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International Greetings PLC

Directors' report and consolidated financial statements

Registered number 1401155

31 March 2003

Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31 March 2003

Principal activities

The principal activities of the Group are the design and manufacture of gift wrapping paper, greetings cards, Christmas crackers, licensed stationery and other decorative accessories.

Business review

Full details of the results for the year are set out in the attached financial statements. A review of the year's operations is given on page 7.

Dividends

An interim dividend of 1.3p (2002: 1.2p) was paid 15 January 2003. The directors recommend a final dividend of 4.45p (2002: 3.3p), making a total for the year of 5.75p (2002: 4.5p). The final dividend, if approved, will be paid on 22 September 2003 to shareholders on the register on 5 September 2003

Directors and directors' interests

The directors who held office during the year were as follows:

J E Jones
S A Hedlund
N Fisher
M Collini
M Hornung
H Child

The directors had the following direct interests in the ordinary shares of 5p each of the company:

	Interest at end of year		Interest at beginning of year	
	Ordinary shares	Options	Ordinary shares	Options
JE Jones	15,243	–	15,144	–
SA Hedlund[a]	901,033	–	900,934	–
N Fisher[b]	1,500,243	–	1,500,114	–
M Collini	110,243	285,000	110,114	285,000
M Hornung[c]	314,814	90,000	318,465	90,000

In addition to the above holdings:

(a) 20,155,400 (2002: 20,155,400) and 3,119,800 (2002: 3,119,800) ordinary shares of 5p each are respectively registered in the names of Artistic AG and Malios AG, companies incorporated in Switzerland and under the ultimate control of the Hedlund family.

(b) 1,500,000 (2002: 1,500,000) ordinary shares of 5p each are registered in the name of Benalex Holdings Limited, a company incorporated under the laws of Jersey and owned by a settlement by N Fisher for the benefit of himself and members of his family.

(c) 172,557 (2002: 172,557) ordinary shares of 5p each are held by M Hornung's pension fund.

There were no options granted to or exercised by directors during the financial year.

In accordance with the company's Articles of Association, Messrs SA Hedlund and N Fisher retire by rotation at this year's Annual General Meeting and, being eligible, offer themselves for re-election.

Substantial shareholdings

At 20 June 2003, substantial interests in the issued share capital of the Company, notified and registered in accordance with section 198 of the Companies Act 1985, were as follows:

	Number of ordinary shares	Percentage of issued share capital
Artistic AG	20,155,400	48.3
Malios AG	3,119,800	7.5
Artemis Investment Management	2,991,136	7.2
N Fisher	1,500,243	3.6
Benalex Holdings Limited	1,500,000	3.6

Corporate Governance

In June 1999 the Stock Exchange published the Principles of Good Governance and Code of Best Practice ("The Combined Code") which combines the work of the Cadbury, Greenbury and Hampel committees and is now mandatory for fully listed companies.

Whilst there is no obligation for AIM listed companies to comply with this code, the directors endorse the principles of effective corporate governance and are committed to maintaining the highest standards of ethics, integrity and professional competence. The directors do not consider full compliance with the code is appropriate for the Group at this stage of its development but will keep the matter under review and continue to develop procedures as the Group grows. As part of this ongoing process, an audit and remuneration committee has been established during the year.

Employees

The Group recognises the benefits of keeping employees informed as to current business performance. The Group conforms with current employment laws on the employment of disabled persons.

Report of the directors

Political and charitable contributions

The Group made no political contributions during the year.
The Group made donations to UK charities of £2,000 (2002: £2,000).

Creditor payment policy

The Company does not follow any standard code of payment but aims to settle supplier accounts in accordance with their individual terms of business. The number of days' purchases outstanding at the year end in respect of the Company was 53 (2002: 56).

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

M Collini
Secretary

Belgrave House
Hatfield Business Park
Frobisher Way
Hatfield
Herts
AL10 9TQ

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of International Greetings PLC

We have audited the financial statements on pages [illegible] to [illegible].

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 18 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 July 2003

Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF24 0TE
United Kingdom

Consolidated profit and loss account

for the year ended
31 March 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Turnover	2		**113,732**		110,653
Cost of sales			**(78,239)**		(78,008)
Gross profit			**35,493**		32,645
Distribution expenses			**(11,357)**		(10,097)
Administrative expenses					
– before exceptional item		**(12,515)**		(11,986)	
– exceptional item	2	**-**		(420)	
Total administrative expenses			**(12,515)**		(12,406)
Operating profit	2		**11,621**		10,142
Net interest payable	6		**(690)**		(1,657)
Profit on ordinary activities before taxation	2-6		**10,931**		8,485
Tax on profit on ordinary activities	7		**(3,299)**		(2,516)
Profit for the financial year			**7,632**		5,969
Dividends – equity	8		**(2,385)**		(1,849)
Retained profit for the financial year	21		**5,247**		4,120
Earnings per share	22				
Basic			**18.5p**		14.6p
Excluding exceptional item	2		**18.5p**		15.3p
Diluted			**18.3p**		14.2p

A statement of movements on reserves is set out in note 21.

Consolidated statement of total recognised gains and losses
for the year ended
31 March 2003

	2003 £000	2002 £000
Profit for the financial year	**7,632**	5,969
Currency translation differences arising on foreign currency net investments	**(602)**	-
Total recognised gains and losses relating to the financial year	**7,030**	5,969

Consolidated balance sheet
at 31 March 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
Fixed assets					
Intangible assets – goodwill	9	**1,071**		1,762	
Tangible assets	11	**21,721**		22,477	
			22,792		24,239
Current assets					
Stocks	13	**21,860**		25,061	
Debtors	14	**9,856**		16,356	
Cash at bank and in hand		**10,547**		[illegible]	
		42,263		41,418	
Creditors: amounts falling due within one year	15	**(21,438)**		(28,299)	
Net current assets			**20,825**		13,119
Total assets less current liabilities			**43,617**		37,816
Creditors: amounts falling due after more than one year	16		**(2,278)**		(1,477)
Provisions for liabilities and charges	18		**(394)**		(300)
Deferred income	19		**(3,016)**		[illegible]
Net assets			**37,929**		32,960
Capital and reserves					
Called up share capital	20		**2,077**		2,054
Share premium account	21		**1,081**		780
Other reserves	21		**1,016**		1,616
Profit and loss account	21		**33,755**		28,506
Equity shareholders' funds	23		**37,929**		32,960

These financial statements were approved by the board of directors on 2 July 2003 and were signed on its behalf by:

N Fisher
Director

M Collini
Director

Company balance sheet
at 31 March 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Fixed assets					
Tangible assets	11		**317**		401
Investments	12		**2,379**		2,554
			2,696		2,955
Current assets					
Debtors	14	**603**		736	
Cash at bank and in hand		**19,676**		14,475	
		20,279		15,211	
Creditors: amounts falling due within one year	15	**(4,265)**		(5,397)	
Net current assets			**16,014**		9,814
Net assets			**18,710**		12,769
Capital and reserves					
Called up share capital	20		**2,077**		2,054
Share premium account	21		**1,081**		780
Capital redemption reserve	21		**1,334**		1,334
Profit and loss account	21		**14,218**		8,601
Equity shareholders' funds	23		**18,710**		12,769

These financial statements were approved by the board of directors on [illegible] July 2003 and were signed on its behalf by:

N Fisher
Director

M Collini
Director

Consolidated cash flow statement
for the year ended
31 March 2003

	Note	2003 £000	2002 £000
Net cash inflow from operating activities	27	**22,510**	15,716
Returns on investments and servicing of finance	28	**(707)**	(1,649)
Taxation		**(2,980)**	(2,826)
Capital expenditure	28	**752**	(8,242)
Equity dividends paid		**(1,892)**	(1,837)
Cash inflow before financing		**17,683**	1,162
Financing	28	**(1,553)**	1,480
Increase in cash		**16,130**	2,642

Reconciliation of net cash flow to movement in net funds/(debt)
for the year ended
31 March 2003

	Note	2003 £000	2002 £000
Increase in cash in the year		**16,130**	2,642
Cash outflow/(inflow) from debt and lease financing	29	**1,877**	(1,308)
Change in net debt resulting from cash flows		**18,007**	1,334
Inception of finance leases	29	**(695)**	(258)
Translation differences	29	**1,028**	–
Movement in net debt in the year		**18,340**	1,076
Net debt at beginning of year		**(14,907)**	(15,983)
Net funds/(debt) at end of year		**3,433**	(14,907)

Notes
(forming part of the financial statements)

1 Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation
The Group financial statements consolidate the financial statements of International Greetings PLC and all its subsidiary undertakings which are all made up to 31 March each year.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition and up to the date of disposal.

As permitted by Section 230(3) of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company has not been presented.

Intangible assets – goodwill
Financial Reporting Standard 10 (FRS 10) has been adopted in accordance with which goodwill arising on acquisitions after 1 April 1999 is capitalised within fixed assets and written off to nil by equal instalments over its estimated useful economic life, with its carrying value at the end of its first full year reviewed for impairment. As allowed by FRS 10, goodwill arising prior to that date remains, as previously, written off directly to reserves and will be reinstated and charged in arriving at the profit or loss on any subsequent disposal of the related business.
The useful economic lives of the components of goodwill range from 10 to 20 years.

Investment in subsidiary undertakings
The Company's investment in subsidiary undertakings is stated at cost less any provision for impairment.

Fixed assets and depreciation
Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	– 25 years
Leasehold land and buildings	– life of lease
Plant and machinery	– 4 to 10 years
Office equipment	– 3 to 5 years
Motor vehicles	– 4 years

No depreciation is provided on freehold land.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account, except in the case of loans to finance equity investment in overseas subsidiaries where such differences are taken directly to reserves.
For consolidation purposes, the assets and liabilities and profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rate. Exchange differences arising on these translations are taken directly to reserves.

Government grants
Capital based government grants are included within deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

Leases
Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rentals payable are charged to the profit and loss account on a straight line basis over the life of the lease.

Stocks
Stocks are stated at the lower of cost, including attributable overheads, and net realisable value.

Notes
(forming part of the financial statements)

1 Accounting policies (continued)

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen, but not reversed at the balance sheet date.

Turnover
Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

Employee share option schemes
Share options are issued at market value at the date of grant and consideration is accounted for when the option is exercised.

Pension costs
The Group operates a defined contribution grouped personal pension scheme. The assets of this scheme are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group to the fund.

2 Segmental analysis

(a) Geographical area of operation

	UK		USA		Group	
	2003	2002	**2003**	2002	**2003**	2002
	£000	£000	**£000**	£000	**£000**	£000
Turnover	**95,260**	90,100	**18,472**	20,553	**113,732**	110,653
Operating profit before exceptional items	**10,524**	8,265	**1,097**	2,297	**11,621**	10,562
Exceptional items	**-**	(420)	**-**	-	**-**	(420)
Operating profit after exceptional items	**10,524**	7,845	**1,097**	2,297	**11,621**	10,142
Net interest					**(690)**	(1,657)
Profit on ordinary activities before taxation					**10,931**	8,485
Net assets	**31,961**	26,733	**5,968**	6,227	**37,929**	32,960

The above results relate entirely to continuing operations.

Exceptional items, included within administrative expenses, comprise:

	2003	2002
	£000	£000
Costs arising from the liquidation of the Company's insurers during the year	**-**	420

2 Segmental analysis (continued)

(b) Geographical analysis of turnover by destination

	2003 £000	2002 £000
UK	**79,101**	71,826
USA	**27,180**	28,533
Rest of world	**7,451**	10,292
	113,732	110,653

3 Profit on ordinary activities before taxation

		2003 £000	2002 £000
Profit on ordinary activities before taxation is stated after charging/(crediting)			
Auditors' remuneration	– audit fees paid to the Company's auditor and its associates	**68**	70
	– non audit fees paid to the Company's auditor and its associates	**68**	60
Hire of plant and machinery	– rentals payable under operating leases	**341**	325
Hire of other assets	– operating leases	**307**	516
Release of deferred grant income		**(293)**	(169)
Depreciation	– owned	**3,821**	3,651
	– leased	**101**	174
Amortisation of goodwill		**175**	176

Audit fees payable by the Company for the year were £6,000 (2002: £6,000).

4 Remuneration of directors

	Aggregate for all directors		Highest paid director	
	2003 £000	2002 £000	2003 £000	2002 £000
Remuneration excluding bonuses	**824**	693	**222**	197
Annual bonus payments	**130**	–	**42**	–
	954	693	**264**	197
Pension contributions to personal money purchase schemes (in respect of four directors)	**52**	56	**19**	13
Total	**1,006**	749	**283**	210

Information on share options held by directors is shown in the report of the directors.

Notes
(forming part of the financial statements)

5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2003	2002
Administration, sales and distribution	**390**	388
Production	**623**	711
	1,013	1,099

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	**20,714**	20,593
Social security costs	**1,791**	1,804
Pension contributions due and paid to personal money purchase schemes	**470**	383
	22,975	22,780

6 Net interest payable

	2003	2002
	£000	£000
Bank interest receivable	**135**	–
Interest payable and similar charges		
On bank loans and overdrafts	**675**	1,472
Other loans	**121**	103
Finance charges in respect of finance leases	**29**	82
Total	**825**	1,657
Net interest payable	**690**	1,657

7(a) Taxation

	2003 £000	2003 £000	2002 £000	2002 £000
Current tax				
UK corporation tax on profits of the year	3,278		1,668	
Adjustments in respect of previous periods	55		3	
		3,333		1,671
Foreign tax				
On profits of the year	264		870	
Adjustments in respect of previous periods	92		(62)	
		356		808
Total current tax		3,689		2,479
Deferred taxation				
Origination and reversal of timing differences	(316)		121	
Adjustments in respect of previous periods	(74)		(84)	
Total deferred tax		(390)		37
Tax on profits on ordinary activities		3,299		2,516

7(b) Factors affecting tax charge for the year

	2003 £000	2002 £000
Profit on ordinary activities before tax	10,931	8,485
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	3,279	2,546
Effects of:		
Expenses not deductible for corporation tax purposes	55	35
Release of grant	(88)	(51)
Capital allowances for the year lower than/(in excess of) depreciation	248	(96)
Provisions not deductible until paid	91	3
Other timing differences	(74)	35
Difference between UK and overseas tax rates	31	66
Adjustments in respect of previous periods	147	(59)
Current year tax charge	3,689	2,479

Notes
(forming part of the financial statements)

7(c) Factors that may affect future tax charges
No provision has been made for deferred tax on gains recognised on previous capital disposals where potentially taxable gains have been rolled over into replacement assets. Nor has deferred tax been provided where grants have reduced the tax cost of properties for use in capital gains calculations on future disposal. Such tax would become payable only if the replacement assets were sold without it being possible to claim roll-over relief. The total amount unprovided is £580,000 (2002: £411,000). At present it is not envisaged that any such tax will become payable in the future.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the group, no tax is expected to be payable on them for the foreseeable future.

8 Dividends

	2003	2002
	£000	£000
Interim paid – 1.3p per share (2002: 1.2p)	**536**	493
Final proposed – 4.45p per share (2002: 3.3p)	**1,849**	1,356
	2,385	1,849

9 Intangible assets

	Goodwill
	£000
Group	
At beginning of year	1,262
Amortisation	(175)
Exchange adjustment	(16)
At end of year	**1,071**

10 Profit attributable to the Company
The profit after tax dealt with in the accounts of the Company is £6,002,000 (2002: £2,785,000). As provided by section 230 of the Companies Act 1985, no profit and loss account is presented in respect of International Greetings PLC.

11 Tangible fixed assets

Group	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Motor vehicles £000	Total £000
Cost					
At beginning of year	13,298	22,062	3,983	1,960	41,303
Exchange adjustments	(231)	(332)	(92)	–	(655)
Additions	577	1,372	482	506	2,937
Disposals	–	(179)	(263)	(826)	(1,268)
At end of year	13,644	22,923	4,110	1,640	42,317
Depreciation and diminution in value					
At beginning of year	2,794	11,331	2,838	903	17,866
Exchange adjustments	(23)	(103)	(64)	–	(190)
Charge for year	541	2,317	647	417	3,922
On disposals	–	(161)	(224)	(617)	(1,002)
At end of year	3,312	13,384	3,197	703	20,596
Net book value					
At end of year	**10,332**	**9,539**	**913**	**937**	**21,721**
At beginning of year	10,504	10,731	1,145	1,057	23,437

The net book value of land and buildings comprises:

	2003 £000	2002 £000
Freehold	**8,257**	8,409
Short leasehold	**2,075**	2,095
	10,332	10,504

The net book value of fixed assets includes an amount of £684,000 (2002: £641,000) in respect of assets held under finance leases.
The depreciation charge for the year includes £101,000 (2002: £174,000) in respect of leased assets.
Land and buildings includes land of £593,000 (2002: £593,000) which is not depreciated.

11 Tangible fixed assets (continued)

Company	Office equipment £000	Motor vehicles £000	Total £000
Cost			
At beginning of year	310	411	721
Additions	14	116	130
Disposals	(57)	(150)	(207)
At end of year	**267**	**377**	**644**
Depreciation			
At beginning of year	163	157	320
Charge for year	72	86	158
On disposals	(55)	(96)	(151)
At end of year	**180**	**147**	**327**
Net book value			
At end of year	**87**	**230**	**317**
At beginning of year	147	254	401

12 Fixed asset investments

Company	Shares in subsidiary undertakings £000
Cost	
At beginning of year	2,554
Exchange adjustment	(175)
At end of year	**2,379**

12 Fixed asset investments (continued)

The trading subsidiary undertakings of the company are as follows:

	Country of incorporation	Principal activity	Percentage of ordinary shares held
Scandinavian Design Limited	Great Britain	Manufacture of gift wrapping paper, bows and ribbons	100%
Belgrave Graphics Limited	Great Britain	Manufacture of gift tags and bags	100%
International Greetings Asia Limited	Hong Kong	Trading company	100%
Scoop Designs Limited	Great Britain	Packaged gifts	100%
Brite Sparks Limited	Great Britain	Christmas crackers	100%
Metier Creative Associates	Great Britain	Design agency	100%
Gift Design Limited	Great Britain	Gift packaging	100%
Copywrite Designs Limited	Great Britain	Licensed stationery and bags	100%
Hy-Sil Manufacturing Company Inc	USA	Manufacture of gift wrapping paper, bows and ribbons	100%
The Shenzhen Gift International Greetings Company Limited	China	Manufacture of Christmas crackers	100%

13 Stocks

	Group	
	2003	2002
	£000	£000
Raw materials and consumables	**4,453**	6,797
Work in progress	**2,883**	2,790
Finished goods and goods for resale	**14,524**	15,474
	21,860	25,061

14 Debtors

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Trade debtors	**6,978**	10,208	**8**	4
Amounts owed by group undertakings	**-**	–	**205**	381
Other debtors	**596**	3,243	**159**	–
Prepayments	**2,095**	2,904	**154**	264
Overseâs corporation tax recoverable	**187**	–	**-**	–
Deferred tax asset (note 18)	**-**	–	**77**	87
	9,856	16,355	**603**	736

The deferred tax asset in the company is recoverable after more than one year.

Notes
(forming part of the financial statements)

15 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Secured bank loans (see note 16)	**218**	531	**-**	-
Bank overdrafts	**4,434**	9,773	**886**	-
Trade creditors	**7,230**	9,580	**91**	2,090
Bills of exchange payable	**-**	989	**-**	989
Amounts owed to group undertakings	**-**	-	**360**	140
Corporation tax	**2,079**	1,096	**241**	165
Overseas corporation tax	**17**	96	**-**	-
Other taxes and social security	**383**	-	**-**	33
Other creditors	**1,221**	360	**219**	624
Accruals	**3,823**	4,379	**619**	-
Obligations under finance leases and hire purchase contracts	**184**	139	**-**	-
Proposed dividend	**1,849**	1,356	**1,849**	1,356
	21,438	28,299	**4,265**	5,397

The bank loans and overdrafts are secured by a fixed charge on certain of the Group's land and buildings, a fixed charge over certain of the Group's book debts and a floating charge on certain of the Group's other assets.

16 Creditors: amounts falling due after more than one year

	Group	
	2003	2002
	£000	£00
Due between one and two years:		
Secured bank loans (see below)	**101**	448
Finance leases	**177**	202
Due between two and five years:		
Secured bank loans (see below)	**335**	611
Finance leases	**471**	44
Due after more than five years:		
Secured bank loans (see below)	**1,194**	2,172
	2,278	3,477

16 Creditors: amounts falling due after more than one year (continued)

Secured loans

	Group	
	2003	2002
	£000	£000
Loan 1	**-**	192
Loan 2	**-**	1,084
Loan 3	**123**	527
Loan 4	**1,725**	1,959
	1,848	3,762

Loans 1 and 2

Loans 1 and 2 have been repaid in full during the year.

Loan 3

The principal is repayable monthly on a reducing balance basis over a 3 year period, which commenced in September 2000. The loan is secured by a charge over the assets of Hysil Manufacturing Co Inc., the group's US subsidiary, and is subject to interest at a rate linked to US $ LIBOR.

Loan 4

The principal is repayable monthly on a reducing balance basis over a 15 year period, which commenced in April 2002. The loan is secured over the freehold land and buildings and the contents therein of Hysil Manufacturing Co Inc. and is subject to interest at a rate linked to US $ LIBOR.

17 Treasury operations

The Group's policy is to finance its long term requirements by a mixture of bank loans, finance leases and hire purchase. Bank loans are used primarily for property funding, where the asset has a long term use within the business, and finance leases and hire purchase agreements are used where appropriate for the medium term finance of plant and equipment. Bank loans tend to be at variable rates of interest whereas finance leases and hire purchase agreements are mainly at fixed rates of interest. Working capital funding requirements during the year are matched primarily by bank overdraft funding from facilities provided by the Group's principal bankers. Such borrowings are at variable interest rates. The interest rate risk profile of the Group's borrowings is set out below.

The Group operates in two principal functional currencies, being Sterling and US Dollar. Both long term and working capital borrowings and facilities are split between these currencies to reduce the risk of exposure to currency fluctuations.

17 Treasury operations (continued)

Interest rate risk profile of financial assets and liabilities

				Fixed rate	
Financial assets/(liabilities)	Total £000	Floating £000	Fixed £000	Weighted average rate at 31 March 2003 %	Weighted average time for which rate is fixed Months
Cash at bank and in hand	10,547	407	10,140	3.5	1
Bank overdraft	(4,434)	(4,434)	–	–	–
Bank loans	(1,848)	–	(1,848)	4.5	146
Obligations under asset financing	(832)	–	(832)	5.1	54
Net financial assets/(liabilities)	**3,433**	**(4,027)**	**7,460**	**3.6**	**26**

Exchange rate profile of financial assets and liabilities

Currency	Financial assets £000	Financial liabilities £000	Net book value £000
Sterling (floating and fixed)	10,140	(70)	10,070
US Dollar (floating and fixed)	243	(7,044)	(6,801)
Hong Kong Dollar (floating)	164	–	164
	10,547	**(7,114)**	**3,433**

Currency exposure

As at 31 March there were the following assets and liabilities denominated in currencies other than the functional currency of the business to which they relate:

Financial assets/(liabilities)	**2003 £000**	2002 £000
US Dollar	**(4,112)**	(83)
Hong Kong Dollar	**164**	–
	(3,948)	(83)

Fair value of financial liabilities

There is no material difference between the book values and fair values of the Group's financial liabilities as at 31 March 2003.

18 Provisions for liabilities and charges

Deferred taxation	Group £000
At beginning of year	800
Exchange differences	(14)
Charge for the year – UK	(308)
– Overseas	(84)
At end of year	**394**

In accordance with Financial Reporting Standard 19: Deferred Tax, full provision has been made for deferred taxation at 30% except where otherwise required by the standard.

As allowed by the standard, deferred tax of £580,000 (2002: £411,000) is unprovided on gains on capital disposals rolled over into replacement assets and where grants have reduced the tax cost of properties for use in capital gains calculations on future disposals (see note 7c).

Group

Deferred tax liability/(asset)	2003 £000	2002 £000
Difference between accumulated depreciation and capital allowances	**701**	979
Other timing differences	**(307)**	(179)
	394	800

Company

Deferred tax asset (see note 14)	2003 £000	2002 £000
Difference between accumulated depreciation and capital allowances	**(75)**	(75)
Other timing differences	**(2)**	(12)
	(77)	(87)

19 Deferred income

Government grants

	Group 2003 £000	Group 2002 £000
At beginning of year	**581**	750
Receivable during the year	**2,728**	–
	3,309	750
Credited to operating profit	**(293)**	(169)
At end of year	**3,016**	581

20 Called up share capital

	2003 £000	2002 £000
Authorised		
60,948,860 (2002: 60,948,860) ordinary shares of 5p each	**3,047**	3,047
9% cumulative redeemable preference shares of £1 each	**3,000**	3,000
	6,047	6,047
Allotted, called up and fully paid		
41,540,591 (2002: 41,080,591) ordinary shares of 5p each	**2,077**	2,054

During the year employees exercised options over 460,000 ordinary shares at an average price of 70.5p per share.

Options

Options to subscribe for ordinary shares have been granted, pursuant to the Company's Employee Share Option Scheme, which are exercisable at dates ranging up to February 2010. At 31 March 2003, outstanding options were as follows:

Number of ordinary shares	Exercise price (p)	Exercise dates
32,500	39.0	10/10/96 – 09/09/2002
90,000	41.7	13/03/99 – 12/03/2005
350,000	76.7	29/01/98 – 28/01/2004
285,000	88.3	28/03/98 – 27/03/2004
270,000	135.7	30/03/01 – 29/03/2007
27,000	136.7	13/03/99 – 12/03/2005
10,000	145.8	13/03/99 – 12/03/2005
178,500	185.0	17/07/03 – 16/07/2009
30,000	212.0	15/02/04 – 14/02/2010
150,000	230.0	08/05/03 – 09/05/2009
12,000	237.0	26/02/03 – 25/02/2009
32,500	355.0	16/08/02 – 15/08/2008

21 Reserves

		Other reserves			
Group	Share premium account £000	Capital redemption reserve £000	Foreign exchange reserves £000	Total other reserves £000	Profit and loss account £000
At beginning of year	780	1,334	284	1,618	28,508
Retained profit for the financial year	–	–	–	–	5,247
Premium on issue of shares	301	–	–	–	–
Exchange adjustments	–	–	(602)	(602)	–
At end of year	**1,081**	**1,334**	**(318)**	**1,016**	**33,755**

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which was written off directly to reserves is £1,105,000 (2002: £1,105,000).

21 Reserves (continued)

Company	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	780	1,334	8,601
Retained profit for the financial year	–	–	5,617
Premium on issue of shares	301	–	–
At end of year	**1,081**	**1,334**	**14,218**

22 Earnings per share

	2003	2002
Earnings per share excluding exceptional items	**18.5p**	15.3p
Loss per share on exceptional items	**-**	(0.7p)
Basic earnings per share	**18.5p**	14.6p
Diluted earnings per share	**18.3p**	14.2p

The basic earnings per share is based on the earnings of £7,632,000 (2002: £5,969,000) and the weighted average number of ordinary shares in issue of 41,229,758 (2002: 40,864,758). The calculation of diluted earnings per share is based on 41,760,588 (2002: 41,907,777) ordinary shares. The difference of 530,830 (2002: 1,043,019) represents the dilutive effect of outstanding employee share options which has been calculated in accordance with FRS 14.

Earnings per share excluding exceptional items is based upon the earnings for the year ended 31 March 2002 as above after adjusting for the exceptional item of £420,000 and the tax relief thereon.

23 Reconciliations of movements in shareholders' funds

	Group		**Company**	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Profit for the financial year	**7,632**	5,969	**8,002**	2,785
Dividends	**(2,385)**	(1,849)	**(2,385)**	(1,849)
	5,247	4,120	**5,617**	936
Other recognised gains and losses relating to the year (net)	**(602)**	–	**-**	–
New share capital subscribed	**324**	172	**324**	172
Net addition to shareholders' funds	**4,969**	4,292	**5,941**	1,108
Opening shareholders' funds	**32,960**	28,668	**12,769**	11,661
Closing shareholders' funds	**37,929**	32,960	**18,710**	12,769

24 Contingencies

The company has given, together with its UK subsidiary undertakings, an unlimited composite joint and several guarantee in respect of the bank loans and overdrafts of itself and those companies. The total of this guarantee at the year end, in relation to the company only, was £17,754,000 (2002: £20,560,000) in excess of the amount dealt with in the company's financial statements. No such contingent liability arises under this guarantee for the Group.

Notes
(forming part of the financial statements)

25 Commitments
Contracted capital commitments at the end of the financial year for which no provision has been made are as follows:

	2003 £000	2002 £000
Group	325	495
Company	Nil	Nil

Annual commitments under non-cancellable operating leases are as follows:

	2003 Land and buildings £000	2003 Other £000	2002 Land and buildings £000	2002 Other £000
Group				
Operating leases which expire:				
Within one year	19	-	439	1
In the second and fifth years inclusive	152	19	610	45
Over five years	679	-	362	-
	850	19	1,411	46

26 Related party transactions
The Group made sales of goods of £207,000 (2002: £283,000) to Hedlunds Pappers Industri AB. SA Hedlund is a director of Hedlunds Pappers Industri AB which is under the ultimate control of the Hedlund family. The Group also made sales of goods of £277,000 (2002: £222,000) to and purchases of goods of £27,000 (2002: £1,000) from Festive Productions Limited, a subsidiary undertaking of Malios AG, a company under the ultimate control of the Hedlund family. The Group also made sales of goods of £444,000 (2002: £330,000) to and made purchases of goods of £212,000 (2002: £151,000) from AB Alrick Hedlund. AB Alrick Hedlund is under the ultimate control of the Hedlund family.

At 31 March 2003, Hedlunds Pappers Industri AB owed the Group £40,000 (2002: £66,000), AB Alrick Hedlund owed the Group £14,000 (2002: £25,000) and Festive Productions Limited owed the Group £Nil (2002: £55,000). The above trading takes place in the ordinary course of business and on normal commercial terms.

27 Reconciliation of operating profit to net cash inflow from operating activities

	2003 £000	2002 £000
Operating profit	11,621	10,562
Exceptional costs	-	(420)
Depreciation charge	3,922	3,825
Decrease in stocks	2,365	1,580
Decrease in debtors	5,990	2,607
(Decrease) in creditors	(1,270)	(2,445)
Grant income	(293)	(169)
Goodwill amortisation	175	176
Net cash inflow from operating activities	22,510	15,716

28 Gross cash flows

	Cash inflow/(outflow) 2003 £000	2002 £000
Returns on investment and servicing of finance		
Net interest paid	**(678)**	(1,567)
Interest element of finance lease repayments	**(29)**	(82)
	(707)	(1,649)
Capital expenditure		
Purchase of tangible fixed assets	**(2,242)**	(8,453)
Disposal of tangible fixed assets	**266**	211
Grants received in relation to capital expenditure	**2,728**	–
	752	(8,242)
Financing		
New shares issued	**324**	172
New loans	**–**	1,959
Repayment of amounts borrowed	**(1,662)**	(461)
Capital element of finance lease payments	**(215)**	(190)
	(1,553)	1,480

£695,000 (2002: £258,000) of fixed assets were acquired in the year under finance leases. There was no cash movement in respect of these transactions.

29 Analysis of movement in net funds/(debt)

	At 1 April 2002 £000	Cash flow £000	Exchange movement £000	Other changes £000	At 31 March 2003 £000
Cash at bank and in hand	2	10,545	–	–	**10,547**
Overdrafts and bills of exchange	(10,762)	5,585	743	–	**(4,434)**
	(10,760)	16,130	743	–	**6,113**
Debt due after one year	(3,231)	1,179	204	218	**(1,630)**
Debt due within one year	(531)	483	48	(218)	**(218)**
Finance leases	(385)	215	33	(695)	**(832)**
	(4,147)	1,877	285	(695)	**(2,680)**
Total net funds/(debt)	(14,907)	18,007	1,028	(695)	**3,433**