaper |
| | Higher Kings Mill,<br>Cullompton,<br>Devon EX15 2QJ<br>0884-38844 | Manufacturer of scholastic and educational papers and paper tubes |
| **Western Board Limited** | Treforest Industrial Estate,<br>Nr Pontypridd,<br>Mid Glamorgan CF37 5TA<br>044385-2091 | Manufacturer and converter at two mills of intermittent boards for the shoe, automotive, stationery and industrial container markets |
| **Severnside Waste Paper Co Ltd** | The Pines,<br>Heol-y-Forlan,<br>Whitchurch,<br>South Glamorgan CF4 1AX<br>0222-615871 | Wastepaper merchants with 14 depots |
| **A. A. Griggs & Co Ltd** | Travellers Rest,<br>Soham,<br>Cambridgeshire CB7 5DP<br>0353-720571 | Haulage contractors |
| **PACKAGING**<br>**Abbey Corrugated Limited** | South Mills,<br>Blunham,<br>Bedfordshire MK44 3PH<br>0767-40099 | Producer of corrugated sheet board to the sheet plant market |
| **St Regis Packaging Limited** | Scotred House,<br>Scotred Lane,<br>Burwell,<br>Cambridgeshire CB5 0AJ<br>0638-743074 | Five plants producing corrugated cases and specialising in silkscreen printing and heavy duty packaging for export |
| **DSS Flexibles Limited** | | |
| British Sisalkraft Limited | Commissioners Road,<br>Strood,<br>Rochester,<br>Kent ME2 4ED<br>0634-290505 | Producer of a wide range of extrusion and other coatings and laminates of flexible materials for the paper converting, packaging and construction industries |
| Protective Papers Limited | Riverside Works,<br>Watchet,<br>Somerset TA23 0BW<br>0984-31757 | Flexographic printers and converters of paper and plastic films for the flexible packaging and wallpaper industries |
| **Corrugated Products Group** | | |
| Corrugated Products Limited | Butlers Leap,<br>Clifton Road,<br>Rugby,<br>Warwickshire CV21 3RQ<br>0788-70612 | Producer of poin[illegible] sale display and shelf-ready packaging incorporating graphics by flexo, preprint, litho-laminate or gravure and single faced products |
| Liqui-Box Limited | | Producer of plastics and flexible packaging for liquids, powders and particulates |
| Trinity Packaging Limited | London Road,<br>Biggleswade,<br>Bedfordshire SG18 8PS<br>0767-316116 | Convertor of corrugated sheet board and silkscreen printers |
| Langfern Packaging Limited | Units 1-4,<br>Vauxhall Industrial Estate,<br>Ruabon,<br>Clwyd LL14 6HA<br>0978-823076 | Convertor of corrugated sheet board |
| **David S. Smith Limited** | PO Box 14,<br>D. C. Griffiths Way,<br>Neath,<br>West Glamorgan SA11 1PT<br>0639 3601 | Printers and converters of folding cartons by both sheet-fed lithographic and rotogravure processes |

# David S. Smith (Holdings) PLC

## Form of Proxy

I We ............................................ BLOCK LETTERS

of ............................................

being (a) member(s) of David S. Smith (Holdings) PLC hereby appoint the Chairman of the Meeting (see note a) ............................................ as my/our proxy to vote for me/us and on my/our behalf as indicated below, at the Annual General Meeting of the Company to be held on Monday, 26 September 1988 and at any adjournment thereof.

Dated: ............ September 1988. Signature: ............................................

**ORDINARY RESOLUTIONS**

| | FOR | AGAINST |
|---|---|---|
| 1. To receive and adopt the Report and Accounts. | ☐ | ☐ |
| 2. To declare a final dividend. | ☐ | ☐ |
| 3. To elect Mr. J. D. Bence. | ☐ | ☐ |
| 4. To re-elect Mr. D. S. Smith. | ☐ | ☐ |
| 5. To re-elect Mr. B. Smith. | ☐ | ☐ |
| 6. To re-appoint the auditors and authorise the Directors to fix their remuneration. | ☐ | ☐ |
| 7. To authorise the Directors to allot ordinary shares. | ☐ | ☐ |

**SPECIAL RESOLUTIONS**

| | FOR | AGAINST |
|---|---|---|
| 8. To authorise the partial disapplication of pre-emption rights. | ☐ | ☐ |
| 9. To approve and adopt new Articles of Association. | ☐ | ☐ |

**NOTES**

a) If you wish to appoint a person other than the Chairman of the Meeting please delete the words "the Chairman of the Meeting" and insert the name of the preferred proxy in the space provided.

b) Please indicate how your proxy is to vote by placing an 'X' in the appropriate space in respect of each Resolution. If you sign the form and return it without any specific direction the proxy will decide how to vote or whether to abstain from voting.

c) In the case of joint holders, any one such holder may sign, or vote in person or by proxy, but if more than one holder is present at the Meeting or represented by proxy then the holder whose name appears first on the Register shall be entitled to vote.

d) Corporations must execute this form under their common seal or under the hand of a duly authorised officer or attorney.

e) A proxy need not be a member of the Company.

f) To be valid this completed form of proxy must reach the Registrars at the address overleaf not later than 48 hours before the time of the Meeting.

g) Completion of this form will not preclude a member from attending and voting in person.

STAMP

CONNAUGHT St MICHAELS LTD.,
P.O. Box No. 30,
C.S.M. HOUSE,
VICTORIA STREET,
LUTON, BEDS,
LU1 2PZ

**David S. Smith (Holdings) PLC**

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of David S. Smith (Holdings) PLC will be held at The Connaught Rooms, 15 Great Queen Street, London, WC2 on Monday, 26 September 1988 at 12 noon for the following purposes:-

**As Ordinary Business**

1 To receive and adopt the Directors Report and the Accounts for the year ended 30 April 1988

2 To declare a final dividend on the ordinary shares for the year ended 30 April 1988

3 To elect Mr. J. D. Bence as a Director of the Company

4 To re-elect Mr. D. S. Smith as a Director of the Company

5 To re-elect Mr. B. Smith as a Director of the Company

6 To re-appoint Peat Marwick McLintock as auditors to the Company, and to authorise the Directors to fix their remuneration

**As Special Business**

To consider and, if thought fit, pass the following resolutions of which number 7 will be proposed as an Ordinary Resolution and numbers 8 and 9 as Special Resolutions:

7 THAT, in substitution for the authority previously conferred upon them, the Directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £4,987,986 provided that this authority shall expire on the day five years after the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

8 THAT the Directors be and they are hereby further empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority referred to in the previous Ordinary Resolution as if Section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited:

(a) to the allotment of equity securities in connection with a rights issue in favour of ordinary Shareholders where the equity securities respectively attributable to the interests of all such Shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them and, for the avoidance of doubt, the Directors may exclude allotments to members resident in territories where, in the opinion of the Directors, compliance with local laws and/or regulations would be unduly onerous provided that the Directors shall make such arrangements as they consider fit for such members to receive the money's worth of their rights arising from any such rights issue; and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities (to the extent that they are relevant shares within the meaning of Section 94 of the said Act) up to an aggregate nominal amount or, to the extent that they are other equity securities (giving the right to subscribe for or convert into relevant shares) having an aggregate nominal value not exceeding £695,200.

and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (unless such authority is extended prior to such time) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

9 THAT the regulations contained in the printed document submitted to this Meeting and, for the purpose of identification signed by the Chairman hereof, be approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all the existing Articles thereof.

16 Great Peter Street
London SW1P 2BX

2 September 1988

By Order of the Board
J. S. Russell, Secretary
J. S. Russell

Notes

(i) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

(ii) A form of proxy is enclosed. To be effective, forms of proxy must reach the Registrars at the address shown on the form not later than forty-eight hours before the time of the Meeting. Completion and return of the form will not however prevent a member from attending and voting at the Meeting.

(iii) The following documents will be available for inspection at the registered office of the Company during business hours on any weekday (except Saturdays) from 2 September 1988 until 23 September 1988 and on 26 September 1988 at The Connaught Rooms, 15 Great Queen Street, London, WC2 from 11.45 a.m. until the conclusion of the Meeting:

(a) A statement of all transactions of each director, and of their family, in the share capital of the Company.

(b) Copies of the Directors' Service Agreements with the Company or any of its subsidiaries other than Agreements expiring, or determinable by the employing company without compensation, within one year.

(c) New Articles of Association of the Company to be approved and adopted pursuant to Special Resolution No. 9.

# Explanatory Notes relating to Special Business at the Annual General Meeting

**POWER TO ALLOT ORDINARY SHARES - ORDINARY RESOLUTION NO. 7**

The Directors were generally and unconditionally authorised by Shareholders on 28 September 1987 pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot ordinary shares up to a nominal amount of £5,225,378.

Since that date, ordinary shares of a nominal amount of £237,392, representing 1,186,956 ordinary shares of 20p each have been allotted as deferred consideration for the purchase of Abbitrin Holdings Limited in 1985 and pursuant to the exercise of share options up to the date of the Notice of Meeting. The balance outstanding from the general authority to allot is £4,987,986 representing 24,939,932 unissued ordinary shares of which 3,274,032 are reserved for issue on the exercise of options granted under the Executive Share Option and Savings Related Share Option Schemes. Taking no account of those shares so reserved, the balance of authorised but unissued ordinary share capital represents 23.7% of the authorised ordinary share capital and is in accordance with the relevent institutional guideline.

Resolution No. 7 will be proposed so as to renew this authority in respect of the allotment of the unissued ordinary shares.

The Directors have no present intention of issuing the whole or any part of the unissued ordinary share capital other than arising from the exercise of options under the share option schemes. No issue will be made which would effectively alter control of the Company without the prior approval of Shareholders in general meeting.

**PARTIAL DISAPPLICATION OF PRE-EMPTION RIGHTS - SPECIAL RESOLUTION NO. 8**

The Directors by means of Special Resolution No. 8 are seeking consent to renew their general power until the next Annual General Meeting to disapply statutory pre-emption rights under Section 95 of the Companies Act 1985 to allow shares to be issued for cash other than pro rata to existing Shareholders. If passed at the Meeting, the Special Resolution would give to the Directors the power to issue ordinary shares for cash in connection with a rights issue. It would also give them a general power to issue ordinary shares for cash up to an aggregate nominal value not exceeding £695,200 being 5% of the issued ordinary share capital as at 30 April 1988; a margin which the Directors consider desirable in order to retain flexibility for the future. The limit is in accordance with the relevant institutional and Stock Exchange guidelines.

**SUMMARY OF THE PROPOSED NEW ARTICLES OF ASSOCIATION - SPECIAL RESOLUTION NO. 9**

The Articles of Association of the Company which it is proposed will be approved and adopted on 26 September 1988 are, on the whole, consistent with the Company's existing Articles of Association with some minor amendments to bring them up to date with current practice. The only changes of substance which they would introduce are the removal of the maximum number of Directors (the minimum remains two) and the inclusion of a provision whereby a member's voting rights may be suspended in respect of shares in relation to which a satisfactory reply to a notice under Section 212 of the Companies Act 1985 has not been received within a specified period.

The new Articles of Association contain provisions (inter alia) to the following effect:

**A. Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares and to the provisions of the Articles of Association, on a show of hands, every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative or proxy not being himself a member shall have one vote and, on a poll, every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative or proxy, shall have one vote for every share of which he is the holder. On a poll being taken at a meeting of the Company, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

Provided that no member shall be entitled (save as proxy for another member) to be present or vote at any General Meeting, either personally or by proxy, or to exercise any privilege in relation to General Meetings conferred by membership or to be reckoned in a quorum:-

(A) if and so long as he shall have defaulted in payment of any call or other sum for the time being due and payable on such share or any interest or expenses (if any) payable in connection therewith;

(B) if he or any other person appearing to be interested in such shares has been duly served with a notice under Section 212 of the Companies Act 1985 (or any equivalent statutory provision) which:

(i) requires him or such other person to give information to the Company in accordance with such section or provision; and

(ii) contains a statement to the effect that upon failure to supply such information before the expiry of a period specified in such notice (being not less than 28 days from the service of such notice) the registered holder of the shares shall not be entitled to vote or otherwise exercise the rights referred to in this paragraph

and the person on whom such notice was served fails to supply such information within the period so specified.

Provided that:

(1) the Company shall be entitled to serve such a notice under the said Section 212 on a person wh, is not the registered holder of shares in the Company only if the registered holder of the shares in question has previously been, or is simultaneously served with, a notice under the said Section 212; and

(2) the disqualification provisions of this paragraph (B) shall take effect only upon the service on the registered hold( of the shares in question of a notice to the effect that he has thereby become subject to the said disqualification provisions and such provisions shall only apply for so long as the information requested pursuant to this paragraph (B) has not been supplied to the Company; and

(3) for the purpose of this paragraph (B) a person shall be treated as appearing to be interested in any shares if (after taking into account any information supplied in response to any notice under the said Section 212 and any other information) the Company knows or has reasonable cause to believe that the person in question is or may be interested in the shares.

# Explanatory Notes relating to Special Business at the Annual General Meeting

**B. Income**

Subject to the provisions of the Articles and to any rights, privileges or restrictions for the time being attached to any shares in the capital of the Company having preferential or special rights as to dividends, all dividends shall be declared and paid according to the amount paid up on the shares in respect whereof the dividend is paid, but no amount paid on a share in advance of calls shall be treated as paid on the share.

**C. Participation on a winding up**

On a distribution of assets on a winding up, the surplus assets of the Company remaining after payment of all creditors shall be divided among the members according to the amounts which at the commencement of the winding up are paid up or ought to have been paid on their shares.

**D. Changes in share capital and variation of class rights**

Whenever the capital of the Company is divided into different classes of shares, all or any of the special rights or privileges attached to any class may be varied or abrogated, either with the consent in writing of holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an Extraordinary Resolution passed at a separate General Meeting of such holders (but not otherwise), and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up.

The Company may, by Ordinary Resolution, consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares; cancel any shares which, at the date of the passing of the Resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled or, by sub-division of its existing shares or any of them, divide its share capital or any part thereof into shares of smaller amounts than is fixed by its Memorandum of Association.

**E. Issue of Unissued Shares**

The Company may by Ordinary Resolution (or by Special Resolution where so required by the Companies Act 1985) resolve that all or any of the unissued shares in the capital of the Company shall be offered in the first instance, at par or at a premium to all the holders of any class of shares in the capital of the Company, in proportion (as nearly as circumstances may permit) to the number of shares of such class held by them respectively, or make any other provisions as to the issue and allotment or allot any of the unissued shares.

**F. Untraced Shareholders**

The Company shall be entitled to sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled if during a period of twelve years at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed; and all warrants and cheques in respect of the shares in question sent during that period as provided in the Articles have remained uncashed; and the Company gives notice by advertisement in one national daily newspaper and one newspaper circulating in the area of the address (as shown in the Register of Members) of that person of its intention to sell the shares and gives notice to the Quotations Department of The Stock Exchange of its intention to make such sale and in the period of three months after the said advertisements the Company has no indication that such member can be traced.

**G. Transfer of shares**

(1) The Directors may decline to register any transfer of shares not fully paid up, and any transfer of shares on which the Company has a lien.

(2) Subject to the restrictions of the Articles, every transfer must be:-

(a) in writing and in the usual common form, or in any other form which the Directors may approve; and

(b) left at the registered office for the time being of the Company, or such other place as the Directors may determine, for registration; and

(c) accompanied by the certificate of the shares to be transferred (except where the shares are registered in the name of a Stock Exchange nominee and no certificate shall have been issued therefor) and such other evidence (if any) as the Directors may reasonably require to prove the title of the intending transferor or his right to transfer the shares.

**H. Purchase of own shares**

Subject to the provisions of the Companies Act 1985, the Company may purchase its own shares.

**I. Unclaimed dividends**

All unclaimed dividends may be invested or otherwise made use of by the Directors as they think fit, until they are claimed, so that the Company shall not thereby be constituted as a trustee in respect thereof.

Any dividend unclaimed after a period of twelve years from the date of payment of such dividend shall be forfeited and shall revert to the Company.

**J. Directors**

(1) Unless otherwise determined by an Ordinary Resolution, the number of Directors shall be not less than two.

(2) No shareholding qualification for Directors is required.

(3) Each of the non-executive Directors shall be paid such remuneration for their services as Directors as is determined by the Board, provided that the aggregate of such sums shall not exceed £100,000 per annum or such higher amount as the Company may by Ordinary Resolution determine, and such remuneration shall be divided among them in such proportion and manner as they may agree or, failing agreement, equally.

(4) The Directors may from time to time appoint one or more of their number to be managing director or chief executive or to any other executive office of the Company for such period and on such terms as they think fit, and may revoke such appointments. Such appointment shall automatically be terminated if the Director ceases for any reason to be a Director. Any revocation or termination of such appointment shall be without prejudice to any claim for breach of contract between the Director and the Company

The remuneration and other terms and conditions of appointment of a Director appointed to any such office shall from time to time be fixed by the Directors and may be by way of fixed salary, or commission on the profits or turnover of the Company, or of any other company in which the Company is interested, or other participation in any such profits or otherwise or by any combination of these modes.

# Explanatory Notes relating to Special Business at the Annual General Meeting

(5) A Chief Executive shall not be subject to retirement by rotation.

(6) The Directors shall be paid out of the funds of the Company all their reasonable travelling, hotel and other expenses properly incurred by them in and about the discharge of their duties including their expenses of travelling to and from meetings of the Directors, or committee meetings, or General Meetings.

The Directors may grant special remuneration to any Director who, being called upon, shall perform any special or extra services to or at the request of the Company.

(7) Save as otherwise provided in the Articles of Association, a Director shall not vote or be counted in the quorum in respect of any contract, arrangement or any other proposal whatsoever in which he has any material interest (otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company) and if he does so, his vote will not be counted. This prohibition shall not apply to any of the following matters:-

(a) a resolution relating to the giving of any guarantee, security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;

(b) a resolution relating to the giving of a guarantee, security or indemnity to a third party in respect of a debt or an obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part (and whether alone or jointly with others) under a guarantee or indemnity or by the giving of the security;

(c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;

(d) a resolution relating to any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer or Shareholder or otherwise howsoever, provided that he is not directly or indirectly interested in one per cent, or more of any class of the equity of the issued shares of such company or of the voting rights of such company (any such interest being deemed for these purposes to be a material interest in all circumstances);

(e) a resolution concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefit scheme under which he may benefit and which has been approved or is conditional upon approval, by the Board of the Inland Revenue for taxation purposes; and

(f) a resolution concerning the adoption modification or operation of a share option scheme, profit sharing scheme, or share incentive scheme which relates both to Directors and employees and does not accord to any Director as such any privilege or advantage not generally accorded to the employees to which such fund or scheme relates.

(8) The Company may by Ordinary Resolution suspend or relax any provisions in the Articles outlined in (7) above to any extent, or ratify any transaction not duly authorised by reason of a contravention of such provision.

(9) At each Annual General Meeting, one third of the Directors are subject to retirement by rotation or if their number is not a multiple of three then the number nearest to but not exceeding one third shall retire by rotation.

(10) The statutory provisions as to the retirement of the Directors at the age of 70 do not apply to the Company.

**K. Borrowing Power**

(1) Subject to paragraph (2) below, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge the whole or any part of its undertaking, property and assets (both present and future) and uncalled capital and (subject, to the extent applicable, to the provisions of the Companies Act 1985) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(2) The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (as regards subsidiaries so far as such exercise they can secure) that the aggregate nominal or principal amount (together with any fixed or minimum premium payable on final repayment) for the time being owing by the Group in respect of moneys borrowed (exclusive of moneys borrowed by the Company for the time being owing to any of its subsidiaries or by any such subsidiary for the time being owing to the Company or another such subsidiary) shall not without the previous sanction of an Ordinary Resolution of the Company exceed an amount equal to twice the adjusted total of capital and reserves.

**L. Scrip Dividends**

The Articles contain power, subject to the provisions of the Articles and of the Companies Act 1985, for the Directors to give each Ordinary Shareholder the election to forgo his right to participate in any dividend and to receive instead an allotment of further ordinary shares to the extent and within the limits set out in the Articles.

**M. Indemnity**

The Articles contain the usual indemnity of Directors and other officers of the Company, but the scope of this indemnity is limited by the Companies Act 1985.