

James Cropper PLC

Annual Report 2010

for the period ended
27 March 2010

Registered number 30226



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ADMIRALTY PAPER CHARTS

The United Kingdom Hydrographic Office

James Cropper Speciality Papers Limited supplies water-marked paper to the UK Hydrographic Office for use in the production of Admiralty charts. These charts require paper that is strong, smooth and dimensionally stable in large sheet form to be able to withstand the rigours of repeated use on board vessels.

The UK Hydrographic Office produces a global range of electronic and paper nautical charts, publications and services for naval, commercial, emergency service and leisure users. These have been developed over 200 years and use the very latest techniques to continue to help protect lives at sea today.

The UK Hydrographic Office's processes comply with the exacting standards of the Safety of Life at Sea (SOLAS) Regulations worldwide and are also certified to ISO9001:2000. Efficient systems allow the UK Hydrographic Office to promptly advise ship owners of revisions and to distribute charts worldwide. The paper is watermarked to allow proof of Admiralty production. Despite the growth of electronic methods of navigational aids, the paper chart is still considered the most reliable method of ensuring safety at sea.

Nautical charts have been in use since devised by the Dutch in 1584 when Lucas Waghenaeer produced his sailing guide, the "Spiegel der Zeevaerdt" or mariners' mirror. The Dutch dominated the chart market for the next century to the extent that the author's name was colloquialised to Waggoner and all sea charts became called 'waggoners'. The French formed the first official government mapping agency in 1720, with the British Admiralty establishing the Hydrographic Office in 1795. With the growth of British economic and naval influence, Admiralty charts became universal in coverage and used throughout the world, a situation that continues to the present day.

Admiralty charts are still considered essential on most ships. Any vessel registered on the Lloyds List must use current Admiralty charts otherwise it would lose its insurance cover. Charts need to present an accurate profile of the seabed and coast with up to date markings showing such transient features as sand bars and wrecks. This need for current accuracy means that a significant part of the UK Hydrographic Office's activities is devoted to producing revisions of existing charts.

Admiralty Standard Nautical Charts are ideal for professional, commercial and recreational use. Charts within the series consist of a range of scales, useful for passage planning, ocean crossings, coastal navigation and entering port. Mariners should always use the largest scale nautical chart appropriate to their needs. The UK Hydrographic Office produces over 3,300 Standard Nautical Charts and a wide range of thematic charts for specialist requirements that provide additional information which can be used alongside the Standard Nautical Charts.

These include

The World Time Zone Chart

This chart was originally devised so that mariners, in any part of the world, could relate their local time to standard Greenwich Mean Time. The course of the International Date Line is depicted.

Admiralty Routeing Charts

These charts are essential for use in passage planning for ocean voyages. They include routes and distances between major ports, ocean currents, ice limits, load lines and wind roses, with expected meteorological and oceanographic conditions for each month of the year. Five charts cover the oceans of the world, North Atlantic, South Atlantic, North Pacific, South Pacific and the Indian Ocean.

Admiralty Routeing Guides

Routeing Guides provide important passage planning information in addition to details of traffic separation schemes for the major shipping areas of the English Channel, North Sea, Gulf of Suez, Malacca and Singapore Straits.

Planning Charts

Planning Charts are designed to assist the planning process and can also be used for educational, travel and decorative purposes. They are a series of small scale charts covering significant ports throughout the world that are available in various scales.

Co-tidal Charts

Co-tidal and Co-range Charts are used primarily to predict offshore tidal conditions.

Astronomical Charts

Astronomical Charts facilitate the accurate plotting of a ship's position from astronomical observations.

Gnomonic Charts

These charts are used in passage planning to plot great circle routes as a straight line. They are useful for devising composite rhumb line courses.

Magnetic Variation Charts

These charts show the variation of magnetic fields. While local information is shown on all charts, this series provides more detailed coverage on a worldwide level.

Meteorological Charts and Diagrams

These charts form a series of 27 meteorological working charts.

Hydrographic and oceanographic surveying is the responsibility of the Royal Navy's Surveying Service, which has been operating throughout the world since the formation of the Hydrographic Office. The Surveying Flotilla consists of ocean-going ships, coastal vessels and inshore craft. In addition to surveying in overseas areas, ships of the flotilla are constantly engaged in updating the charts covering the waters around the United Kingdom. To carry out these wide-ranging tasks the latest surveying techniques are employed, including digitised echo sounders, side scan sonars, automated plotting and recording of position, depth, gravity and magnetic parameters. Satellite and inertial navigation systems are used when out of range of shore-based position fixing systems. Systematic survey of the UK's coastal waters is also carried out by the Maritime and Coastguard Agency.

Our Company Goal

To prosper and grow through developing a portfolio of complementary and successful business activities

Our Values

The beliefs and standards by which we will deliver our Company Goal

- Improving profitability and having the drive to succeed
- An absolute commitment to safety and the environment
- Valuing customers as the lifeblood of our business
- Developing the potential of our employees in a stimulating and enjoyable workplace
- Treating everyone with dignity and respect
- Being enthusiastic about doing things better
- Making a positive contribution to our community
- Having integrity and high standards in everything we do

PRIDE AWARDS 2009

The Pride Awards were introduced in 2009. Employees are nominated by their colleagues for special merit under the following categories that mirror the Group's values. Winners are selected by a panel comprising employees across the Group.

Safety Improvement

Winner

Peter Lightley (JCSP – Raw Materials Team Leader)

Peter was nominated for his pro active and enthusiastic approach to hazard spotting and corrective action

Innovation & Creativity

Winner

Neil Harrison (JCSP Engineering Craftsman)

Neil was nominated for his ability to create solutions to problems encountered by the Engineering Department

The Community

Joint Winner

Helena Weiss (IT Support)

Helena was nominated for her long standing voluntary and unpaid work at weekends for the St John's Ambulance throughout the local area

Joint Winner

Shaun O'Sullivan (Engineering Project Manager)

Shaun was nominated for his work as Secretary of the Bryce Institute, Burneside

Customer Service

Internal Customer Winner

Simon Willacy (JCSP Embosser Operator)

Whilst on secondment to the Planning Department, Simon demonstrated his high level of commitment to customer service. His proactive approach to the role resulted in an improvement in delivery performance

External Customer Winner

Lynda Little (TPMS Supervisor, Antrim)

Lynda was nominated for her helpfulness to customers and enthusiasm for our products. She often spends hours at home producing samples for demo days

Support for Colleagues

Winner

Keith Duckett (JCSP Engineering Craftsman)

Keith was nominated for his ability and willingness to help others, especially our engineering apprentices

Taking Pride

Winner

Andrew Prosser (JCSP UK Sales Manager)

Andrew was nominated for actively demonstrating pride in his work with customers and colleagues throughout his career. He has made a significant contribution to the business through his enthusiasm and positive attitude

REFLECTIONS OF A CHAIRMAN

The year just past

I am delighted to report, in my final year as Chairman, that the profit before tax has increased from £858,000 to £2,416,000, in a year still affected by the recession and that we have been able to restore and increase the dividend. Prior to the IAS 19 net pension charge the Group recorded a trading profit before tax of £3,297,000 compared to £1,108,000 in 2009.

The star performer of the four subsidiaries has been James Cropper Speciality Papers ("Speciality Papers") with operating profit of £3,437,000 as against a loss of £310,000 last year. Profitability benefited from a reduction in the cost of gas and pulp in the first six months from the exceptional high levels of twelve months ago. However pulp prices rose sharply in the second half of the year, the costs of which were mitigated by an increase in turnover of 6%.

Technical Fibre Products ("TFP") suffered from a substantial reduction in turnover in the first half year as customers de-stocked but has since recovered well.

Continuity and Ambition

I became the fifth generation of my family to become Chairman on 31 March 1971, 39 years ago, when my cousin Derek Willink retired as Chairman after taking over on the early death of my father in 1967. The Willink family connection has continued with both his son Nicholas and now his grandson, Patrick, serving on the Board.

It was my ambition then and now for the Company to grow substantially and prosper as an independent business with family involvement and shareholding in a contracting paper industry. I am proud that we have achieved this in an industry which in the UK has seen a reduction in the number of paper mills from 195 in 1970 to 48 today. The profitability of the Group and family shareholding enabled us to successfully resist the many approaches to surrender our independence during this long period of paper industry contraction.

In my 43 years as a director there have only been three years when we have made small losses. The last two in 2001 and 2006 were when pulp and energy costs respectively more than doubled.

Modernisation

Continued modernisation has been a key element of our success over my period of Chairmanship.

A £40 million reconstruction programme from 1974 to 1991 saw the building of three new Fourdrinier machines and the modernisation of a fourth. This doubled capacity and enabled us to withdraw from making crude and strong papers with the closure of three MG paper machines to become a world class producer of coloured and specialised grades at higher margins.

Nick Willink, Managing Director of the then Papermaking Division and Peter Charlton, Engineering Director together led the major engineering projects. John Larking, Sales Director, was the driving force behind the radical modernisation of the sales and marketing strategy which doubled our sales tonnage from 22,000 tonnes in 1967. Oliver Acland, Personnel Director, focused on modernising the workplace and creating a skilled and knowledgeable workforce through training and personal development. Our employees enthusiastically embraced the many operating changes and the Company became a financially rewarding, fairer and much safer workplace.

John Sclater and John Southwell, our two non-executive directors at the time, gave me extensive support over this period. With their help I managed to obtain supportive bankers and lessors for borrowings that peaked in 1991 at £21 million, with a gearing level of 110%. At the close of the past financial year gearing was nil.

Diversification

Another key element of our success was the decision in the mid 1980's to diversify into other paper related businesses. John Larking pioneered the establishment of TFP in 1984 and the Converting Division in 1987, with separate manufacturing facilities being provided in 1987 and 1994 respectively. Our strategy was to create businesses less reliant on the vagaries of the pulp pricing cycle which that can so dramatically effect the profits of Speciality Papers.

I have been fortunate to have had an able new team of directors that consolidated this strategy under Alun Lewis who took over from me as Chief Executive in 2001. This was graphically illustrated in 2008/09 with TFP making an operating profit of £2 million as against the loss of £310,000 in Speciality Papers.

James Cropper with retiring Chief Engineer Jim Hill and Mrs Hill by one of the new gas and oil fired boilers, 1974

The Board, 1989. From left to right Oliver Acland, Nick Willink, James Cropper, Peter Charlton, John Larking, John Southwell. The team that drove forward the Modernisation and Diversification Programme from 1974 - 1991

1971-2010

My personal highlights

It has been very difficult for me to pick out the personal highlights of my career as Chairman but my top 10 must be

1974

The commissioning of four gas and oil fired boilers that replaced coal fired boilers by our retiring Chief Engineer Jim Hill. This event also marked the closure of our tramway connection that brought coal directly into the mill from the main rail network

1980

The rebuilding of our No. 4 twin-wire Fourdrinier Machine, a key element in our modernisation programme, at a cost of over £4 million helped by Government grants of £1.1 million

1988 – 1990

Being President of The Paper Federation of Great Britain

1989

The celebration of our 100th Annual General Meeting since becoming a limited company, with Viscount Whitelaw as our chief guest

1991

The replacement of No. 3 MG Machine with a single-wire Fourdrinier Machine, the most expensive project in the Group's history at a cost of £10 million. It produced good paper within two hours of starting up!

1992

The visit of HRH Princess Alexandra to our Mill

1992

The presentation of the Order of the Lion of Finland to me by the Finnish Ambassador to mark the 75th Anniversary of Fincell, the Finnish central pulp buying organisation and our association as one of their original customers

1995

The 150th Anniversary of the Group's founding with three days of celebration for distinguished guests from our industry, customers, suppliers and county, followed by a Fun Day for all of our employees and their families

1996

Our most profitable year to date, with Profit before Tax of £5million, resulting from benign pulp prices throughout and a more than full order book. A target for the new Chairman to achieve as soon as possible!

2004

Mark Cropper published his book 'The Leaves We Write On', a very well researched and received history of James Cropper plc

People

Over my period as Chairman our success and continuing existence has only been achieved through a loyal, dedicated and hardworking team of directors, managers and workforce and very supportive customers, suppliers, bankers and shareholders

I am particularly pleased to be able to hand over at the Annual General Meeting to my son Mark, as sixth generation Chairman, a prosperous and substantial diversified business employing 480 people at Burnside and 120 elsewhere

He will have every incentive and encouragement from our Group Board to further improve the profitability of our long standing Group and ensure we remain independent

I thank all those involved for enabling me to achieve my ambition of sustaining and growing the business founded by my Great, Great Grandfather James Cropper in 1845

James Cropper
Chairman

The team that consolidated the diversification strategy, left to right, Nigel Read, George Quayle, David Wilks, Alun Lewis, John Sclater, James Cropper, Patrick Willink, Peter Herring, John Southwell,

SUMMARY OF RESULTS

| Profit and Loss Summary £'000 | IFRS basis | | | | |
|---|------------|----------|----------|----------|----------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Group turnover £'000 | 76,230 | 74,803 | 72,744 | 69,085 | 64,201 |
| Trading profit before interest | 3,568 | 1,556 | 2,365 | 2,976 | 860 |
| Depreciation | 3,138 | 3,179 | 3,280 | 3,315 | 3,715 |
| EBITDA (before IAS 19 pension adjustment) | 6,706 | 4,735 | 5,645 | 6,291 | 4,575 |
| Trading activities | | | | | |
| Technical Fibre Products | 1,327 | 2,099 | 1,426 | 2,053 | 777 |
| Speciality Papers | 3,437 | (310) | 1,281 | 1,435 | (247) |
| Converting | 446 | 406 | 548 | 460 | 62 |
| The Paper Mill Shop | (446) | (388) | (358) | (358) | 241 |
| Other Group expenses | (321) | (19) | (147) | (86) | - |
| | 4,443 | 1,788 | 2,750 | 3,504 | 833 |
| Director and employee bonuses | (875) | (232) | (324) | (433) | - |
| Trading operating profit | 3,568 | 1,556 | 2,426 | 3,071 | 833 |
| Profit on sale of trade investment | - | - | - | - | 116 |
| Joint venture | - | - | (61) | (95) | (89) |
| Trading profit before interest | 3,568 | 1,556 | 2,365 | 2,976 | 860 |
| Net interest | (271) | (448) | (402) | (438) | (511) |
| Trading profit before tax | 3,297 | 1,108 | 1,963 | 2,538 | 349 |
| (After future service pension contributions paid) | | | | | |
| Net IAS 19 pension adjustments to | | | | | |
| Operating profit | (255) | (476) | (610) | (610) | (364) |
| Net interest | (626) | 226 | 227 | 179 | (114) |
| Net IAS 19 pension adjustment before tax | (881) | (250) | (383) | (431) | (478) |
| Overall Group after pension adjustments | | | | | |
| Operating profit | 3,313 | 1,080 | 1,816 | 2,461 | 469 |
| Profit on sale of trade investment | - | - | - | - | 116 |
| Joint venture | - | - | (61) | (95) | (89) |
| Profit before interest | 3,313 | 1,080 | 1,755 | 2,366 | 496 |
| Net interest | (897) | (222) | (175) | (259) | (625) |
| Profit/(loss) before tax | 2,416 | 858 | 1,580 | 2,107 | (129) |
| Earnings/(Losses) per Share - diluted | 21.1p | (1.0p) | 14.0p | 16.2p | (1.2p) |
| Dividends per Share | 7.5p | 5.1p | 7.3p | 7.0p | 4.1p |
| Balance Sheet Summary £'000 | | | | | |
| Non-pension assets - excluding cash | 43,852 | 43,753 | 45,616 | 45,758 | 46,668 |
| Non-pension liabilities - excluding borrowings | (15,800) | (12,592) | (12,640) | (13,505) | (11,993) |
| | 28,052 | 31,161 | 32,976 | 32,253 | 34,675 |
| Net IAS 19 pension deficit (after deferred tax) | (10,210) | (6,535) | (1,299) | (4,306) | (7,221) |
| | 17,842 | 24,626 | 31,677 | 27,947 | 27,454 |
| Net borrowings | (31) | (4,452) | (6,016) | (5,294) | (8,595) |
| Equity shareholders' funds | 17,811 | 20,174 | 25,661 | 22,653 | 18,859 |
| Gearing % - before IAS 19 deficit | 0 | 17 | 22 | 20 | 33 |
| Gearing % - after IAS 19 deficit | 0 | 22 | 23 | 23 | 46 |
| Capital Expenditure £'000 | 1,228 | 1,333 | 2,337 | 2,756 | 2,889 |

All references to

1 "Trading Operating Profit" refers to profits prior to income from joint ventures, other income and expenditure, interest on borrowings and "Net IAS 19 pension adjustment"

2 "Trading Profit before Tax" refers to profits prior to "Net IAS 19 pension adjustment"

3 "Net IAS 19 pension adjustment" in the Profit and Loss Account refer to the net impact on the Profit and Loss Account of the pension schemes' operating costs and finance costs, as described in the IAS 19 section of the Financial Review

DIRECTORS, BANKERS & ADVISERS

Chairman

James A Cropper, BA, FCA – Born 1938 – is the great, great grandson of the founder. He joined the Company in 1966. He became Non-Executive Chairman in 2001. He is also Lord-Lieutenant of Cumbria. James Cropper will resign as Chairman following the AGM on 28 July 2010 but will remain a Non-Executive Director.

Deputy Chairman

Mark Cropper, MA – Born in 1974.

He joined the Board in 2006 and became Deputy Chairman in April 2008. Mark Cropper is the sixth generation of the Cropper family to be involved in the business. He is managing director of Ellergreen Hydro Ltd, a developer of hydro-electric projects, and senior consultant to Turquoise International, which specialises in corporate finance for energy and the environment. He is also a director of Ellergreen Ltd, Ellergreen Tidal Ltd and Logan Gill Hydro Ltd. Mark Cropper will become Chairman following the AGM on 28 July 2010.

Executive Directors

Chief Executive

Managing Director, James Cropper Speciality Papers Ltd

Managing Director, The Paper Mill Shop Company Ltd

Alun I Lewis, BSc, MBA – Born 1957.

He joined the Group in 1987 from Wiggins Teape Limited and the Board in April 1998, becoming Chief Executive in January 2001.

Group Finance Director

John M Denman, BSc, FCA – Born 1952. He joined the Group and the Board in 1995 from Cable & Wireless PLC. He is responsible for Finance, Purchasing, Information Systems and Project Management. He is also a trustee of the James Cropper plc Pension Scheme, Treasurer of the Confederation of Paper Industries Limited and a former director of the Paper Federation of Great Britain Limited.

Sales and Marketing Director, James Cropper Speciality Papers Ltd

Nigel A Read, BA – Born 1954. He joined the Group in 1981 from Robert Fletcher & Sons Limited and the Board in 1998. He is also a trustee of the James Cropper plc Pension Scheme.

Operations Director, James Cropper Speciality Papers Ltd

Patrick J Willink, BSc, MBA – Born 1964 – is also related to the founder. He joined the Group in 1990 from Aquascutum Limited and the Board in 1998.

Managing Director, Technical Fibre Products Ltd

George T Quayle, BSc, C Chem, MRSC – Born 1953. He joined the Group in 1992 from Whatman PLC and the Board in 1998.

Non-Executive Directors

David R Wilks, LLB (Hons) – Born 1954. He joined the Board in April 2004. He is a Director of Wilks & Partners, a management consultancy company he founded in 2001. Prior to this he had extensive manufacturing operations experience with H. J. Heinz and United Biscuits and was a director of ER Consultants.

James Sharp, BA – Born 1967. He joined the Board in 2009. He is a partner of Sinus Equity LLP, an investment firm which specialises in the retail and luxury goods sectors, whose investments include L. K. Bennett and Jeckerson. Previously he was a Director of J. Henry Schroder & Co. Limited, the investment banking arm of Schroders plc.

Peter L Herring, BSc (Econ) – Born 1940. He joined the Board in 1997 and retired from the Board at the AGM held on 29 July 2009.

Company Secretary

David R Carey, FCCA – Born 1947.

He joined the Group in 1974 as Chief Accountant. He became Company Secretary in 1996.

Bankers

Barclays Bank PLC

HSBC Bank PLC

Fortis Bank SA/NV

Independent Auditors

KPMG Audit PLC, Preston

Tax Advisors

PricewaterhouseCoopers LLP, Newcastle upon Tyne

Stockbrokers

Brewin Dolphin Investment Banking

Corporate Lawyers

Dickinson Dees, Newcastle upon Tyne

Registrars

Capita Registrars, Huddersfield

Pension Advisors

Towers Watson, Manchester

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Company Registration No. 30226 (Limited by shares)

CHAIRMAN'S REVIEW

I am delighted to report that the Group recorded a profit before tax of £2,416,000 for the year compared to £858,000 in the previous year. This was after the IAS 19 net pension charge of £881,000. Prior to the IAS 19 net pension charge the profit was £3,297,000 compared to £1,108,000 in 2008/09.

James Cropper Speciality Papers ("Speciality Papers") traded strongly in the financial year continuing the recovery that began in the second half of the previous financial year. By contrast, as I indicated in my Interim Statement of 17 November 2009, sales by Technical Fibre Products ("TFP") were down considerably on the previous year with the consequential impact on TFP's profitability.

Group turnover for the financial year was up 2% to £76,230,000.

Dividends

In view of the Group's strong performance in the year the Board has decided to increase the final dividend from 4.0 pence to 5.3 pence per share making a total dividend for the full year of 7.5 pence compared to 5.1 pence in 2008/09.

James Cropper Speciality Papers ("Speciality Papers") Speciality Papers reported an operating profit of £3,437,000 against an operating loss of £310,000 in the previous year. Turnover grew by £3,110,000 to £52,934,000, a 6% increase. Overall volume was up 4%, with UK and export volumes growing by 2% and 7% respectively. The average selling price increased by 2%.

The price of pulp has been extremely volatile in the past two years. Following the dramatic fall in the price of pulp in 2008/09, Northern Bleached Softwood Kraft ("NBSK") pulp opened the 2009/10 financial year at US\$580/tonne. However, since then, the price has been on a rising trend, driven by supply constraints and continuing demand from China. Supply in the run up to the financial year end was badly affected by the impact of the Chilean earthquake. Chile's four pulp mills, which jointly produced 8% of global pulp supply, have been out of action since this natural disaster struck. By the end of the full year the price of NBSK was US\$880/tonne, level with its previous peak in mid-2008, and an increase of US\$300/tonne on the year, up 52%. Further increases took the price to US\$950 by May 2010. Market forecasters believe that the price of pulp is approaching a plateau and that the price will start to fall in the second half of the current year. The strengthening of £Sterling against the US\$ during the year dampened the impact of the increasing price of pulp to some extent.

Ready supply during the year resulted in relatively benign natural gas prices, with the overall cost of consumption in the year being £2.3 million compared to £4.3 million in the prior year.

Technical Fibre Products ("TFP")

TFP's operating profit for the year was £1,327,000 compared to £2,099,000 in 2008/09, with turnover falling overall by 14% on the previous year to £9,989,000 as a consequence of recessionary pressures on customers' inventories and markets. Sales were down in all sectors with the exception of fire protection which showed strong growth.

Sales into the North American market fell by 17% in US\$ terms. At the average exchange rate for the year, sales to the North American market represented approximately 52% of TFP's turnover in £Sterling terms. Sales to "Rest of the World" were down by 20% in £Sterling terms.

James Cropper Converting ("Converting")

Converting's operating profit was £446,000 compared to £406,000 in the previous year. Turnover increased by 1% to £11,130,000, with volume down by 8% resulting from recessionary pressures. Sales into the North American market remained static in US\$ terms and at the average exchange rate for the year represented approximately 24% of JCC's turnover in £Sterling terms. New sales of high value added grades contributed to the operating profit.

The Paper Mill Shop ("TPMS")

Turnover was £5,516,000, a decrease of £158,000 on the previous year, down 3%. Three under performing outlets closed in the latter part of the year reducing the number of trading outlets to twenty one by the year end. The consequential fall in turnover was partially offset by internet sales, which grew considerably during the year. The operating loss increased by £58,000 to £446,000 over the year. However with only modest investment in capital expenditure cash out flow was restricted to £35,000 as a consequence of a fall in working capital of £317,000 and a depreciation charge of £171,000.

Pensions and International Accounting Standard 19 ("IAS 19")

The Group operates two funded pension schemes providing defined benefits for the majority of its full time employees. Dramatic changes in financial markets over the year had a substantial impact on the IAS 19 valuation at the period end. Although asset values increased significantly during the period this was not great enough to offset the impact of the fall in bond rates which caused liabilities to increase by 36.3%. As a consequence of these changes the gross IAS19 deficit increased by £5,104,000 over the year to £14,180,000. The net charge against profit in the year was £881,000 compared with £250,000 for the year to 28 March 2009. These results once again demonstrate the volatility introduced to company results by this accounting standard.

CHAIRMAN'S REVIEW

continued

Cash and borrowings

The combination of improved profit performance, tight control over working capital and modest capital over the year led to negligible net borrowings at the year end. At 27 March 2010 gross drawn down loans totalled £5.1 million, with £5.1 million held as cash at bank. In addition the Group had undrawn overdraft facilities of £3.4 million, US\$1.0 million and €1.0 million. Gearing at the financial year end, after deduction of the IAS 19 pension deficit, was nil%.

People

The Pride Awards were introduced in 2009 to celebrate the achievements and service of individual employees. Employees were nominated by their colleagues for special merit under categories that mirror the Group's values with the winners being selected by a panel comprising employees from across the Group. I am delighted to say that this scheme will continue on an annual basis. My thanks and congratulations go to the winners and runners-up, their sponsors and the panel of judges.

I would also like to thank all our employees for their diligence and hard work during the past year.

Outlook

I am confident that our marketing led growth plans will progress during the coming year. However the upward movement in pulp prices will impact on the profitability of Speciality Papers in the short term. Price increases are currently being agreed with customers although there will be a time lag as regards implementation.

The value of TFP's order book has increased significantly over the level of six months ago indicating that the impact of the recession on downstream customers is easing. As a consequence I anticipate that TFP's sales to the aerospace, defence, security and consumer electronics sectors will build strongly in the next 12 months.

During the current financial year there will be further closures of under-performing TPMS outlets. At the same time the in-store offering will also change placing more emphasis on sales of paper, thus increasing the overall margin at store level. We expect that these two factors, supplemented by further growth of internet sales, will reduce the loss of TPMS in the coming year.

Borrowing will increase from its current low level as a consequence of increased capital expenditure. Investment will continue to be focused on enhancing our capabilities and on energy and operating efficiencies in our manufacturing subsidiaries.

I am very encouraged by the way the Group has managed to weather the vagaries of the recession. Although the outlook for the global economy remains unclear, I am confident, given our plans, that my successor as Chairman has a strong foundation upon which to build.

James Cropper
Chairman

James Cropper with Jim Sharp

During the year I was pleased to welcome Jim Sharp to the Board. He is a partner of Sirius Equity LLP, an investment firm which specialises in the retail and luxury goods sectors, whose investments include L K Bennett and Jeckerson. Previously he was a Director of J. Henry Schroder & Co Limited, the investment banking arm of Schroders plc. Jim brings considerable financial and management experience with him, which I believe will be of enormous benefit to the Group.

FINANCIAL REVIEW

All references to

"Profit and Loss Account" refers to the Statement of Comprehensive Income
 "Balance Sheet" refers to the Statement of Financial Position
 "Reserves" refers to the Statement of Changes in Equity

Overall performance

- Trading operating profit was £3,568,000 compared to £1,556,000 in the previous year
- Net trading interest charges for the year were £271,000 against £448,000 previously
- Trading Profit before tax was £3,297,000 compared to £1,108,000 in 2009
- The net adverse IAS 19 pension adjustment was £881,000 compared to a net adverse adjustment in the previous year of £250,000
- The Group recorded an overall profit before tax of £2,416,000 for the year. This compares with £858,000 for the previous year
- A tax charge of £608,000 arose with respect to the Trading Profit for the year, an effective rate of 25%
- The Profit after tax was therefore £1,808,000 compared to a Loss after tax of £87,000 in the previous year
- The diluted earnings per share were 21.1 pence for the year compared to a loss of 1.0 pence in 2009
- Shareholders' funds at the year-end were £17,811,000, with net debt of £31,000, resulting in a gearing ratio of nil%

| | 2010 £'000 | 2009 £'000 | Change £'000 | Change % |
|---|---------------|---------------|-----------------|-------------|
| Trading Profit and Loss Account | | | | |
| Turnover | | | | |
| Technical Fibre Products | 9,989 | 11,648 | (1,659) | (14) |
| Speciality Papers | 52,934 | 49,824 | 3,188 | 6 |
| Converting | 11,130 | 10,995 | 58 | 1 |
| The Paper Mill Shop | 5,516 | 5,674 | (158) | (3) |
| | 79,569 | 78,141 | 1,429 | 2 |
| Less inter-segmental sales | (3,339) | (3,338) | (2) | - |
| | 76,230 | 74,803 | 1,427 | 2 |
| Expenses | | | | |
| Raw materials and consumables used | (32,338) | (33,895) | 1,557 | (5) |
| Energy costs | (3,111) | (5,199) | 2,088 | (40) |
| Employee benefit costs * | (19,654) | (17,735) | (1,919) | 11 |
| Depreciation and amortisation | (3,138) | (3,179) | 41 | (1) |
| Other expenses | (14,789) | (13,788) | (1,001) | 7 |
| Other income and changes in inventory | 368 | 549 | (181) | (33) |
| | (72,662) | (73,247) | 585 | (1) |
| Trading operating profit * | 3,568 | 1,556 | 2,012 | 129 |
| (* Before net pension adjustments) | | | | |
| Trading profit before interest | 3,568 | 1,556 | 2,012 | |
| Depreciation | 3,138 | 3,179 | (41) | |
| EBITDA (before IAS 19 pension adjustment) | 6,706 | 4,735 | 1,971 | |
| Profit and Loss Summary | | | | |
| Trading activities | | | | |
| Technical Fibre Products | 1,327 | 2,099 | (772) | |
| Speciality Papers | 3,437 | (310) | 3,747 | |
| Converting | 446 | 406 | 40 | |
| The Paper Mill Shop | (446) | (388) | (58) | |
| Other Group expenses | (321) | (19) | (302) | |
| | 4,443 | 1,788 | 2,655 | |
| Director and employee bonuses | (875) | (232) | (643) | |
| Trading operating profit | 3,568 | 1,556 | 2,012 | |
| Net interest | (271) | (448) | 177 | |
| Trading profit before tax | 3,297 | 1,108 | 2,189 | |
| (After future service pension contributions paid) | | | | |
| Net pension adjustments | | | | |
| Group operating profit | (255) | (476) | 221 | |
| Net interest | (626) | 226 | (852) | |
| Net pension adjustment before tax | (881) | (250) | (631) | |
| Overall Group after pension adjustments | | | | |
| Profit before interest | 3,313 | 1,080 | 2,233 | |
| Net interest | (897) | (222) | (675) | |
| Profit/(Loss) before tax | 2,416 | 858 | 1,558 | |
| Balance Sheet Summary | | | | |
| Non-pension Assets - excl Cash | 43,852 | 43,753 | 99 | |
| Non-pension Liabilities - excl Borrowings | (15,800) | (12,592) | (3,208) | |
| | 28,052 | 31,161 | (3,109) | |
| Net pension liabilities | (10,210) | (6,535) | (3,675) | |
| | 17,842 | 24,626 | (6,784) | |
| Net Borrowings | (31) | (4,452) | 4,421 | |
| Equity shareholders' funds | 17,811 | 20,174 | (2,363) | |
| Gearing % - before IAS 19 deficit | 0 | 17 | | |
| Gearing % - after IAS 19 deficit | 0 | 22 | | |

FINANCIAL REVIEW

continued

Trading Profit and Loss Account

Group turnover was £76,230,000 compared to £74,803,000 last year, up 2%. Overall Group raw material and consumable costs, excluding energy, were £32,338,000 down 5% on last year. The cost of energy consumption decreased over the previous year by £2,088,000 to £3,111,000, down 40%.

TFP's turnover fell overall by 14% on the previous year to £9,989,000 as a consequence of recessionary pressures on customers' inventories and markets. Sales were down in all sectors with the exception of fire protection which showed strong growth. Sales into the North American market fell by 17% in US\$ terms. At the average exchange rate for the year, sales to the North American market represented approximately 52% of TFP's turnover in £Sterling terms. Sales to "Rest of the World" were down by 20% in £Sterling terms.

Speciality Papers' turnover grew by £3,110,000 to £52,934,000, a 6% increase. Overall volume was up 4%, with UK and export volumes growing by 2% and 7% respectively. The average selling price increased by 2%. The price of Northern Bleached Softwood Kraft ("NBSK") pulp opened the financial year at US\$580/tonne and has been on a rising trend since then. By the end of the year the price of NBSK was US\$880/tonne, its previous peak in mid-2008, an increase of US\$300/tonne on the year, up 52%.

Converting's turnover increased by 1% to £11,130,000, with volume down by 8% resulting from recessionary pressures. Sales into the North American market remained static in US\$ terms and at the average exchange rate for the year represented approximately 24% of Converting's turnover in £Sterling terms.

Turnover at The Paper Mill Shop was £5,516,000, a decrease of £158,000 on the previous year, down 3%. Three under performing outlets closed in the latter part of the year reducing the number of trading outlets to twenty one by the year end. With only modest investment in capital expenditure cash out flow was restricted to £35,000 as a consequence of a fall in working capital of £317,000 and a depreciation charge of £171,000. Given the losses incurred by The Paper Mill Shop Limited an impairment review was conducted. The review concluded that there was no requirement for an impairment provision.

Prior to the net IAS 19 pension adjustment employment costs were £19,654,000 compared to £17,735,000 in the previous year, an increase of £1,919,000. This included the cost of internal labour associated with projects totalling £385,000. The average number of people employed decreased from 629 to 625 over the year. For greater analysis of employment costs see Table G.

Other external charges increased from £13,788,000 to £14,789,000 up £1,001,000. This included the cost of materials incorporated in projects, £202,000, foreign exchange losses, £365,000 and increased selling and marketing spend, £333,000.

Taxation

| Table A | Prior years £000 | Current year £000 | Total charge £000 |
|---|------------------------|-------------------------|-------------------------|
| Corporation Tax | (42) | 1069 | 1,027 |
| Deferred Tax | (13) | (406) | (419) |
| | (55) | 663 | 608 |
| Effective tax rate relating to "on-going" profits - % | | | 25% |

Currency Index

Pulp Index in Denominated Currencies

Gas Cost (pence per therm)

Balance Sheet

Shareholders' Funds decreased by £2,363,000 from £20,174,000 at the previous year-end to £17,811,000 as at 27 March 2010. Net borrowings decreased by £4,421,000, whilst other liabilities excluding pensions increased by £3,019,000. The IAS 19 pension deficit net of Deferred Tax increased by £3,675,000.

The overall IAS 19 pension deficit increased by £5,104,000 to £14,180,000. This was off-set by a £1,429,000 increase in the Deferred Tax Asset to £3,970,000. For greater analysis of IAS 19 see Table F.

Capital expenditure was £1,228,000.

Net current assets decreased by £568,000 over the year from £15,297,000 to £14,729,000, with working capital (stocks, debtors, net of creditors) decreasing by £1,921,000 and net cash increasing by £1,353,000. Working capital movements included a £227,000 decrease in stocks and a £3,419,000 increase in trade and other creditors offset by a £1,673,000 increase in trade and other debtors and a £52,000 decrease in current tax liabilities.

Over the year bank loans falling due after more than a year fell by £3,068,000 from £4,954,000 to £1,886,000.

Cash Flow

Summarised cash flow is shown in Table B.

Net cash inflow from operating activities in the year was after deducting past service pension deficit payments of £626,000.

Net cash outflow from investing activities in the year includes capital expenditure totaling £1,228,000.

Total cash and borrowing changes over the year and facilities available are shown in Table C.

At 27 March 2010 the Group had un-drawn overdraft facilities of £3.5 million, US\$1.0 million and €1.0 million. At this date these facilities, which are renewable annually, were valued in total at £5,087,000.

Funds and Capital Expenditure

Gearing

| Table B | 2010 | 2009 | Change |
|--|--------------|--------------|---------------|
| Cash Flow | £'000 | £'000 | £'000 |
| Net cash inflow from operating activities | 6,288 | 3,578 | 2,710 |
| Net cash outflow from investing activities | (1,226) | (1,328) | 102 |
| | 5,062 | 2,250 | 2,812 |
| Net cash flow from financing activities | (2,648) | (1,531) | (1,117) |
| Net increase in cash and cash equivalents | 2,414 | 719 | 1,695 |
| Opening cash and cash equivalents | 2,636 | 1,917 | 719 |
| Closing cash and cash equivalents | 5,050 | 2,636 | 2,414 |

FINANCIAL REVIEW

continued

Foreign Currency

The majority of exports into continental Europe are invoiced in €s. €s are used to purchase € priced pulp and other raw materials sourced from Europe in €s. Similarly, export sales outside Europe are invoiced in US\$ and the receipts fund the purchase of US\$ priced pulp. These steps reduce exposure to foreign currency rate fluctuations. The situation is monitored to ensure that whenever possible currency receipts and payments are matched. Table D compares the opening and closing exchange rates for the financial year.

Overall the Group generated surplus US\$ during the year, which, as a consequence of the strengthened value of the £ against the US\$ had an adverse impact on profitability. Potential foreign currency surpluses or deficits are dealt with by a combination of foreign currency forward selling and forward purchasing contracts.

Pensions

The Group operates two funded pension schemes providing defined benefits for the majority of its full time employees including Executive Directors. Membership of the Schemes has been closed to new members for a number of years in order to contain the Group's exposure to rising pension costs. Since 2001 all new employees have been able to join a defined contribution Group Personal Pension Plan. The Group exposure to employee's GPP plans is limited to a fixed percentage of contractual pay. The latest actuarial "on-going" valuations of the James Cropper plc Pension Scheme (the "Staff Scheme") and the James Cropper plc Works Pension Plan (the "Works Scheme") were conducted as at April 2008. The results of the valuations are shown in Table E. (The next "on-going" valuation will be conducted as at April 2010).

| Table C | 2010 | 2009 | Change |
|--|---------------|----------------|----------------|
| Net debt | £'000 | £'000 | £'000 |
| Cash and cash equivalents | 5,050 | 2,636 | 2,414 |
| Borrowings repayable within one year | (3,195) | (2,134) | (1,061) |
| Net cash | 1,855 | 502 | 1,353 |
| Borrowings non-current | (1,886) | (4,954) | 3,068 |
| Net debt | (31) | (4,452) | 4,421 |
| Facilities | | | |
| Borrowings repayable within one year | 3,195 | 2,134 | 1,061 |
| Borrowings non-current | 1,886 | 4,954 | (3,068) |
| Facilities drawn down | 5,081 | 7,088 | (2,007) |
| Undrawn facilities | 5,087 | 5,172 | (85) |
| Facilities | 10,168 | 12,260 | (2,092) |
| Funds available | | | |
| Cash and cash equivalents | 5,050 | 2,636 | 2,414 |
| Undrawn facilities | 5,087 | 5,172 | (85) |
| Funds available at year end | 10,137 | 7,808 | 2,329 |
| Borrowings repayable within one year | (3,195) | (2,134) | (1,061) |
| Funds available in excess of one year | 6,942 | 5,674 | 1,268 |

| Table D | | US\$ | € |
|-------------------------------|--------------|--------------|------------|
| Currency | | | |
| Opening rate April 2009 v £ | | 1.42 | 1.07 |
| Closing rate March 2010 v £ | | 1.50 | 1.11 |
| Exchange rate movement | % | (5.7) | (3.5) |
| Strengthen/(weaken) v £ | | | |
| Currency transactions in year | | | |
| Sales receipts | '000 | 17,294 | 16,835 |
| Purchase payments | '000 | (16,129) | (16,614) |
| Surplus/(deficit) | '000 | 1,165 | 221 |
| £ @ Opening rate | £'000 | 823 | 206 |
| £ @ Closing rate | £'000 | 778 | 199 |
| Gain/(loss) | £'000 | (45) | (7) |

The dual discount rate approach effectively "books upfront" the higher expected equity returns by reducing the liabilities and showing a smaller deficit than the corporate/government bond approach, which assumed that the Schemes' combined investment portfolio consists of 50% corporate bonds and 50% government bonds. The dual discount rate approach may be considered inappropriate, as the higher return may not ultimately be realised and it could be taken to imply that the accrued liabilities are changing, when actually it is only the split between the investment returns and contributions used to fund them that is changing. The difference between the two "on-going" deficits of £12 million (i.e. £14.9 million minus £2.9 million) is essentially, the extra return of £12 million expected to be covered by higher investment returns relating to higher risk equity weighted assets compared with corporate and government bonds. Thus if the trustees of the two schemes were to transfer the existing Schemes' assets comprising higher risk investments into holdings of 50% corporate bonds and 50% government bonds a combined deficit of £14.9 million would materialise.

Prior to 2008/09 the Group had been paying deficit contributions on an equal monthly basis, totalling £876,000 p.a., with the aim of removing the combined deficit in accordance with the Schemes' agreed Schedules of Contributions. With the agreement of the Schemes' trustees these monthly payments were suspended in December 2008. Total deficit contributions in 2008/09 were £712,000. These monthly payments were resumed in September 2009 and totalled £626,000 in 2009/10. It is the intention of the Board to eliminate the deficits within a period of ten years.

To reduce the risk to the Group and the Schemes the rules of the Staff and Works Schemes have been amended such that annual pension increases be limited to the Retail Prices Index ("RPI") up to a maximum of 2.5% for service accrued after 1 April 2009. In addition there will be no guaranteed minimum increase for service accrued as from that date. Following this change the future service contributions payable by the Group to the Staff and Works Schemes are 12.7% and 8.9% of contractual pay respectively.

IAS 19

IAS 19 requires that actuaries calculate the assets and liabilities of companies' pension schemes based on values and interest rates at their annual balance sheet date. Under IAS 19 pension scheme liabilities are measured on an actuarial basis using the projected unit method. Pension liabilities are discounted at the current rate of return on an AA rated quality corporate bond of equivalent currency and term. The pension scheme assets are measured at fair value at the Balance Sheet date.

| Table E "On-going" actuarial valuations | Basis On-going Dual-Discount Equity/Bonds | Basis On-going 50 50 Corp/ Govern.Bonds |
|--|--|--|
| Discount rate pre-retirement | 7.65% | 5.70% |
| Discount rate post-retirement | 5.70% | 5.70% |
| | £000s | £000s |
| Staff Scheme as at 1 April 2008 | | |
| Assets | 26,873 | 26,873 |
| Liabilities | (29,443) | (34,630) |
| Deficit | (2,570) | (7,757) |
| Funding level - % | 91 | 78 |
| Works Scheme as at 5 April 2008 | | |
| Assets | 30,141 | 30,141 |
| Liabilities | (30,401) | (37,236) |
| Deficit | (260) | (7,095) |
| Funding level - % | 99 | 81 |
| Combined Deficit | (2,830) | (14,852) |

The net of these two figures gives the scheme surplus or deficit. As market values of the scheme assets and the discount factors applied to the scheme liabilities will fluctuate, this method of valuation will often lead to large variations in the "pension balance" year on year. An "on-going" valuation takes account of the projected growth in the pension schemes' assets by asset type over the projected life of the scheme.

The assumptions used by the actuaries for their IAS 19 valuations are likely to be very different from those that they used with regard to their "on-going" valuations.

IAS 19 regards a sponsoring company and its pension schemes as a single accounting entity rather than two or more separate legal entities. The actuarial valuation is the starting point for the creation of the IAS 19 accounting entity. The valuation determines the net position of a pension scheme, i.e. the difference between its assets and liabilities.

FINANCIAL REVIEW

continued

| Table F | Staff | Works | Total | Total | Change | Change |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|
| | 2010 | 2010 | 2010 | 2009 | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | % |
| IAS19 DEFICIT | | | | | | |
| Current Service Charge | (218) | (608) | (826) | (1,300) | 474 | |
| Future service contributions paid | 288 | 283 | 571 | 824 | (253) | |
| Net impact on Operating Profit | 70 | (325) | (255) | (476) | 221 | |
| Finance costs | (229) | (397) | (626) | 226 | (852) | |
| Net impact on Profit and Loss Account | (159) | (722) | (881) | (250) | (631) | |
| Past service deficit contributions paid | 252 | 374 | 626 | 712 | (86) | |
| Actuarial (losses)/gains | (2,023) | (2,826) | (4,849) | (7,734) | 2,885 | |
| Opening deficit | (3,371) | (5,705) | (9,076) | (1,804) | (7,272) | |
| Closing deficit | (5,301) | (8,879) | (14,180) | (9,076) | (5,104) | |
| Deferred Taxation | 1,484 | 2,486 | 3,970 | 2,541 | 1,429 | |
| Net deficit | (3,817) | (6,393) | (10,210) | (6,535) | (3,675) | |
| Assets | 30,778 | 33,172 | 63,950 | 48,257 | 15,693 | 32.5% |
| Liabilities | (36,079) | (42,051) | (78,130) | (57,333) | (20,797) | 36.3% |
| Closing deficit | (5,301) | (8,879) | (14,180) | (9,076) | (5,104) | 56.2% |
| Assets | | | | | | |
| Equities | 16,241 | 19,035 | 35,276 | 24,377 | 10,899 | |
| Gifts and Corporate Bonds | 12,362 | 12,911 | 25,273 | 19,792 | 5,481 | |
| Property | - | 76 | 76 | 147 | (71) | |
| Annuities | 1,901 | - | 1,901 | 2,005 | (104) | |
| Cash | 274 | 1,150 | 1,424 | 1,936 | (512) | |
| | 30,778 | 33,172 | 63,950 | 48,257 | 15,693 | |
| Asset - % | | | | | | |
| Equities | 52.8 | 57.4 | 55.2 | 50.5 | | |
| Gifts and Corporate Bonds | 40.1 | 38.9 | 39.5 | 41.0 | | |
| Property | - | 0.2 | 0.1 | 0.3 | | |
| Annuities | 6.2 | - | 3.0 | 4.2 | | |
| Cash | 0.9 | 3.5 | 2.2 | 4.0 | | |
| | 100.0 | 100.0 | 100.0 | 100.0 | | |

On the introduction of IAS 19 the net position, surplus or deficit, is brought onto the sponsoring company's Balance Sheet such that Reserves are immediately adjusted by the net position reduced by deferred tax. This obviously results in either an increase or decrease in the net asset value of the sponsoring company. Upon valuation at subsequent year-ends the movement in value from the previous valuation is expressed in the following component parts:

Those which affect profit

Operating costs

- Current service charge, being the cost of benefits earned in the current period shown net of employees' contributions
- Past service costs, being the costs of benefit improvements
- Curtailment and settlement costs

Finance costs, being the net of

- Expected return on pension scheme assets
- Interest cost on the accrued pension scheme liabilities

Those that do not affect profit

- Actuarial gains and losses arising from variances against previous actuarial assumptions

The above items are offset in the year-to-year movement by actual contributions paid by the employer in the period.

Table F shows the results of the IAS 19 valuations

Substantial changes in financial markets over the year had a considerable impact on the IAS 19 valuation at the period end. Although asset values increased significantly during the period, up 32.5%, this was not great enough to offset the impact of the fall in bond rates from 6.7% to 5.6%, which caused liabilities to increase by 36.3%. As a consequence of these changes the gross IAS 19 deficit increased by £5,104,000, up 56.2% over the year to £14,180,000. The net charge against profit in the year was £881,000 compared with £250,000 for the year to 28th March 2009.

Actual future service pension contributions paid in the period by the Group to its two final salary schemes in accordance with the actuaries' recommendations, resulting from their latest "on-going" valuations, were £571,000. Under IAS 19 the charge against profit in the year was £826,000. This sum represents an excess charge required by IAS 19 over and above the future service contributions that were actually required by the "on-going" valuations, plus the PPF Levy charge and other expenses relating to the Works Scheme.

Table G analyses employment costs charged against Operating Profit

| Table G | | | |
|--|---------------|---------------|---------------|
| Total adjusted employment costs | 2010 | 2009 | Change |
| | £'000 | £'000 | £'000 |
| Wages and salaries | 16,243 | 15,357 | 886 |
| Director and employee bonuses | 875 | 232 | 643 |
| Social security costs | 1,416 | 1,361 | 55 |
| Future service pension contributions paid | 571 | 824 | (253) |
| Other pension costs | 549 | 329 | 220 |
| Total employment costs | 19,654 | 18,103 | 1,551 |
| Own labour capitalised | - | (368) | 368 |
| Chargeable against Trading Operating Profit | 19,654 | 17,735 | 1,919 |
| Wages and salaries | 16,243 | 15,357 | 886 |
| Director and employee bonuses | 875 | 232 | 643 |
| Social security costs | 1,416 | 1,361 | 55 |
| Current service pension charge (IAS 19) | 826 | 1,300 | (474) |
| Other pension costs | 549 | 329 | 220 |
| Total employment costs | 19,909 | 18,579 | 1,330 |
| Own labour capitalised | - | (368) | 368 |
| Chargeable against Group Operating Profit | 19,909 | 18,211 | 1,698 |
| Difference being | | | |
| Net IAS 19 pension adjustment against operating profit | 255 | 476 | (221) |
| Average monthly number of employees | | | |
| | 625 | 629 | (4) |

BUSINESS REVIEW

Technical Fibre Products

Market Diversity

| USA | | GB | Europe | Korea |
|----------------|------------|--------------|---------------|------------------|
| Aerospace | Energy | Construction | Energy | Energy |
| Electronics | Cryogenics | Industrial | Construction | |
| Energy | Industrial | Land | Industrial | |
| Construction | transport | Land | Land | |
| Industrial | Medical | transport | transport | |
| Land transport | Other | | | |
| Marine | | | | |
| Medical | | | | |
| Other | | | | |
| | | | | Australia |
| | | | | Construction |
| | | | | Marine |

Diversity of markets, applications and products helped shelter our trading position from the dramatic negative impact of global economic turmoil experienced by the majority of industrial markets. On the one hand we saw annualised sales to consumer electronics applications fall rapidly by more than 60%, yet we enjoyed robust growth of over 30% in fire protection products qualified for USA construction and Federal Homeland Security projects. Against the strong comparative of the previous year, the net effect of the turmoil was to reduce annual revenues by 14%. On a like for like basis, sales to the USA in \$US declined by 17% (8% in £Sterling terms). Although the USA market dropped the fastest and was later in recovery than the rest of the world, it still accounted for the largest proportion of £Sterling revenues at 52%. Sales to "Rest of the World" were down by 20% in £Sterling terms.

As a consequence of the slow-down the decision was taken to moth-ball Metal Coated Fiber Inc's ("MCF") facility. This action and others taken to reduce costs, combined with a favourable product mix, prevented erosion of gross margin and enabled delivery of a respectable operating margin of 14% in a very challenging business environment. MCF's facility, which produces components for materials sold into consumer electronics applications, will be re-activated as momentum returns.

During the last few months of the financial year customer confidence has grown, particularly in the aerospace, green energy, land transportation, construction and industrial markets. Several large accounts in these sectors have started to address backlogs and rebuild inventories, resulting in them placing firm forward commitments with TFP. In addition new product development programmes that were put on hold earlier in the year have been rejuvenated.

As we move into the new financial year, with order books strengthening and a robust pipeline of customer sponsored new product developments moving into commercialisation, we expect to get back on track to deliver very attractive earnings growth.

| | 2010 £'000 | 2009 £'000 | Change £'000 | Change % |
|------------------|---------------|---------------|-----------------|-------------|
| Turnover | 9,989 | 11,648 | (1,659) | (14) |
| Operating profit | 1,327 | 2,099 | (772) | |

BUSINESS REVIEW

Speciality Papers

In the Annual Report last year we spoke of 2008/9 as one of the most extraordinary years in our recent history. The following 12 months have possibly been even more dramatic. The first part of the year saw a continuation of recessionary conditions and reduced demand from traditional customers but we were quickly able to compensate for that by winning significant new business particularly in overseas markets. As economic conditions improved through the summer and into the autumn, demand for paper generally increased, the result was that demand for pulp also grew sharply triggering steep increases in fibre prices which rose every month from June onwards. The tragic earthquake in Chile instantly removed 8% of global pulp production from the market and this, together with a number of strikes in Finland and Sweden and fibre supply problems in Russia and the USA, ensured that these pulp price increases were sustained. In response to the unprecedented scale of this cost increase, Speciality Papers endeavoured to recover margin as quickly as possible. However we have had to be mindful of the interests of our customers whose long-term viability could have been damaged by over-aggressive price increases.

Against this turbulent background Speciality Papers made good progress in further penetrating the key market sectors identified in last year's strategic review and this helped to drive increases of 4% in sales volume and 6% in sales value in the year as a whole. Customers have become more demanding in wanting shorter lead times and our Operations departments have generally coped well with the combination of increased volume, more complex products and quicker deliveries.

The new financial year opened with further price increase negotiations with our customers and with quite a full order book. Plans are in place to increase sales and marketing resource in key areas of our business and also to improve planning and production efficiencies so that we can better serve our chosen markets. Much thought is also being applied into how we can better exploit the 'James Cropper' brand, it is clear that the business philosophies and traditions of the Company are greatly valued by many of our stakeholders and by customers in many of our markets and we should promote and emphasise these wherever possible. Our business continues to be challenging but also to offer exciting opportunities as we position ourselves into more valuable and sustainable markets.

| | 2010 £'000 | 2009 £'000 | Change £'000 | Change % |
|-------------------------|---------------|---------------|-----------------|-------------|
| Turnover | 52,934 | 49,824 | 3,110 | 6 |
| Operating profit/(loss) | 3,437 | (310) | 3,747 | |

BUSINESS REVIEW

Converting

Continued healthy growth in sales of digital printing media underlined the increasing importance of this product line. Mountboard sales grew in a challenging market but sales of display boards were impacted by a further reduction in advertising expenditure.

Sales of mountboard are closely related to general activity in the housing market, as people tend to acquire pictures when they move into a new home. UK residential property sales did not recover in 2009 and the US market was similarly affected. However, Converting remains the world's only picture mountboard producer vertically integrated with a paper mill capable of supplying all the elements of the product. This competitive advantage was leveraged to grow sales of archival boxboard products as well as our traditional conservation mountboard ranges, resulting in increased sales volumes overall despite the difficult trading environment.

At the start of the financial year, our growing internet business, www.papermilldirect.com, was transferred to The Paper Mill Shop to allow both Group e-commerce sites to be combined into one, leading to increased focus on this business. Converting continued to grow sales of our digital products to major OEMs, which have become a useful addition to our traditional advertising and picture framing markets.

Overall spending on advertising influences sales of display board. According to the World Advertising Research Center, total spending on advertising in the UK in 2009 was down 12.7% on 2008. Converting has a large market share of the UK display board market and this reduction in activity impacted directly on sales of these products.

Sales volumes of film laminated grades more than doubled relative to the prior year as we developed an innovative product that replaced a traditional PVC product line in what was a new market for us.

We continue to invest in both plant and employees and during the year we implemented a 5S workplace organisation programme. This programme has had a positive impact on efficiencies as well as the appearance of the factory, which has improved substantially. Implementation of a new computer system reduced our reliance on legacy systems and resulted in shop floor data collection being introduced at all production machines.

| | 2010 £'000 | 2009 £'000 | Change £'000 | Change % |
|-------------------------|---------------|---------------|-----------------|-------------|
| Turnover | 11,130 | 10,995 | 135 | 1 |
| Operating profit | 446 | 406 | 40 | |

BUSINESS REVIEW

The Paper Mill Shop

Retail trading conditions remain extremely challenging with the economic downturn making life difficult for many retailers. TPMS has experienced another tough year with turnover down 5% and the operating loss worse than the previous year.

Three under performing stores were closed during the period and there is an ongoing review process of the numbers and locations of stores to identify opportunities to close further under performing stores. With the co-operation of landlords new short term leases have been agreed for a number of the stores. The strategic aim is to have a core number of profitable stores and a successful e-commerce site.

A thorough review of costs in the business has been carried out and we expect to generate further operational efficiencies and cost savings in all areas of the business.

Despite the very tough general economic conditions, our internet business continues to deliver double digit like for like sales improvement year on year. A marketing plan has been developed aimed at increasing footfall and improving the average order value.

In the craft market we are experiencing intense competition from the large multiple retailers and have taken the decision to reposition the business in order to focus on our core strength which is the unbeatable value of the paper and card. During the year sales of craft accessories declined but paper and card performed strongly when compared to the previous year.

We have undertaken a trial in a selected number of stores where the product mix has been changed in order to drive a higher percentage of sales from paper and card and our own labelled products. Early indications are that this initiative is proving to be successful and it is planned to roll out the new merchandising plan across all stores during the coming year.

| | 2010 £'000 | 2009 £'000 | Change £'000 | Change % |
|----------------|---------------|---------------|-----------------|-------------|
| Turnover | 5,516 | 5,674 | (158) | (3) |
| Operating loss | (446) | (388) | (58) | |

HEALTH & SAFETY

The Group's Safety Strategy embraces the need to create well-developed safety management processes and a sound safety culture. The aim of the Strategy is to achieve zero Lost Time Accidents ("LTAs"). By adopting the principle that all LTAs are preventable, management are accepting that it is their responsibility to achieve this aim.

Accidents

There were 10 LTAs in the past financial year compared to 15 in the previous year. The following chart highlights the number of days lost to injuries.

Days lost due to injuries

Policy

During the course of the year the Group's Health & Safety Policy was revised and is reproduced below.

HEALTH & SAFETY POLICY STATEMENT

James Cropper plc has an absolute commitment to safety. This is a fundamental and enduring value of the business.

- 1 We believe that all our activities can be carried out safely and will conduct our business in a way that will prevent injury and ill health to our employees, contractors and anyone else affected by our activities.
- 2 We will ensure that we carry out our duties as set out in legislation and strive to attain best practice to achieve safe working.
- 3 Although overall accountability rests with management everyone at James Cropper plc has responsibility for their own safety and for the safety of others.
- 4 Management will demonstrate committed and enthusiastic leadership in promoting and encouraging a positive health and safety culture.
- 5 We shall seek to engage and involve all employees in maintaining a safe working environment.
- 6 We also believe that it is essential for a successful company to strive for continual improvement in health and safety performance, which will be achieved by setting health and safety objectives and tracking our performance against them through auditing and monitoring behaviours.
- 7 We will identify the hazards and risks of our activities and put control measures in place to prevent them. These will be reviewed in the light of any changes.
- 8 We will train our employees so that they are skilled and qualified to carry out their jobs and select contractors who can demonstrate their competence and ability to work safely.
- 9 We will investigate all work related incidents and near misses, focussing on root causes. Lessons learned from these will be shared across the Company and will be used to prevent recurrence.

Say NO, Say YES

James Cropper plc and our trade union representatives fully support the "Say NO, Say YES" campaign jointly launched by the Confederation of Paper Industries and Unite, the Union. The campaign emphasises that in order to bring about improvements in health and safety performance everyone employed in our industry must work together towards a set of common goals. The need is to develop a partnership based upon mutual trust, respect, co-operation and joint problem solving.

SAY NO to

- ✗ Taking risks
- ✗ Dangerous work
- ✗ Cutting corners
- ✗ Production before health and safety

SAY YES to:

- ✓ Acting on health and safety complaints and queries
- ✓ Working together on risk assessments and SSoW
- ✓ Reporting near misses
- ✓ Joint accident and incident investigations
- ✓ Combined training of managers, supervisors and safety representatives
- ✓ Health and safety – it's good for business

Involvement in health and safety is simply a two-way process where employers and employees

- ✓ Talk to one another
- ✓ Listen to one another's concerns
- ✓ Raise concerns and solve problems together
- ✓ Discuss issues in good time
- ✓ Consider what everyone has to say
- ✓ Make decisions together

ENVIRONMENT

The aims of the Group's Environment Strategy are primarily to

- Identify and deal with those environmental issues that are business critical so that they do not become a constraint on the business
- Establish early and continuing compliance with emerging environmental legislation
- Maintain ISO14001 certification
- Ensure that the approach to compliance and improvements delivers cost saving and efficiency gains
- Improve environmental performance by ensuring accountability for environmental matters are an integral part of the day-to-day management of operational activities
- Devise meaningful measures and targets against which to monitor performance

Over the next few years it is anticipated that there will be a significant increase in output from our manufacturing facility in Burnside. As a consequence there will be a corresponding increase in energy consumption, water abstraction and waste generation. This expansion will take place against the background of increasingly tighter regulatory control by Government agencies, most notably through the terms and conditions of the Group's IPPC Permit to Operate, Climate Change Agreement and the European Union Emission Trading Scheme ("EUETS"). The Group's location on the edge of the Lake District National Park and on the River Kent, a Site of Special Scientific Interest and a European Site, Special Area of Conservation, will ensure that its activities will come under close scrutiny. In addition the rapid increase in energy costs in recent years brings consumption and conservation of energy into sharp business focus particularly when weighed against the background of increasing manufacturing output. Unless managed effectively, a number of energy and environmental issues could constrain the Group from meeting its strategic objectives.

Climate Change Regulations

EUETS, a mandatory scheme for greenhouse gas emission allowance trading within the EU, was introduced in phases from 2005. It is one of the policies being introduced by the EU to tackle emissions of carbon dioxide and other greenhouse gases from a number of specific industrial activities. The Group's power generation facilities became subject to this scheme as from 1 January 2008. Under the Scheme the Group is granted an allowance to emit 41,000 tonnes per annum. The chart displays the Group's actual performance.

EUETS Performance ('000 tonnes of CO₂)

The Group is a signatory to the paper sector Climate Change Agreement ("CCA") negotiated with HM Government by the Confederation of Paper Industries, the industry's trade association. Under the Agreement the Group receives partial exemption from the Climate Change Levy on its natural gas consumption, an 80% discount against the Levy attributable to imported electricity and exemption from Business Rates otherwise chargeable on our CHP plant. In return, the Group is committed to a series of increasingly stringent energy use targets that take effect over milestone target periods, every other year, for the 10-year term of the Agreement. To date the Group has now exceeded all three of its CCA milestones targets for specific energy use per tonne of saleable product.

The Group, along with other UK paper companies, receives considerable assistance and support from the Confederation of Paper Industries in dealing with the myriad of issues that arise in collating and verifying the complex energy and carbon emission data required by HM Government.

"Biomass" project

The proposal to build a "biomass" plant was granted planning permission by Cumbria County Council in 2009. However the feasibility study has had to be extended on technical grounds and it is unlikely that a decision to proceed with the project will be taken during the course of the current financial year. The project is only financially viable if the principal fuel used is solid recovered fuel ("SRF") derived from processed household waste.

Forestry

James Cropper plc continues its policy of purchasing only from those suppliers who demonstrate practical application of sound environmental management. Annually James Cropper Speciality Papers purchases some 40,000 tonnes of virgin wood pulp of the highest environmental pedigree. All of its suppliers are committed to sustainable forest management and comply fully with their local national standards and legislation. They have also attained the International Standards ISO 9000 and ISO 14001 relating to quality and environmental management procedures respectively. In addition to the Group's ISO 14001 accreditation, James Cropper Speciality Papers also holds dual accreditation to FSC (Forest Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification) standards. Certification imposes strict controls, including an auditable chain of custody for pulp sourced by the mill. This enables the subsidiary to satisfy the increasing demand from major customers and end consumers for creditable certification of the source of fibre used in the products they purchase. Our pulp comes substantially from Sweden and Finland from long established suppliers.

RISK MANAGEMENT

The management of risk is fundamental to sound business management and underlying profit performance. Risk management transcends every aspect of the organisation and its activities, affecting policies, employees, assets, customers, suppliers and the wider community. The Group manages risk by a combination of insurance and self-insurance. Self-insurance refers to actions taken internally or in conjunction with other third parties. In broad terms, high risks in financial and operational areas are more dependent on insurance than risks in commercial and personnel areas, which because of their nature are more likely to be managed by self-insurance. In addition to the Audit Committee, which is a mandatory requirement under the Combined Code, the Board has for some time established other Steering Groups with risk management briefs. These include:

- Health & Safety
- Environment
- Insurance
- Human Resources
- Foreign Currency
- Purchasing
- Pensions
- Information Systems
- Energy

The Board sets appropriate policies on internal control. It seeks regular assurance that processes are functioning effectively. In determining its policies with regard to internal control the Board's consideration includes the following factors:

- The extent and categories of risk which it regards as acceptable for the Group to bear,
- The likelihood of the risks concerned materialising,
- The nature and extent of the risks facing the Group,
- The Group's ability to reduce the incidence and impact on the business of risks that do materialise, and
- The costs of operating particular controls relative to the benefit thereby obtained in managing the related risks.

All employees have some responsibility for internal control as part of their accountability for achieving objectives. They, collectively, have the necessary knowledge, skills, information and authority to establish, operate and monitor the systems of internal control. This requires an understanding of the Group, its objectives, the industries and markets in which it operates, and the risks it faces. The Group does not have an internal audit department. However cross-functional teams regularly carry out Health & Safety and Environmental audits. We work with our external auditors and other specialist consultants to identify risks and weaknesses in internal controls.

The Group's operational quality processes and environmental and safety management systems are accredited with ISO 9001, ISO 14001 and OHSAS 18001 respectively. Not only does compliance with these standards form the basis of sound internal control but also they are increasingly important in satisfying customers' aspirations with regard to the management of their supply chains. BSI audits our processes for continuing compliance every six months. TFP is accredited with the Investor in People Award.

Sound internal control is primarily dependent on people understanding the key issues that relate to their area of activity and what they are expected to do in certain circumstances. This understanding stems from the Group's Goal and its Values. The Goal sets the direction. Our Values influence our behaviours. Sound behaviours are critical to the development of successful relationships between people. The Group's strategic aims are encompassed in a comprehensive financial planning and budgeting process with performance monitored on monthly basis. Through our performance management process the Group's strategic aims, plans and budgets are translated into objectives at all levels of the organisation. The performance management process is seen as a key vehicle through which individual employee's performance can be enhanced and developed for the mutual benefit of the individual and organisation as a whole. Training and development increases employees' competencies and therefore enables them to deal with risks more effectively. Clearly defined policies, processes and procedures (P, P & Ps) provide employees with guidance. There has been considerable effort in recent years to document and revise our P, P & Ps across all areas of activity. These allow employees to understand the relevant practices to be deployed. Our information systems are being extensively modernised to provide faster communications and greater accuracy that will enable the organisation to become more efficient and effective. Throughout our organisation we are working strenuously to eliminate waste. All these initiatives will allow us to become more responsive to the needs of our customers and manage our risk exposure more effectively.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to the members their Annual Report and the audited accounts of the Group for the 52 weeks ended 27 March 2010.

The Annual General Meeting of the Group will be held at the Bryce Institute, Burneside on Wednesday, 28 July 2010 at 11 00am

Review of the Business

The Group's principal activities comprise the manufacture and retail of paper and paper related products

The Chairman's Review includes a review of business activities during the year and comments on future developments and prospects. Details of the Group's activities are included in the Divisional Reviews

Results

The profit attributable to equity holders of the Company for the 52 weeks ended 27 March 2010 is set out in the Income Statement. The dividends paid during the year, and the proposed final dividend, are set out in the Notes to the financial statements.

Research and Development

The Group continues to invest in research and development to ensure that the range and quality of products are continually updated

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent

company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance

(i) Directors' Responsibilities

The Board is accountable to the Group's shareholders for corporate governance. Whilst there is no requirement to comply with the Combined Code, the Group is committed to a high standard of corporate governance and this section describes how the relevant principles of governance are applied to the Group.

(ii) The Board

The Group Board considers that it is well balanced and operates in an effective manner and is collectively responsible for the success of the Company. It comprises five Executive Directors and four Non-Executive Directors.

Despite two directors not being independent under the Combined Code, the Board deems all the Non-Executive Directors to be independent even though James Cropper and Mark Cropper have close family ties. They display independence of character and judgment and provide unequivocal counsel and advice to the Board.

James Cropper, who has been the Chairman of the Company for forty years, hands over at the AGM to Mark Cropper who is currently the Deputy Chairman. The Chairman is responsible for the running of the Board. James Cropper will continue to serve as a Non-Executive Director of the Company.

Alun Lewis is the Chief Executive and is responsible for the running of the Company's business.

David Wilks is the senior independent Non-Executive Director. Jim Sharp was appointed a Non-Executive Director on 1 September 2009 and replaces Peter Herring who retired at last year's AGM.

The Group Board met eight times during the year, with prepared agendas for discussion and formal schedules of items to be approved covering structure and strategy, management, financial reporting and controls, board membership and committees, and corporate governance. There is a schedule of matters reserved for the Board's decision.

The Executive Committee, under the chairmanship of Alun Lewis, met twelve times during the year with prepared agendas for discussion.

All Directors have access to the advice and services of the Company Secretary. The Board has also established a formal procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice, if necessary, at the Company's expense. All Directors are aware of their responsibility to regularly update their skills and knowledge.

REPORT OF THE DIRECTORS

continued

Corporate Governance continued

(III) Board Committees

There are four sub-committees reporting to the Group Board

- Executive Committee
- Remuneration & Management Development Committee
- Audit Committee
- Nomination Committee

The Executive Committee comprises the executive directors and one senior executive. The Committee's terms of reference include the development and implementation of strategies, operational plans, and the assessment and control of risk. Alun Lewis, the Company's Chief Executive, is Chairman of the Committee.

The Audit Committee, the Remuneration & Management Development Committee, and the Nomination Committee comprise the Non-Executive Directors of the Company. Jim Sharp is Chairman of the Audit Committee, David Wilks is Chairman of the Remuneration & Management Development Committee, and Mark Cropper is Chairman of the Nomination Committee. These committees do not consist solely of directors deemed independent under the Combined Code.

The Board is satisfied that the Audit Committee has at least two members who have relevant financial experience.

Each of the Committees held meetings during the year and their terms of reference are displayed on the Company's website.

The following table sets out attendance of the Directors at the Board and Committee meetings during the financial year.

In the few instances when a Director has not been able to attend a Board or Committee meeting due to other commitments his comments on the papers to be considered have been communicated in advance to the relevant chairman.

| | Group Board Meetings | Executive Committee Meetings | Audit Committee | Remuneration & Management Development Committee | Nominations Committee |
|--|----------------------|------------------------------|-----------------|---|-----------------------|
| (Executive Directors attend by invitation) | | | | | |
| | (8 in the year) | (12 in the year) | (2 in the year) | (4 in the year) | (3 in the year) |
| Chairman | | | | | |
| J A Cropper | 6 | | 2 | 3 | 3 |
| Deputy Chairman | | | | | |
| M A J Cropper | 8 | | 2 | 4 | 3 |
| Executive Directors | | | | | |
| A I Lewis (Chief Executive) | 7 | 11 | 1 | 4 | 2 |
| J M Denman | 8 | 12 | 2 | | |
| G T Quayle | 7 | 12 | | | |
| N A Read | 8 | 11 | | | |
| P J Willink | 8 | 11 | | | |
| Non Executive Directors | | | | | |
| D R Wilks | 6 | | 2 | 4 | 3 |
| J E Sharp | 5 | | 1 | 1 | - |

(iv) Re-election

The Directors are subject to retirement on a periodic basis and re-election by the shareholders in accordance with the Articles of Association whereby a director shall retire from office at the first AGM after their appointment and thereafter shall retire at every third AGM after the AGM at which last appointed. Jim Sharp was appointed a director in September 2009 and offers himself for re-election. James Cropper, Mark Cropper and George Quayle retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves up for re-election.

Resolutions 3 to 6 at the Annual General Meeting deal with the proposed re-elections of directors.

(v) Performance Evaluation

The Board undertakes a board evaluation on an annual basis, including the sub-committees of the Board where appropriate.

The performance evaluation process includes the Chairman reviewing and monitoring the Chief Executive's performance on an annual basis and the Chief Executive reviewing and monitoring the Executive Directors. The high level individual objectives agreed at the reviews are communicated to the Remuneration Committee.

The Chairman reviews the non-executive directors' performance annually on an individual basis.

The Chairman's performance is appraised by the senior independent director and the other non-executive directors without the Chairman being present, and the comments fed back to him for discussion.

(vi) Financial Policies and Internal Controls

The Board is committed to presenting a full, balanced and understandable assessment of the Company's position and prospects, both in the Annual Report and at other times as appropriate throughout the year.

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the company and the group and of the profit or loss of the group 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 the financial statements comply with IFRSs as adopted by the European Union,

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board is responsible for and sets appropriate policies on internal control and seeks regular assurance, at least annually, that enables it to satisfy itself that processes are functioning effectively. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. If a failure is discovered the Board will take remedial action.

There is no internal audit function within the Company and the Board consider that this is appropriate given the nature of the Group's activities. The letter from the external auditors' confirming their independence and objectivity was reviewed by the Audit Committee. KPMG Audit Plc have confirmed their independence and the Directors believe KPMG Audit Plc to be independent and objective.

The Audit Committee monitors and reviews the effectiveness of the Company's financial accounting process.

The Key Performance Indicators (KPIs) and principal risks and uncertainties affecting the Group are considered in the Chairman's Review and the Financial Review.

(vii) Risk Management

The Directors continually review the effectiveness of the Group's system of internal controls. The Board has overall ownership of the risk management strategy and process and coordinates activity across the Group. There is an ongoing process for identifying, evaluating and managing significant risks faced by the Group, which has been in place for the year under review and up to the date of approval of this Annual Report. The Group manages risk by a combination of insurance and self-insurance. Self-insurance refers to actions taken internally or in conjunction with other third parties. In broad terms, high risks in financial and operational areas are more dependent on insurance than risks in commercial and personnel areas, which because of their nature are more likely to be managed by self-insurance.

Each subsidiary company has a strategy and process for highlighting the key risk areas of their business, and explaining the control measures and risk exposure. It then takes appropriate steps to manage the risk exposure taking into consideration the likelihood, impact and cost/benefit of each of the risks. In addition to the Audit Committee, which is a mandatory requirement under the Combined Code, the Board has Steering Groups with risk management briefs.

These include

- Health & Safety • Environment • Insurance
- Foreign Currency • Human Resources • Purchasing
- Pensions • Information Systems

(viii) Relations with Shareholders

The Finance Director and Chief Executive keep in contact with institutional investors and any presentations made to them can be found on the Company's website.

Brewin Dolphin Securities, the Company's stockbrokers, arrange a series of presentations during the year to encourage new shareholder investment, and the Company's executives attend private investor trade shows to promote the Company.

The non-executive directors attend the Annual General Meeting and are available for discussions with shareholders.

(ix) Going Concern

The Directors consider that the risks noted in (vii) above are the most significant to the Group but these do not necessarily comprise all risks to which the Group is exposed. In particular, the Group's performance could be adversely affected by poor economic conditions. Additional risks and uncertainties currently unknown to the Directors, or which the Directors currently believe are immaterial, may also have a material adverse effect on its business, financial condition or prospects.

At 27 March 2010 the Group's available borrowing facilities were £10,137,000, of which £5,087,000 was undrawn. Having taken account of current borrowings to be repaid within 12 months of the balance sheet date, £6,942,000 was available to the Group beyond 12 months.

The Directors having considered the current trading prospects, identifiable risks, working capital requirements and the availability of finance are of the opinion that the Group and Company are going concerns. The accounts have been prepared on this basis.

At the Annual General Meeting the Chairman will give an update on the current trading position and invites shareholders to table any questions and encourages their participation.

Payment of Creditors

The Company had 40 days (2009: 28 days) purchases outstanding at 27 March 2010. It is the Group's policy to agree terms of payment with its suppliers when agreeing the terms of a business transaction or transactions. All suppliers are aware of this procedure and the Group abides by the agreed payment terms subject to the terms and conditions being met by the supplier.

Employee Involvement

Regular Consultative Meetings are held with the employee trade union representatives to advise them on all aspects of company developments. A monthly briefing on Group performance is carried out for all employees and they have

REPORT OF THE DIRECTORS

continued

access to a copy of the Annual Report. As a matter of policy, plans are formally discussed with those who will use new equipment, plant and computer systems before designs are finalised. Safety Improvement Teams deal with day-to-day aspects of safety improvement.

The Group operates an Employee Profit Sharing Scheme which is made up of three elements – financial performance, safety performance, and attendance performance. A Save as You Earn Share Option Scheme is also available to encourage employee involvement.

Independent to the assets on the Group Balance Sheet there is an Employee Share Trust which currently holds approx 127,000 shares in James Cropper plc for the benefit of all employees so that their interests are linked to the Company's future growth.

The Trust was set up in 1997 and the initial finance came from savings achieved through the introduction of a Profit Related Pay salary replacement scheme.

The share dividends relating to the shareholding are paid into the Trust.

No director is a trustee of the Scheme, and the trustees confirm that they apply the assets for purely benevolent purposes.

Employment of Disabled People

It is the Group's policy to give equality of opportunity when considering applications from disabled people where the job requirements are considered to be within their ability. When existing employees become disabled they are retained wherever reasonable and practicable. The Group tries to provide equal promotion opportunities wherever possible.

Donations for Political and Charitable Purposes

It is the Company's policy not to make any donations to, or incur expenditure on behalf of political parties, other political organisations or independent election candidates and the Board does not intend to change this policy. However the Companies Act 2006 contains restrictions on companies making political donations and incurring political expenditure and it defines these terms very widely. Resolution 13 relating to political donations is again being proposed as an ordinary resolution at the Annual General Meeting to ensure that the Company does not commit an inadvertent or technical infringement of the 2006 Act.

Donations totalling £14,000 (2009 £12,000) were made for various local charitable purposes.

Directors' Authority to Allot Shares

Resolution 10 which will be proposed as an ordinary resolution renews an existing authority which expires this year and gives the Directors authority to exercise the powers of the Company to allot un-issued shares.

The Directors have no present intention of exercising the allotment authority proposed by the resolution other than pursuant to existing rights under employee share schemes. To ensure compliance with institutional guidelines and market practice, it is proposed that the authority will

- be limited to £381,908, being less than one-third of the Company's issued share capital, and
- expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the forthcoming Annual General Meeting except insofar as commitments to allot shares have been entered into before that date.

It is the intention of the Directors to seek a similar authority annually.

Directors' Power to Disapply Pre-emption Rights

Resolution 11 is being proposed as a special resolution granting the Directors authority for the ensuing year to allot shares by way of rights to shareholders and to issue a maximum of £211,810 of the nominal share capital of the Company for cash without first offering the shares to the existing shareholders pursuant to Section 570 of the Companies Act 2006. The resolution also disapplies pre-emption rights in the event of the sale of treasury shares. Other than in the case of rights issues, the amount of the general authority to the Directors is limited to allotments of shares for cash up to a total nominal value of £211,810 which represents approximately 10% of the issued ordinary share capital. The authority will terminate at the next Annual General Meeting or 15 months after the forthcoming Annual General Meeting, whichever comes first. The Directors propose to renew this authority annually.

Company's Authority to Purchase Shares

Resolution 12 will be proposed as a special resolution to renew an existing authority which expires at the Annual General Meeting and gives the Company authority to make market purchases of its own shares. The Directors would only exercise this power when it would be in the interests of the Group's shareholders as a whole to do so, having regard to the effect on both earnings and net asset values per share. Currently there is no intention of making repurchases.

If such repurchases were made, the Directors would have to agree whether the shares are to be cancelled or to be held in treasury so as to be available for sale at a later date.

The amount of the general authority to the Directors represents approximately 15% of the issued ordinary share capital. The authority will terminate at the next Annual General Meeting or 15 months after the forthcoming Annual General Meeting, whichever comes first. The Directors intend to renew this authority annually.

Savings-related Share Option Scheme

Resolution 14 will be proposed as an ordinary resolution. The rules of the James Cropper plc Savings-related Share Option Scheme currently provide that the scheme terminates upon the tenth anniversary of its adoption by the Company or, if earlier, by resolution of the Board or the shareholders in general meeting. The tenth anniversary falls on 2 August 2010. The Company wishes to extend the life of the scheme and, accordingly, it is proposed that shareholders approve the removal of that provision, and if approved the scheme will thereafter only terminate by resolution of the Board or the shareholders.

Substantial Interests

Shareholdings in excess of 3% of the issued capital at 1 June 2010 were as follows -

| Name of Shareholding | Number of Shares | % holding | Note No. below |
|--|------------------|-----------|----------------|
| M A J Cropper - Directors' Beneficial Interest | 1,206,540 | 14.2 | |
| P J Wilink - Directors' Non-beneficial Interest | 1,132,408 | 13.4 | 1 |
| J A Cropper 1974 Settlement | 1,062,974 | 12.5 | 2 |
| J A Cropper - Directors' Non-beneficial Interest | 598,129 | 7.1 | 3 |
| J A Cropper - Directors' Beneficial Interest | 583,337 | 6.9 | |
| Pershing Nominees Ltd | 516,353 | 6.1 | 5 |
| J M Denman - Directors' Non-beneficial Interest | 431,000 | 5.1 | |
| N A Read - Directors' Non-beneficial Interest | 431,000 | 5.1 | |
| Barclayshare Nominees Ltd | 425,148 | 5.0 | 4 |

Notes on Shareholding Table

- 1 Included in this percentage is 12.5% disclosed in the shareholding of J A Cropper 1974 Settlement
- 2 Included in this percentage is 6.3% disclosed in the shareholding of M A J Cropper - Directors' Beneficial Interest
- 3 Included in this percentage is 3.3% disclosed in the shareholding of M A J Cropper - Directors' Beneficial Interest.
- 4 Included in this percentage is 4.2% disclosed in the shareholding of M A J Cropper - Directors' Beneficial Interest and 0.9% disclosed in the shareholding of J A Cropper - Directors' Beneficial Interest
- 5 Included in this percentage is 5.1% disclosed in the shareholding of J M Denman - Directors' Non-beneficial Interest and 5.1% disclosed in the shareholding of N A Read - Directors' Non-beneficial Interest

Details of Directors' Interests

| Director | Interest | At 27 March 2010 | | At 28 March 2009 | |
|---------------|----------------|------------------|----------------------------|------------------|----------------------------|
| | | Ordinary Shares | Options on Ordinary Shares | Ordinary Shares | Options on Ordinary Shares |
| J A Cropper | Beneficial | 583,337 | - | 598,337 | - |
| | Non-beneficial | 598,129 | - | 598,129 | - |
| M A J Cropper | Beneficial | 1,206,540 | - | 1,206,540 | - |
| | Non-beneficial | 160,000 | - | 160,000 | - |
| A I Lewis | Beneficial | 37,761 | 40,000 | 37,761 | 44,725 |
| J M Denman | Beneficial | 5,110 | 35,000 | 5,110 | 35,000 |
| | Non-beneficial | 431,000 | - | 431,000 | - |
| N A Read | Beneficial | 3,289 | 25,000 | 3,289 | 29,725 |
| | Non-beneficial | 431,000 | - | 431,000 | - |
| P J Wilink | Beneficial | 19,781 | 25,000 | 19,781 | 29,725 |
| | Non-beneficial | 1,132,408 | - | 1,132,408 | - |
| G T Quayle | Beneficial | 4,221 | 25,000 | 4,221 | 29,725 |
| | Non-beneficial | 28,084 | - | 28,084 | - |
| D R Wilks | Beneficial | 7,445 | - | 7,445 | - |
| | Non-beneficial | 160,000 | - | 160,000 | - |
| J E Sharp | Beneficial | 7,950 | - | - | - |
| | Non-beneficial | 160,000 | - | - | - |
| P L Herring* | Beneficial | - | - | 59,000 | - |
| | Non-beneficial | - | - | 160,000 | - |

(*retired 29 July 2009)

Auditors and Disclosure of Information to Auditors

Each Director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditor's, KPMG Audit Plc, have indicated their willingness to continue in office and Resolution 7 will be proposed at the Annual General Meeting for their re-appointment.

Details of Directors' Interests

The Directors who served throughout the period are detailed in the Directors' Remuneration Report, and details of their interests in shares of the Company are listed above.

The Company pays £35,000 annually to J A Cropper for the use of reservoirs to supply water to the factory premises.

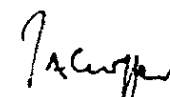
The contract is based on a twenty year repairing lease with rent reviews every five years.

There have been no material changes between the year end and 1 June 2010.

Further information relating to the interests of the Directors regarding options on ordinary shares is given in the Directors' Remuneration Report.

Non-beneficial interests include shares held jointly as trustee with other Directors.

Approved by the Board of Directors on 21 June 2010 and were signed on its behalf by



J A Cropper
Chairman
Burnside Mills
Kendal

DIRECTORS' REMUNERATION REPORT

This Report provides details of Directors' remuneration.

Service Contracts

The Executive Directors are employed on rolling one year contracts subject to one year's notice served by the Group on the Executive, and six months notice served by the Executive on the Group. The Chairman is employed on a rolling contract subject to three months notice by either side. Other Non-Executive Directors are on one month's notice by either side and they are typically expected to serve two three-year terms, with additional terms of office agreed on an annual basis.

Salaries and Fees

The remuneration and emoluments of Executive Directors are determined by the Remuneration Committee. The remuneration of the Non-Executive Directors is agreed by the Group Board and they are not entitled to participate in pension schemes, bonus arrangements or share schemes. The basic salaries of the Executive Directors are reviewed annually and take into consideration cost of living and overall accountability. Also considered is remuneration paid to senior executives in comparable public companies. This information is checked by reference to published surveys, but no formula is in place to determine any specific relationship.

The remuneration of senior management is discussed by the Chairman of the Remuneration Committee and the Chief Executive and their recommendations endorsed by the Remuneration Committee.

No Director can take part in the decision on his own salary or reward.

Annual Bonus

The Group operates an Executive Directors' Reward Scheme which is structured to reward the Executive Directors if targets are achieved on group profitability, return on investment, safety, productivity improvements and a discretionary element agreed by the Remuneration Committee. The total bonus payable to a director is capped at 25% of their contractual salary and is not pensionable.

Employee Share Schemes

The Group operates Inland Revenue Approved and Unapproved Share Option Schemes, and a Long Term Incentive Plan Scheme for the Executive Directors, of which details of the options granted are shown later in this Report.

Comparison of Ten Year Cumulative Total Shareholder Return (TSR)

To enable shareholders to assess the Company's performance against the London Stock Exchange, the cumulative TSR for the period ended 27 March 2010 is shown in the graph below. The FTSE All Share is deemed to be the most appropriate comparison in terms of performance. TSR is the total return to shareholders in terms of capital growth and dividends reinvested.

Total Shareholder Return

Details of Directors' Remuneration

The financial details within this report have been audited. The following table brings together the various elements of remuneration of each director for the financial year period ended 27 March 2010.

| | Salary and Fees | | Benefits | | Annual Bonus | | Total | |
|----------------------|-----------------|-------|----------|-------|--------------|-------|-------|-------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Executive | | | | | | | | |
| A I Lewis | 113 | 109 | 17 | 17 | 28 | 5 | 158 | 131 |
| J M Denman | 90 | 86 | 17 | 17 | 23 | 4 | 130 | 107 |
| N A Read | 85 | 82 | 15 | 14 | 21 | 6 | 121 | 102 |
| P J Willink | 85 | 82 | 18 | 17 | 21 | 6 | 124 | 105 |
| G T Quayle | 90 | 84 | 17 | 16 | 23 | 9 | 130 | 109 |
| Non-Executive | | | | | | | | |
| J A Cropper | 32 | 32 | 17 | 16 | - | - | 49 | 48 |
| M A J Cropper | 30 | 29 | - | - | - | - | 30 | 29 |
| D R Wilks | 20 | 17 | - | - | - | - | 20 | 17 |
| J E Sharp | 10 | - | - | - | - | - | 10 | - |
| P L Herring* | 5 | 17 | - | - | - | - | 5 | 17 |
| J R Sclater** | - | 5 | - | - | - | - | - | 5 |
| | 560 | 543 | 101 | 97 | 116 | 30 | 777 | 670 |

*Retired 29 July 2009 ** Retired 31 July 2008

Highest paid Director

| | 2010 | 2009 |
|--|-------|-------|
| | £'000 | £'000 |
| Aggregate emoluments | 158 | 131 |
| Accrued pension under defined benefit pension scheme | 42 | 38 |
| Long term incentive scheme | 15 | 19 |

Directors' Pensions

The Executive Directors who served during the year have retirement benefits accruing under the Group's Staff Pension Scheme, which is a Defined Benefit Scheme

The following table shows the amount of entitlements earned, the accrued pension liabilities and the changes therein

| | Increase in accrued pension per annum | Increase in accrued pension excluding inflation per annum | Total accrued pension at 27 March 2010 per annum | Transfer value of net increase in accrual after inflation over period | Increase in transfer value less directors' contributions | Transfer value of accrued pension at 27 March 2010 | Transfer value of accrued pension at 28 March 2009 |
|------------|--|--|---|--|--|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| A I Lewis | 3 | 3 | 42 | 34 | 71 | 583 | 502 |
| J M Denman | 5 | 5 | 44 | 66 | 107 | 733 | 619 |
| N A Read | 3 | 3 | 40 | 33 | 71 | 620 | 542 |
| P J Wilink | 2 | 2 | 26 | 13 | 31 | 255 | 217 |
| G T Quayle | 3 | 3 | 26 | 40 | 63 | 425 | 355 |

The accrued pension is the amount that the director would receive if he retired at the end of the year

The increase in the accrued pension is the difference between the accrued benefit at the year end and that at the previous year end

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11

The transfer values represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits. They do not represent sums payable to individual directors and therefore cannot be added meaningfully to annual remuneration

The increase in transfer value less directors' contributions is the increase in the transfer value of the accrued benefits during the year after deducting the directors' personal contributions to the scheme

The transfer value of net increase in accrual, required by the Listing Rules, discloses the current value of the increase in accrued benefits that the director has earned in the period, whereas his change in transfer value, required by the Companies Act, discloses the absolute increase or decreases in his transfer value and includes the change in value of the accrued benefits that results from market volatility affecting the transfer value at the beginning of the period, as well as the additional value earned in the year

Share Options

At the 1998 Annual General Meeting shareholders approved the introduction of the 1998 Inland Revenue Approved Share Option Scheme

The movements on this Scheme during the year were

| | Number at 28 March 2009 | Number granted in period | Number exercised in period | Options lapsed in period | Exercise Price £ | Exercisable | Number at 27 March 2010 |
|------------|-------------------------------|--------------------------------|----------------------------------|--------------------------------|------------------------|----------------------|-------------------------------|
| A I Lewis | 4,725 | - | - | 4,725 | 2 059 | Dec 2002 to Dec 2009 | - |
| N A Read | 4,725 | - | - | 4,725 | 2 059 | Dec 2002 to Dec 2009 | - |
| P J Wilink | 4,725 | - | - | 4,725 | 2 059 | Dec 2002 to Dec 2009 | - |
| G T Quayle | 4,725 | - | - | 4,725 | 2 059 | Dec 2002 to Dec 2009 | - |

DIRECTORS' REMUNERATION REPORT

continued

At the 2000 Annual General Meeting shareholders approved the introduction of the Unapproved Part of the 1998 Senior Executive Share Option Scheme

The movements on this Scheme during the year were

| | Number at 28 March 2009 | Number granted in period | Number exercised in period | Options lapsed in period | Exercise Price £ | Exercisable | Number at 27 March 2010 |
|-------------|-------------------------------|--------------------------------|----------------------------------|--------------------------------|------------------------|------------------------|-------------------------------|
| A I Lewis | 10,000 | - | - | - | 2 615 | Aug 2003 to Aug 2010 | 10,000 |
| | 30,000 | - | - | - | 2 065 | June 2004 to June 2011 | 30,000 |
| J M Denman | 20,000 | - | - | - | 2 615 | Aug 2003 to Aug 2010 | 20,000 |
| | 15,000 | - | - | - | 2 065 | June 2004 to June 2011 | 15,000 |
| N A Read | 10,000 | - | - | - | 2 615 | Aug 2003 to Aug 2010 | 10,000 |
| | 15,000 | - | - | - | 2 065 | June 2004 to June 2011 | 15,000 |
| P J Willink | 10,000 | - | - | - | 2 615 | Aug 2003 to Aug 2010 | 10,000 |
| | 15,000 | - | - | - | 2 065 | June 2004 to June 2011 | 15,000 |
| G T Quayle | 10,000 | - | - | - | 2 615 | Aug 2003 to Aug 2010 | 10,000 |
| | 15,000 | - | - | - | 2 065 | June 2004 to June 2011 | 15,000 |

The options for the 1998 Share Option Schemes are subject to the performance condition that before the options can be exercised, the growth in earnings per share must exceed the growth in Retail Price Index plus 2% per annum for the Approved Scheme, and plus 3% per annum for the Unapproved Scheme, over a period of three consecutive years commencing no earlier than the date of the grant of the options. These performance conditions were considered to be appropriate measures when the schemes were introduced.

The options can be exercised at any time after three years as long as the performance conditions have been reached in any three year period since the option was granted.

Long Term Incentive Plans

Awards were made during the year under the Long Term Incentive Plan were as follows

| | Number at 28 March 2009 | Number granted in period | Number exercised in period | Options lapsed in period | Number at 27 March 2010 |
|-------------|-------------------------------|--------------------------------|----------------------------------|--------------------------------|-------------------------------|
| A I Lewis | 40,000 | 25,000 | - | - | 65,000 |
| J M Denman | 32,000 | 20,000 | - | - | 52,000 |
| N A Read | 32,000 | 20,000 | - | - | 52,000 |
| P J Willink | 32,000 | 20,000 | - | - | 52,000 |
| G T Quayle | 32,000 | 20,000 | - | - | 52,000 |

The maximum number of shares that can be awarded to any participant in a financial year under the Long Term Incentive Scheme, determined by reference to average mid market prices at the time of the award, is limited to 50% of the participant's basic salary. The average mid market price of the awards granted in the year was £1 122.

The Awards are subject to the following performance conditions

- Awards will vest in full if the earnings per share, adjusted for IFRS pension adjustments, exceed the increase in retail price index plus 10% per annum over a three year period,
- Awards will vest as to 10% if the earnings per share, adjusted for IFRS pension adjustments, exceed the increase in retail price index plus 2.5% per annum over a three year period,
- Awards will vest proportionally between 10% and 100% if the earnings per share, adjusted for IFRS adjustments, exceed the increase in retail price index by more than 2.5% and less than 10% per annum over a three year period,
- Awards will lapse if earnings per share, adjusted for IFRS pension adjustments, do not exceed the increase in retail price plus 2.5% per annum over a three year period.

The market price of the shares at the period end was £1 35 and the high and low for the period was £1 56 and £0 765 respectively.

D R Wilks
Chairman of the Remuneration Committee

21 June 2010

INDEPENDENT AUDITORS' REPORT

to the members of James Cropper plc

We have audited the financial statements of James Cropper plc for the year ended 27 March 2010 set out on pages 34 to 64. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 27 March 2010 and of the group's profit for the 52 week period then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

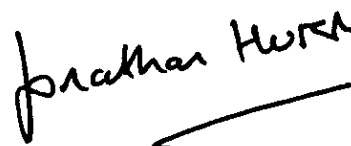
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Jonathan Hurst
Senior Statutory Auditor

for and on behalf of

KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Edward VII Quay
Navigation Way
Preston
PR2 2YF

21 June 2010

STATEMENT OF COMPREHENSIVE INCOME

for the period ended 27 March 2010

(2009 period ended 28 March 2009)

| | Note | 2010 £'000 | 2009 £'000 |
|--|------|----------------|----------------|
| Continuing operations | | | |
| Revenue | 2 | 76,230 | 74,803 |
| Other income | | 208 | 277 |
| Changes in inventories of finished goods and work in progress | | 160 | 272 |
| Raw materials and consumables used | | (32,338) | (33,895) |
| Energy costs | | (3,111) | (5,199) |
| Employee benefit costs | 20 | (19,909) | (18,211) |
| Depreciation and amortisation | 4 | (3,138) | (3,179) |
| Other expenses | | (14,789) | (13,788) |
| Operating profit | 2 | 3,313 | 1,080 |
| Interest expense | 3 | (910) | (493) |
| Interest income | 3 | 13 | 271 |
| Profit before tax | 4 | 2,416 | 858 |
| Tax expense | 5 | (608) | (945) |
| Profit/(loss) for the period | | 1,808 | (87) |
| Other comprehensive income | | | |
| Foreign currency translation | | (267) | 546 |
| Retirement benefit liabilities – actuarial losses | | (4,849) | (7,734) |
| Deferred tax on actuarial losses on retirement benefit liabilities | | 1,358 | 2,166 |
| Total comprehensive income for the period attributable to equity holders of the Company | | (1,950) | (5,109) |
| Earnings/(losses) per share, based on profit/loss for the year after tax and expressed in pence per share | | | |
| | 6 | | |
| -Basic | | 21 3p | (1.0p) |
| -Diluted | | 21 1p | (1 0p) |
| Dividends per share expressed in pence per share | | | |
| | 7 | | |
| -2010 interim dividend paid | | 2 2p | 1 1p |
| -2010 final dividend proposed | | 5 3p | 4 0p |

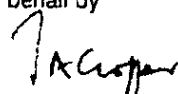
STATEMENT OF FINANCIAL POSITION

as at 27 March 2010

(2009 as at 28 March 2009)

| | | Group | | Company | |
|--|------|---------------|---------------|---------------|-------------------|
| | Note | 2010 | 2009 | 2010 | 2009 |
| | | £'000 | £'000 | £'000 | Restated £'000 |
| Assets | | | | | |
| Intangible assets | 8 | 2,096 | 2,012 | 1,879 | 1,713 |
| Property, plant and equipment | 9 | 16,863 | 18,483 | 2,258 | 2,228 |
| Investments in subsidiary undertakings | 10 | - | - | 7,350 | 7,350 |
| Deferred tax assets | 17 | 189 | - | 3,462 | 2,541 |
| Total non-current assets | | 19,148 | 20,495 | 14,949 | 13,832 |
| Current assets | | | | | |
| Inventories | 11 | 10,195 | 10,422 | - | - |
| Trade and other receivables | 12 | 14,509 | 12,836 | 33,739 | 31,132 |
| Cash and cash equivalents | | 5,050 | 2,636 | 3,420 | 2,054 |
| Current tax assets | | - | - | 42 | 7 |
| Total current assets | | 29,754 | 25,894 | 37,201 | 33,193 |
| Total assets | | 48,902 | 46,389 | 52,150 | 47,025 |
| Liabilities | | | | | |
| Trade and other payables | 13 | 11,081 | 7,662 | 18,338 | 12,815 |
| Loans and borrowings | 14 | 3,195 | 2,134 | 1,525 | 2,134 |
| Current tax liabilities | | 749 | 801 | - | - |
| Total current liabilities | | 15,025 | 10,597 | 19,863 | 14,949 |
| Long-term borrowings | 14 | 1,886 | 4,954 | 1,886 | 3,189 |
| Retirement benefit liabilities | 16 | 14,180 | 9,076 | 14,180 | 9,076 |
| Deferred tax liabilities | 17 | - | 1,588 | - | 548 |
| Total non-current liabilities | | 16,066 | 15,618 | 16,066 | 12,813 |
| Total liabilities | | 31,091 | 26,215 | 35,929 | 27,762 |
| Equity | | | | | |
| Ordinary share capital | 18 | 2,118 | 2,118 | 2,118 | 2,118 |
| Share premium | 19 | 573 | 573 | 573 | 573 |
| Translation reserve | 19 | 265 | 532 | - | - |
| Retained earnings | 19 | 14,855 | 16,951 | 13,530 | 16,572 |
| Total shareholders' equity | | 17,811 | 20,174 | 16,221 | 19,263 |
| Total equity and liabilities | | 48,902 | 46,389 | 52,150 | 47,025 |

The financial statements on pages 34 to 64 were approved by the Board of Directors on 21 June 2010 and were signed on its behalf by



J A Cropper
Director

Company Registration No 30226

STATEMENT OF CASH FLOWS

for the period ended 27 March 2010

(2009 period ended 28 March 2009)

| | Group | | Company | |
|---|----------------|----------------|----------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | Restated £'000 |
| Cash flows from operating activities | | | | |
| Net profit/(loss) | 1,808 | (87) | 872 | 2,407 |
| Adjustments for | | | | |
| Tax | 608 | 945 | (104) | 248 |
| Depreciation | 3,138 | 3,179 | 505 | 430 |
| Net IAS 19 pension adjustments within Statement of Comprehensive Income | 881 | 250 | 881 | 250 |
| Past service pension deficit payments | (626) | (712) | (626) | (712) |
| Foreign exchange (gain)/loss on currency borrowings | (96) | 506 | - | - |
| Profit on disposal of property, plant and equipment | 28 | 9 | - | - |
| Net bank interest income & expense | 270 | 448 | (849) | (1,348) |
| Share based payments | 102 | 147 | 102 | 147 |
| Dividends received from Subsidiary Companies | - | - | (2,700) | (2,500) |
| Changes in working capital: | | | | |
| Decrease/(increase) in inventories | 227 | (782) | - | - |
| (Increase)/decrease in trade and other receivables | (1,673) | 1,382 | (1,608) | (2,209) |
| Increase/(decrease) in trade and other payables | 2,832 | (832) | 6,011 | 10,051 |
| Interest received | 14 | 45 | 1,042 | 1,582 |
| Interest paid | (136) | (514) | (42) | (247) |
| Tax paid | (1,089) | (406) | (1,128) | (406) |
| Net cash generated from/(used by) operating activities | 6,288 | 3,578 | 2,356 | 7,693 |
| Cash flows from investing activities | | | | |
| Purchase of intangible assets | (15) | (262) | (15) | (262) |
| Purchases of property, plant and equipment | (1,213) | (1,071) | (239) | (91) |
| Proceeds from sale of property, plant and equipment | 2 | 5 | - | - |
| Dividends received | - | - | 2,700 | 2,500 |
| Net cash (used in)/generated from investing activities | (1,226) | (1,328) | 2,446 | 2,147 |
| Cash flows from financing activities | | | | |
| Proceeds from issue of new loans | 329 | 1,392 | 329 | 1,392 |
| Repayment of borrowings | (2,240) | (2,744) | (2,240) | (2,744) |
| (Repayment)/issue of inter-company loans | - | - | (1,000) | (2,092) |
| Dividends paid to shareholders | (515) | (525) | (525) | (525) |
| Net cash (used in)/ generated from financing activities | (2,426) | (1,877) | (3,436) | (3,969) |
| Net increase/(decrease) in cash and cash equivalents | 2,636 | 373 | 1,366 | 5,871 |
| Effects of exchange gains on revaluation of net assets held in USA | (222) | 346 | - | - |
| Net increase/(decrease) in cash and cash equivalents | 2,414 | 719 | 1,366 | 5,871 |
| Cash and cash equivalents at the start of the period | 2,636 | 1,917 | 2,054 | (3,817) |
| Cash and cash equivalents at the end of the period | 5,050 | 2,636 | 3,420 | 2,054 |
| Cash and cash equivalents consists of: | | | | |
| Cash at bank and in hand | 5,050 | 2,636 | 3,420 | 2,054 |

STATEMENT OF CHANGES IN EQUITY

| | Note | Group | | Company | |
|--------------------------------|------|---------------|---------------|---------------|---------------|
| | | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Opening shareholders' funds | | 20,174 | 25,661 | 19,263 | 22,803 |
| Profit/(loss) for the period | | 1,808 | (87) | 872 | 2,406 |
| Exchange differences | | (267) | 546 | - | - |
| Actuarial losses on retirement | | (3,491) | (5,568) | (3,491) | (5,568) |
| Share-based payments | | 102 | 147 | 102 | 147 |
| Dividends paid | | (515) | (525) | (525) | (525) |
| Closing shareholders' funds | 19 | 17,811 | 20,174 | 16,221 | 19,263 |

The movement in shareholders funds solely relates to retained earnings, other than the £267,000 of exchange differences taken directly to the translation reserve

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The accounting "year" for the Group is a 52 week accounting period ending 27 March 2010.

Throughout these notes, the following references apply:
The Statement of Comprehensive Income is referenced as "SCI".

The Statement of Financial Position is referenced as "SFP".

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income and related notes that form a part of these approved financial statements.

Use of estimates and judgements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The following are the policies and accompanying notes are where the assumptions and judgements made by management could have an impact on the Group's consolidated financial statements:

Note 9 Property, plant and equipment

It is the Group's policy to depreciate categories within property, plant and equipment on a straight line basis over their estimated useful lives. A key element of this policy is the estimate of the useful life applied to each category of asset which in turn determines the annual depreciation charge. Variations in asset lives could affect Group profit through an increase or decrease in the depreciation charge.

Note 11 Inventories

In the course of normal trading activities management uses its judgement to establish the net realisable value of its stocks. Provisions are established for obsolete or slow moving stocks, based on past practice, current conditions and aged inventory facts available to management.

Note 12 Trade debtors

In estimating the collectability of trade debtors judgement is required and the policies in regard to credit risk are further described in note 15.2.

Note 16 Retirement benefits

Assumptions used in the calculation of the Group's retirement liability have the biggest impact on these financial statements and are detailed in note 16.

Company restatement

During the year the Group has reconsidered the disclosure of intra-group assets and liabilities within the accounts in order to bring greater clarity and to standardise reporting across the different businesses. One category of intra-group assets and liabilities is intra-group funding which is used to facilitate the flow of funds around the Group. These balances are repayable upon demand. For the purposes of the Annual Statements as at 28 March 2009 the Company treated the intercompany funding liabilities as "Intercompany loans" within "Current Borrowings". The other businesses within the Group treated intercompany funding as "Amounts owed to/ by group undertakings" within "Current Debtors" or "Current Creditors" as appropriate.

The Company decided that it was more appropriate to have treated inter-company funding liabilities as debtor or creditor balances and has determined the need to adjust the presentation of the 28 March 2009 balances in order to align with the other businesses within the Group. Prior to 2009 intra Group funding was not present and for this reason only the annual statements for 2009 have been restated. The adjustment has the effect of reducing the Company's Current Borrowings by £10.2m and increasing the Company's Creditors "Amounts owed to group undertakings" by £10.2m. These re-statements have been described in Note 13 Trade and other payables and Note 14 Borrowings respectively.

The restatement of the Company intra-group liabilities has no effect on the Group's consolidated financial statements.

Basis of consolidation

The financial statements of the Group consolidate the accounts of the company and those of its subsidiary undertakings. No subsidiaries are excluded from consolidation. The results and cash flows of subsidiary undertakings acquired are included from the effective date of acquisition. Intragroup balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Revenue recognition

Revenue comprises the fair value of the consideration for the sale of goods and services, net of value added tax, rebates and discounts. Revenue from the sale of goods is recognised when the Group has transferred risks and rewards of ownership of products to the customer, the amount of revenue can be measured reliably and collectability of the related receivables is reasonably assured. Whilst the Group's revenue in respect of services is minimal where such services are provided revenue is recognised on completion of the services, when the amount can be reliably measured and collection is reasonably assured.

Operating segments

IFRS 8 Operating Segments has been adopted by the Group and requires that entities reflect the 'management approach' to reporting the financial performance of its operating segments. Management has determined the segments that are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the Executive Committee that makes strategic decisions. The committee considers the business principally via the five main business segments, on the basis of its statutory structure. Business segments are those components of the Group that are engaged in providing a group of related products that are subject to risks and returns that are different to other business segments. Geographical segments are components where the eventual product destination is in a particular geographic environment which is subject to risks and returns that are different from other such segments. Costs are allocated to segments based on the segment to which they relate. Central costs are recharged on an appropriate basis.

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated at foreign exchange rates ruling at the Statement of Financial Position date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from translation of foreign operations are taken directly to the translation reserve; they are released into the Statement of Comprehensive Income upon disposal.

The portion of gain or loss on foreign currency borrowings that are used to hedge a net investment in a foreign operation, that is determined to be an effective hedge, is included as a movement in the cumulative translation reserve. On subsequent disposal such gains or losses will form part of the profit/loss on disposal within the Statement of Comprehensive Income. Any ineffective portion is recognised immediately in the Statement of Comprehensive Income. This Policy has been adopted for the first time in this period ended 27 March 2010.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the IAS38 conditions are met. Other development expenditures are recognised as an expense as incurred. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding 5 years.

Retirement benefits

The Group operates various pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial valuations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution plan is a pension plan under which the Group pays fixed contributions.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Statement of Financial Position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur outside of Statement of Comprehensive Income in the Statement of Changes in Equity.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays agreed contributions to the schemes. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

Share based payments

Options granted to employees are recognised as employee expenses based on fair value at grant date, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairments losses, if any. The following useful lives have been determined for intangible assets:

Trade secrets such as processes or unique recipes - 10 years

Computer software - 3 to 10 years

Emission Allowances - 0 years (refer to note below on Emissions trading scheme for policy)

NOTES TO THE FINANCIAL STATEMENTS

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Property plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost less residual value of each asset evenly over its expected useful life, as follows

Freehold land and buildings - 14 to 40 years

Plant and machinery - 4 to 20 years

Residual values and useful lives are reviewed annually

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Emissions trading scheme

The Group's power generation facilities became subject to the European Union Emission Trading Scheme ("EUETS") as from 1 January 2008. The Group is permitted to emit 41,000 tonnes of carbon dioxide in a calendar year. Credits for this quantum are issued to the Group free of charge by HM Government. The Group has adopted an accounting policy which recognises the emission allowances as an intangible asset and an associated liability. The intangible asset is valued at the market price on the date of issue. The liability is valued at the market price on the date of issue up to the level of allocated allowances held. Should emissions exceed the annual allowance any excess of liability above the level of the allowances held is valued at the market price ruling at the Statement of Financial Position date and charged against operating profit. Un-utilised allowances are maintained against a potential future shortfall. When allowances are utilised both the intangible asset and liability are amortised to the Statement of Comprehensive Income. Currently the Group's emissions are running in line with its permitted EUETS allowance and hence there is no impact on profit. At 27 March 2010 the intangible asset and an associated liability were valued at £817,000. The liability is categorised under current liabilities.

Grants

Capital grants are credited to a deferral account and released to income over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to the Statement of Comprehensive Income in the period to which they relate.

Leasing

Leases are classified as finance leases at inception where substantially all of the risks and rewards of ownership are transferred to the Group. Assets classified as finance leases are capitalised on the Statement of Financial Position and are depreciated over the expected useful life of the asset. The interest element of the rental obligation is charged to the Statement of Comprehensive Income over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Operating lease payments are charged to the Statement of Comprehensive Income in the appropriate period.

Taxation

Tax on the Statement of Comprehensive Income for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each Statement of Financial Position date. The resulting gain or loss on re-measurement is recognised in the Statement of Comprehensive Income, unless hedge accounting is applicable. There were no material balances at the year end.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except those with maturities greater than twelve months after the Statement of Financial Position date, which are classified as non-current assets. Loans and receivables are included within trade and other receivables in the Statement of Financial Position.

The fair value of financial instruments traded in active markets is based on quoted market prices at the Statement of Financial Position date.

Investments

Trade investments are stated at cost less any impairment in value.

The Group's share of the profit less losses of joint ventures is included in the Statement of Comprehensive Income on the equity accounting basis. The carrying value of joint ventures in the Group Statement of Financial Position is calculated by reference to the Group's equity in the net assets of such joint ventures as shown in the most recent accounts.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown as borrowings within current liabilities on the Statement of Financial Position. Bank overdrafts that are repayable on

demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the Statement of Cash Flows

Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Interest is not capitalised within property, plant and equipment.

Interest

Interest is recognised in the Statement of Comprehensive Income on an accruals basis using the effective interest method.

Trade receivables

Trade receivables are recorded at their fair value after appropriate revision of impairment.

Trade payables

Trade payables are stated at their fair value.

Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes an estimate of recoverable amount. Where the carrying value of an asset exceeds its recoverable amount the asset is written down to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use and is deemed for an individual asset. If the asset does not generate cash flows that are largely independent of those from other assets or groups of assets, the recoverable amount of the cash generating unit to which the asset belongs is determined. Discount rates reflecting the asset specific risks and the time value of money are used for the value in use calculation.

Capital Management

Group and Company's capital includes share capital, reserves and retained earnings. The Group and Company's policy is to maintain the ability to continue as a going concern, in order to provide returns to the shareholder and benefits to other stakeholders. The Group, and Company, invest in financial assets that will provide an adequate level of return to the shareholder commensurate with the level of risk.

The Group and Company manages the capital structure and adjusts this in light of the changes in the economic conditions and risk associated with the underlying assets. In order to maintain or adjust the capital structure, the Group and Company may adjust the amount of any dividend paid to the shareholder, return capital to the shareholder, issues new shares, or sell assets to reduce debt. The Group, and Company, are not subject to any externally imposed capital requirements. There have been no material changes in the management of capital during the period.

Going Concern

James Cropper plc is accounting under the going concern assumption. See the Report of the Directors section (ix) for the basis of the going concern assumption.

New standards and interpretation not applied

A number of new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board (IASB) and IFRIC which have not yet been adopted by the Group.

International Accounting Standards and Interpretations

| | Effective date |
|---|-----------------------|
| IFRS 3 Revised – Business Combinations | 1 July 2009 |
| IAS 27 Amendment – Consolidated and Separate Financial Statements | 1 July 2009 |
| IAS 38 Amendment – Intangible Assets | 1 July 2009 |
| IFRS 9 Financial Instruments | 1 January 2013 |

These standards and interpretations have not been adopted in these financial statements. It is not anticipated that the adoption of these standards and interpretations will have a significant on the group's financial statements on initial adoption.

NOTES TO THE FINANCIAL STATEMENTS

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2 Segmental reporting

IFRS 8 Operating Segments - requires that entities adopt the 'management approach' to reporting the financial performance of its operating segments. Management has determined the segments that are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the Executive Committee that makes strategic decisions. The committee considers the business principally via the five main business segments, on the basis of its statutory structure, principally based in the UK.

- JC Speciality Papers – relates to James Cropper Speciality Papers a manufacturer of coloured paper and boards
- The Paper Mill Shop – relates to the retailing of paper and associated products
- JC Converting – relates to James Cropper Converting Converting of paper
- Technical Fibre Products – Manufacture of high performance wet-laid non-wovens from fibres
- Group Services – comprises central functions providing services to the subsidiary companies

Business segments

Period ended 27 March 2010

| | JC Speciality Papers £'000 | The Paper Mill Shop £'000 | JC Converting £'000 | Technical Fibre Products £'000 | Group Services £'000 | Other £'000 | Eliminations £'000 | Group £'000 |
|---|-------------------------------------|---------------------------------|---------------------------|---|----------------------------|----------------|-----------------------|-----------------|
| Revenue | | | | | | | | |
| - External | 50,283 | 5,516 | 10,442 | 9,989 | - | - | - | 76,230 |
| - Inter-segment | 2,651 | - | 688 | - | - | - | (3,339) | - |
| Total Revenue | 52,934 | 5,516 | 11,130 | 9,989 | - | - | (3,339) | 76,230 |
| Segment Profit | | | | | | | | |
| Trading Operating Profit before Interest | 3,437 | (446) | 446 | 1,327 | (1,196) | - | - | 3,568 |
| IAS 19 Pension adjustments to segment profit | - | - | - | - | (255) | - | - | (255) |
| Operating Profit | 3,437 | (446) | 446 | 1,327 | (1,451) | - | - | 3,313 |
| Interest Expense | | | | | | | | (910) |
| Interest Income | | | | | | | | 13 |
| Profit before tax | | | | | | | | 2,416 |
| Tax on profit for year from continuing operations | | | | | | | | (608) |
| Profit for the year from continuing operations | | | | | | | | 1,808 |
| Total Assets | 32,647 | 1,466 | 8,699 | 16,048 | 52,150 | 1,794 | (63,902) | 48,902 |
| Total Liabilities | (26,252) | (2,270) | (6,310) | (13,109) | (35,929) | (368) | 53,147 | (31,091) |

"Eliminations" refers to the elimination of inter-segment revenues, profits and investments. "Trading Operating Profit before Interest" refers to profits prior to other income and expenditure and the IAS 19 pension adjustment. The "IAS 19 pension adjustment" refers to the impact on operating profits of the pension schemes' operating costs, as described in the IAS 19 section of the Financial Review. "Interest Expense" incorporates the IAS 19 pension impact of the pension schemes' finance costs, as described in the IAS 19 section of the Financial Review. The net IAS 19 pension adjustments to Operating profit and interest can be seen in the Summary of Results. "Profit before tax" is consistent with that reported in the Statement of Comprehensive Income. Inter segment transactions are performed at arms length.

Business segments
Period ended 28 March 2009

| | JC Speciality Papers £'000 | The Paper Mill Shop £'000 | JC Converting £'000 | Technical Fibre Products £'000 | Group Services £'000 | Other £'000 | Eliminations £'000 | Group £'000 |
|---|-------------------------------------|---------------------------------|---------------------------|---|----------------------------|----------------|-----------------------|----------------|
| Revenue | | | | | | | | |
| - External | 47,148 | 5,674 | 10,333 | 11,648 | - | - | - | 74,803 |
| - Inter-segment | 2,676 | - | 662 | - | - | - | (3,338) | - |
| | 49,824 | 5,674 | 10,995 | 11,648 | - | - | (3,338) | 74,803 |
| Profit | | | | | | | | |
| Trading Operating Profit before Interest | (310) | (388) | 406 | 2,099 | (251) | - | - | 1,556 |
| IAS 19 Pension adjustments to segment profit | - | - | - | - | (476) | - | - | (476) |
| Operating Profit | (310) | (388) | 406 | 2,099 | (727) | - | - | 1,080 |
| Interest Expense | | | | | | | | (493) |
| Interest Income | | | | | | | | 271 |
| Profit before tax | | | | | | | | 858 |
| Tax on profit for year from continuing operations and before exceptional tax item | | | | | | | | (358) |
| Profit for the year from continuing operations before exceptional tax charge | | | | | | | | 500 |
| Exceptional tax charge | | | | | | | | (587) |
| Loss for the year | | | | | | | | (87) |
| Total Assets | 29,827 | 1,824 | 9,158 | 11,547 | 45,627 | 1,786 | (53,426) | 46,343 |
| Total Liabilities | (24,576) | (2,179) | (7,107) | (9,406) | (26,284) | (368) | 43,751 | (26,169) |

The group's manufacturing operations are principally based in the UK. The sales analysis in the table below is based on the location of the customer.

| | Revenue 2010 £'000 | Revenue 2009 £'000 |
|-----------------------|--------------------------|--------------------------|
| Continuing operations | | |
| UK | 43,330 | 42,499 |
| Europe | 17,758 | 17,015 |
| Asia | 4,960 | 4,176 |
| The Americas | 8,899 | 9,155 |
| Australasia | 839 | 1,555 |
| Africa | 444 | 403 |
| | 76,230 | 74,803 |

NOTES TO THE FINANCIAL STATEMENTS

continued

| 3 Finance Costs | 2010 £'000 | 2009 £'000 |
|--|-----------------------|-----------------------|
| Interest expense | | |
| Interest payable on bank borrowings | 255 | 424 |
| Interest payable on finance leases | 29 | 60 |
| Other interest payable | - | 9 |
| Retirement benefits | | |
| Expected return on pension scheme assets | (3,202) | - |
| Interest on pension scheme liabilities | 3,828 | - |
| Total interest expense | 910 | 493 |
| Interest income | | |
| Interest receivable on bank borrowings | 13 | 45 |
| Retirement benefits | | |
| Expected return on pension scheme assets | - | 4,179 |
| Interest on pension scheme liabilities | - | (3,953) |
| Total interest income | 13 | 271 |
| Finance costs - net | 897 | 222 |

4 Profit/(loss) before tax

| | 2010 £'000 | 2009 £'000 |
|---|-----------------------|-----------------------|
| The following items have been charged/(credited) in arriving at profit before tax | | |
| Staff Costs | 19,909 | 18,211 |
| Depreciation of property, plant and equipment | | |
| - owned assets | 2,778 | 2,898 |
| - amortisation of intangibles | 360 | 281 |
| Loss/ (profit) on disposal of fixed assets | 28 | 9 |
| Other operating lease rentals payable | | |
| - Plant & machinery | 657 | 663 |
| - Retail outlets | 930 | 999 |
| Repairs and maintenance expenditure on property, plant and equipment | 3,148 | 2,772 |
| Government grants received | (150) | (252) |
| Research and development expenditure | 1,148 | 976 |
| Foreign exchange differences | (4) | (368) |
| Trade receivables impairment | 191 | 180 |

Government grants relate to assistance received for research projects and the development of new technology

Services Provided by the Group's Auditor and network firms

During the year the group obtained the following services from the group's auditor at costs as detailed below

| | 2010 £'000 | 2009 £'000 |
|---|-----------------------|-----------------------|
| Audit Services | | |
| - Fees payable to the company's auditor for the audit of parent company and consolidated accounts | 17 | 15 |
| Other services | | |
| - Remuneration payable to the company's auditor for the auditing of subsidiary accounts and associates of the company pursuant to legislation (including that of countries and territories outside Great Britain) | 41 | 44 |
| - Fees in respect of other accountancy matters | 11 | 2 |
| - Tax advisory services | 19 | 25 |
| | 88 | 86 |

5 Taxation

Analysis of charge in the period

| | Note | 2010 £'000 | 2009 £'000 |
|---|------|---------------|---------------|
| Continuing operations | | | |
| Current tax | | 1,066 | 719 |
| Adjustments in respect of prior period current tax | | (42) | (161) |
| Foreign tax | | 3 | (76) |
| Total current tax | | 1,027 | 482 |
| Deferred tax | | (406) | 366 |
| Adjustments in respect of prior period deferred tax | | (13) | 97 |
| Total deferred tax | 17 | (419) | 463 |
| Taxation | | 608 | 945 |

Tax on items charged to equity

| | | |
|---|---------|---------|
| Deferred tax on actuarial gains on retirement benefit liabilities | (1,358) | (2,166) |
|---|---------|---------|

The tax for the period is higher from the standard rate of corporation tax in the UK (28%)

The differences are explained below

| | 2010 £'000 | 2009 £'000 |
|---|---------------|---------------|
| Profit before tax | 2,416 | 858 |
| Profit on ordinary activities multiplied by rate of corporation tax in the UK of 28% (2009 28%) | 677 | 241 |
| Effects of | | |
| Adjustments to tax in respect of prior period | (56) | (148) |
| Overseas tax rates | 1 | 54 |
| Expenses not deductible for tax purposes | (32) | 124 |
| Other | 18 | 87 |
| Deferred tax movement on assets becoming non-qualifying - removal of IBA's* | - | 587 |
| Total tax charge for the period | 608 | 945 |

* The phasing out of Industrial Buildings Allowance ("IBA") in 2008/09 resulted in an exceptional Deferred Tax charge of £587,000. In previous years future entitlement for tax relief arising from IBA had been accounted for as a "deferred asset" on the Statement of Financial Position. With the removal of this entitlement the benefit from this "deferred asset" will no longer materialise thus leading to it being written off in 2009.

NOTES TO THE FINANCIAL STATEMENTS

continued

6 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the year

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of dilutive potential ordinary shares - those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below

| | Earnings | 2010 Weighted average number of shares | Per-share amount | Earnings | 2009 Weighted average number of shares | Per-share amount |
|---|----------|--|---------------------|----------|--|---------------------|
| | £'000 | '000 | pence | £'000 | '000 | pence |
| Basic EPS | | | | | | |
| Earnings/(losses) attributable to ordinary shareholders | 1,808 | 8,472 | 21.3 | (87) | 8,472 | (1.0) |
| Effect of dilutive securities | | | | | | |
| Options | - | 95 | - | - | - | - |
| Diluted EPS | 1,808 | 8,567 | 21.1 | (87) | 8,472 | (1.0) |

7 Dividends

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| Final paid for the period ended 28 March 2009 / period ended 29 March 2008 | 332 | 432 |
| Interim paid for the period ended 27 March 2010 / period ended 28 March 2009 | 183 | 93 |

In addition, the directors are proposing a final dividend in respect of the financial period ended 27 March 2010 of 5.3p per share which will absorb an estimated £449,000 (2009 £339,000) of shareholders' funds. If approved by members at the Annual General Meeting, it will be paid on 13 August 2010 to shareholders who are on the register of members at 23 July 2010. There are no tax implications in respect of this proposed dividend.

The proposed dividend is not accounted for until it is formally approved at the Annual General Meeting.

8 Intangible assets

| | Group | | | | Company | | |
|--|-------------------------------|---------------------------|---------------------------------|----------------|-------------------------------|---------------------------------|----------------|
| | Computer Software £'000 | Trade Secrets £'000 | Emission Allowances £'000 | Total £'000 | Computer Software £'000 | Emission Allowances £'000 | Total £'000 |
| Cost | | | | | | | |
| At 28 March 2009 | 3,446 | 340 | 1,143 | 4,929 | 3,446 | 1,143 | 4,589 |
| Additions – externally generated | 15 | - | 447 | 462 | 15 | 447 | 462 |
| Effects of movements in foreign exchange | - | (18) | - | (18) | - | - | - |
| At 27 March 2010 | 3,461 | 322 | 1,590 | 5,373 | 3,461 | 1,590 | 5,051 |
| Aggregate amortisation | | | | | | | |
| At 28 March 2009 | 2,103 | 41 | 773 | 2,917 | 2,103 | 773 | 2,876 |
| Charge for Period | 296 | 64 | - | 360 | 296 | - | 296 |
| At 27 March 2010 | 2,399 | 105 | 773 | 3,277 | 2,399 | 773 | 3,172 |
| Net book value at 27 March 2010 | 1,062 | 217 | 817 | 2,096 | 1,062 | 817 | 1,879 |
| Net book value at 28 March 2009 | 1,343 | 299 | 370 | 2,012 | 1,343 | 370 | 1,713 |
| | | | | | | | |
| | Group | | | | Company | | |
| | Computer Software £'000 | Trade Secrets £'000 | Emission Allowances £'000 | Total £'000 | Computer Software £'000 | Emission Allowances £'000 | Total £'000 |
| Cost | | | | | | | |
| At 29 March 2008 | 3,184 | 251 | - | 3,435 | 3,184 | - | 3,184 |
| Additions -externally generated | 53 | - | 1,143 | 1,196 | 53 | 1,143 | 1,196 |
| Additions - internally generated | 209 | - | - | 209 | 209 | - | 209 |
| Effects of movements in foreign exchange | - | 89 | - | 89 | - | - | - |
| At 28 March 2009 | 3,446 | 340 | 1,143 | 4,929 | 3,446 | 1,143 | 4,589 |
| Aggregate amortisation | | | | | | | |
| At 29 March 2008 | 1,851 | 12 | - | 1,863 | 1,851 | - | 1,851 |
| Charge for Period | 252 | 29 | 773 | 1,054 | 252 | 773 | 1,025 |
| At 28 March 2009 | 2,103 | 41 | 773 | 2,917 | 2,103 | 773 | 2,876 |
| Net book value at 28 March 2009 | 1,343 | 299 | 370 | 2,012 | 1,343 | 370 | 1,713 |
| Net book value at 29 March 2008 | 1,333 | 239 | - | 1,572 | 1,333 | - | 1,333 |

The computer software capitalised principally relates to the ongoing development of the Group's Enterprise Resource Planning and Financial systems. The remaining amortisation period of the assets at the period end is 5 years (2009: 6 years).

The trade secrets relate to certain recipes and know how acquired within the TFP division. The remaining amortisation period of the assets at the period end is 8 years.

The Emission Allowances relate to the allowances received through the European Emissions Trading Scheme (EUETS) and are valued at market value at the date of initial recognition. The allocated allowances are held throughout each compliance period and are used to meet the Group's emissions obligations.

NOTES TO THE FINANCIAL STATEMENTS

continued

9 Property, plant and equipment

| Group | Freehold land & buildings £'000 | Plant & machinery £'000 | Total £'000 |
|--|---------------------------------------|-------------------------------|----------------|
| Cost | | | |
| Brought forward at 28 March 2009 | 10,079 | 67,959 | 78,038 |
| Transfers | 36 | (36) | - |
| Additions at cost | 69 | 1,144 | 1,213 |
| Disposals | (3) | (2,760) | (2,763) |
| Effects of movements in foreign exchange | - | (25) | (25) |
| At 27 March 2010 | 10,181 | 66,282 | 76,463 |
| Accumulated Depreciation | | | |
| Brought forward at 28 March 2009 | 4,739 | 54,816 | 59,555 |
| Charge for Period | 261 | 2,517 | 2,778 |
| Disposals | (4) | (2,729) | (2,733) |
| At 27 March 2010 | 4,996 | 54,604 | 59,600 |
| Net book value at 28 March 2010 | 5,185 | 11,678 | 16,863 |
| Net book value at 28 March 2009 | 5,340 | 13,143 | 18,483 |
| | | | |
| | Freehold land & buildings £'000 | Plant & machinery £'000 | Total £'000 |
| Cost | | | |
| Brought forward at 29 March 2008 | 10,070 | 66,844 | 76,914 |
| Additions at cost | 9 | 1,062 | 1,071 |
| Transfers | | | |
| Disposals | - | (48) | (48) |
| Effects of movements in foreign exchange | - | 101 | 101 |
| At 28 March 2009 | 10,079 | 67,959 | 78,038 |
| Accumulated Depreciation | | | |
| Brought forward at 29 March 2008 | 4,473 | 52,133 | 56,606 |
| Charge for Period | 266 | 2,705 | 2,971 |
| Disposals | - | (22) | (22) |
| At 28 March 2009 | 4,739 | 54,816 | 59,555 |
| Net book value at 28 March 2009 | 5,340 | 13,143 | 18,483 |
| Net book value at 29 March 2008 | 5,597 | 14,711 | 20,308 |

Assets held under finance leases, capitalised and included in tangible fixed assets

| | Group | | Company | |
|-------------------------------|---------------|---------------|---------------|---------------|
| | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Cost | 1,544 | 1,392 | 1,544 | 1,392 |
| Depreciation in period | 87 | 134 | 87 | 134 |
| Net book value | 1,457 | 1,258 | 1,457 | 1,258 |

9 Property plant and equipment

| Company | Freehold land & buildings £'000 | Plant & machinery £'000 | Total £'000 |
|--|---------------------------------------|-------------------------------|----------------|
| Cost | | | |
| Brought forward at 28 March 2009 | 853 | 3,479 | 4,332 |
| Transfers | - | 286 | 286 |
| Additions at cost | 10 | 40 | 50 |
| Disposals | - | (74) | (74) |
| Effects of movements in foreign exchange | - | - | - |
| At 27 March 2010 | 863 | 3,731 | 4,594 |
| Accumulated Depreciation | | | |
| Brought forward at 28 March 2009 | 281 | 1,823 | 2,104 |
| Charge for Period | 12 | 294 | 306 |
| Disposals | - | (74) | (74) |
| At 27 March 2010 | 293 | 2,043 | 2,336 |
| Net book value at 28 March 2010 | 570 | 1,688 | 2,258 |
| Net book value at 28 March 2009 | 572 | 1,656 | 2,228 |
| | | | |
| | Freehold land & buildings £'000 | Plant & machinery £'000 | Total £'000 |
| Cost | | | |
| Brought forward at 29 March 2008 | 853 | 1,996 | 2,849 |
| Additions at cost | - | 91 | 91 |
| Transfers | - | 1,392 | 1,392 |
| Disposals | - | - | - |
| At 28 March 2009 | 853 | 3,479 | 4,332 |
| Accumulated Depreciation | | | |
| Brought forward at 29 March 2008 | 268 | 1,658 | 1,926 |
| Charge for Period | 13 | 165 | 178 |
| Disposals | - | - | - |
| At 28 March 2009 | 281 | 1,823 | 2,104 |
| Net book value at 28 March 2009 | 572 | 1,656 | 2,228 |
| Net book value at 29 March 2008 | 585 | 338 | 923 |

TPMS Impairment Review note

Given the losses incurred by The Paper Mill Shop Limited ("TPMS") an impairment review has been conducted. The recoverable amount of the assets was taken to be their value in use and was calculated by reference to the cash flows taken from the Group's forecasts as detailed below.

For the purpose of impairment testing TPMS is regarded as one cash generating unit being the lowest level at which impairment is monitored for internal management purposes.

The review derived the net present value of TPMS over a 20 year period, with the year to 31 March 2010 being year 1. Years 2, 3 and 4 were based on the subsidiary's 2010/11 Business Plan approved by the Board with

The key assumptions in the forecast which are consistent with last year were:

- No new store openings
 - Closure of underperforming stores on lease termination
 - No sales price inflation
 - Gross margin remains constant throughout
 - Nil inflation in costs, cost increases being offset by productivity gains
 - Working capital recovered in the final year
- The revised forecast assumptions were:
- Average sales volume per outlet grows by 9% between years 4 and 8 and remains constant thereafter
 - Internet sales volume grows by 47% between years 4 and 11 and remains constant thereafter
- A pre-tax discount rate of 13.7% (2009 13.4%) has been

the current economic climate in general and the lack of confidence with which the near future can be forecast in the retail sector in particular. Given the magnitude of the discount rate and that the valuation stretched out over 20 years terminal values were ignored.

The net book value of TPMS fixed assets are £283,000 (2009 £416,000).

The Directors believe that given the recent trading performance of TPMS the above assumptions are the most appropriate, however note that when the economy begins to recover a different set of assumptions may be more appropriate.

The review concluded that based upon the discount rate used and the key assumptions applied there was no requirement for an impairment provision.

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10 Investments

(i) Investments in subsidiary undertakings

| | Group | | Company | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| At 27 March 2010 and 28 March 2009 | - | - | 7,350 | 7,350 |

Investments in subsidiary undertakings are stated at cost. A list of principal subsidiary undertakings is given below.

| | Country of Incorporation | % holding (of ordinary shares) | Nature of business |
|---|-----------------------------|--------------------------------------|---|
| James Cropper Speciality Papers Limited | England | 100 | Manufacture of coloured paper and boards |
| The Paper Mill Shop Company Limited | England | 100 | Retailing of paper |
| James Cropper Converting Limited | England | 100 | Paper converter |
| Technical Fibre Products Limited | England | 100 | Manufacture of high performance wet-laid nonwovens from fibres |
| Tech Fibers Inc | USA | 100 | Holding Company |
| Technical Fiber Products Inc | USA | 100 | Sales and marketing organisation |
| Metal Coated Fibers Inc | USA | 100 | Manufacturer of metal coated carbon fibres |
| Electro Fiber Technologies LLC | USA | 100 | Manufacturer of metal coated fibres |
| Melmore Limited | England | 100 | Dormant company |
| Papermilldirect.com Limited | England | 100 | Dormant company |
| James Cropper EBT Limited | England | 100 | Trustee of an employee benefit trust |

11 Inventories

| | Group | | Company | |
|------------------|---------------|---------------|---------------|---------------|
| | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Materials | 5,269 | 4,890 | - | - |
| Work in progress | 2,013 | 2,055 | - | - |
| Finished goods | 2,913 | 3,477 | - | - |
| | 10,195 | 10,422 | - | - |

Inventories are stated after a provision for impairment of £116,000 (2009: £323,000). The cost of inventories recognised as expenses and included in cost of sales for the year ended 27 March 2010 was £32,338,000 (2009: £33,895,000).

12 Trade and other receivables

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Trade debtors | 13,829 | 11,977 | - | - |
| Less: Provision for impairment of receivables | (340) | (249) | - | - |
| Trade debtors - net | 13,489 | 11,728 | - | - |
| Amounts owed by group undertakings | - | - | 33,201 | 30,437 |
| Other debtors | 274 | 300 | 144 | 291 |
| Prepayments | 746 | 808 | 394 | 404 |
| | 14,509 | 12,836 | 33,739 | 31,132 |

Management believe there is no further credit risk provision required in excess of normal provision for doubtful receivables. The adoption of IFRS 7 "Financial Instruments: Disclosure" has resulted in additional disclosures on credit risk which can be viewed in Note 15.

13 Trade and other payables

| | Group | | Company | |
|---------------------------------------|--------|-------|---------|--------------------|
| | 2010 | 2009 | 2010 | 2009 * Restated |
| | £'000 | £'000 | £'000 | £'000 |
| Trade payables | 2,410 | 1,950 | 1,880 | 1,323 |
| Amounts owed to group undertakings | - | - | 13,577 | 10,299 |
| Other tax and social security payable | 430 | 385 | 100 | 79 |
| Other creditors | 2,088 | 491 | 1,959 | 450 |
| Accruals | 6,153 | 4,836 | 822 | 664 |
| | 11,081 | 7,662 | 18,338 | 12,815 |

* 2009 Company Trade and other payables has been restated to move £10,170,000 from Note 14 Current Borrowings to "Amounts owed to group undertakings". This has had the effect of increasing "Amounts owed to group undertakings" from £129,000 as previously reported to £10,299,000. The re-classification on intercompany items affects the Company for 2009 and has had no effect on the Group's consolidated Trade and other payables.

14 Loans and borrowings

| | Note | Group | | Company | |
|--|------|-------|-------|---------|--------------------|
| | | 2010 | 2009 | 2010 | 2009 * Restated |
| | | £'000 | £'000 | £'000 | £'000 |
| Current | | | | | |
| Intercompany loans | | - | - | - | - |
| Bank loans and overdrafts due within one year or on demand | | | | | |
| Unsecured bank loans | | 2,850 | 1,855 | 1,180 | 1,855 |
| Secured finance lease | | 345 | 279 | 345 | 279 |
| | | 3,195 | 2,134 | 1,525 | 2,134 |
| Non-current loans | | | | | |
| Unsecured bank loans | | 1,104 | 4,049 | 1,104 | 2,284 |
| Secured finance lease | | 782 | 905 | 782 | 905 |
| | 15 3 | 1,886 | 4,954 | 1,886 | 3,189 |

* The 2009 Company Current Borrowings have been re-stated to move £10,170,000 from current borrowings to "Amounts owed to group undertakings" within Note 13 Trade and other payables. This has had the effect of reducing current borrowings from £12,304,000 as previously reported to £2,134,000 for 2009 as reported above. The Company does have intercompany loans and these are reported in Note 12 Trade and other receivables under "Amounts owed by group undertakings". The re-classification only affects the Company and has had no effect on the Group's consolidated borrowings.

Bank loans bear interest at rates between 1% and 1.5% above UK bank base rates.

The future minimum lease payments under finance leases held, together with the value of principle are as follows:

| Group and Company | Minimum lease payments 2010 | Interest 2010 | Principal 2010 | Minimum lease payments 2009 | Interest 2009 | Principal 2009 |
|---|--------------------------------------|------------------|-------------------|--------------------------------------|------------------|-------------------|
| | | | | | | |
| Within 1 year | 369 | 24 | 345 | 321 | 42 | 279 |
| Greater than 1 year and less than 5 years | 805 | 23 | 782 | 990 | 85 | 905 |
| After 5 years | - | - | - | - | - | - |

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15 Financial Instruments and Risk

The Group has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk

This note presents information about the fair value of the Group's financial instruments, the Group's exposure to each of the risks noted and the Group's objectives, policies and processes for measuring and managing risk. The Board has overall responsibility of the risk management strategy and coordinates activity across the Group. This responsibility is discussed further in the Director's report.

Exposure to the financial risks noted, arise in the normal course of the Group's business.

15.1 Categories of non-derivative financial assets and liabilities and fair values

The fair values of the financial assets and liabilities of the Group together with their book values are as follows

| | Note | Group | | Group | |
|--|------|------------|------------|------------|------------|
| | | Book value | Fair value | Book value | Fair value |
| | | 2010 | 2010 | 2009 | 2009 |
| | | £'000 | £'000 | £'000 | £'000 |
| Financial assets | | | | | |
| Current | | | | | |
| Trade and other receivables | 12 | 14,509 | 14,509 | 12,836 | 12,836 |
| Cash and cash equivalents | | 5,050 | 5,050 | 2,636 | 2,636 |
| | | 19,559 | 19,559 | 15,472 | 15,472 |
| Financial liabilities | | | | | |
| Current | | | | | |
| Trade and other payables | 13 | 11,081 | 11,081 | 7,662 | 7,662 |
| Short term borrowings | 14 | 3,195 | 3,195 | 2,134 | 2,134 |
| | | 14,276 | 14,276 | 9,796 | 9,796 |
| Non-current Long term borrowings | 14 | 1,886 | 1,886 | 4,954 | 4,954 |
| | | | | | |
| | Note | Company | | Company | |
| | | Book value | Fair value | Book value | Fair value |
| | | 2010 | 2010 | 2009 | 2009 |
| | | £'000 | £'000 | £'000 | £'000 |
| Financial assets | | | | | |
| Current | | | | | |
| Trade and other receivables | 12 | 33,739 | 33,739 | 31,132 | 31,132 |
| Cash and cash equivalents | | 3,420 | 3,420 | 2,054 | 2,054 |
| | | 37,159 | 37,159 | 33,186 | 33,186 |
| Non current | | | | | |
| Investments in subsidiary undertakings | 10 | 7,350 | 7,350 | 7,350 | 7,350 |
| Financial liabilities | | | | | |
| Current | | | | | |
| Trade and other payables | 13 | 18,338 | 18,338 | 12,815 | 12,815 |
| Short term borrowings | 14 | 1,525 | 1,525 | 2,134 | 2,134 |
| | | 19,863 | 19,863 | 14,949 | 14,949 |
| Non-current | | | | | |
| Long term borrowings | 14 | 1,886 | 1,886 | 3,189 | 3,189 |

The fair values are stated at the reporting date and may be different from the amounts which will be actually paid or received on settlement of the instruments. The fair values are based on book values as the directors do not consider that there is a material difference between the book values and the fair values.

15.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations. Credit risk arising from the Group's normal commercial activities are controlled by individual business units operating in accordance with Group policies and procedures. Exposure to credit risk arises from the potential of a customer defaulting on their invoiced sales. Some of the Group's businesses have credit insurance in place. For un-insured customers, the financial strength and credit worthiness of the customer is assessed from a variety of internal and external information, and specific credit risk controls that match the risk profile of those customers are applied.

Trade receivables recorded by business held at the 27 March 2010 were

| | 2010 £'000 | 2009 £'000 |
|---------------------------------|---------------|---------------|
| James Cropper Speciality Papers | 8,887 | 7,321 |
| The Paper Mill Shop | 96 | 115 |
| James Cropper Converting | 2,459 | 2,136 |
| Technical Fibre Products | 2,047 | 2,156 |
| | 13,489 | 11,728 |

The Company does not have trade receivables

The ageing of trade receivables at the reporting date was

| | 2010 £'000 | 2009 £'000 |
|----------------------|---------------|---------------|
| Not past due | 13,385 | 11,384 |
| Past due 0-30 days | 271 | 228 |
| Past due 31 -60 days | 52 | 2 |
| Over 61 days | 121 | 363 |
| | 13,829 | 11,977 |
| Less impairment | (340) | (249) |
| | 13,489 | 11,728 |

At the end of each reporting period a review of the provision for bad and doubtful debts is performed. It is an assessment of the potential amount of trade debtors which will not be paid by customers after the balance sheet date. This amount is calculated by reference to the age, status and risk of each receivable.

Provision for doubtful debts

| | 2010 £'000 | 2009 £'000 |
|---|---------------|---------------|
| Balance at 28 March 2009/ 29 March 2008 | 249 | 69 |
| Created/(released) during the period | 190 | 179 |
| (Utilised)/credited during the period | (99) | 1 |
| Balance at 27 March 2010 / 28 March 2009 | 340 | 249 |

Included in the outstanding trade receivables balance are debtors with an overdue amount of £144,000 (2009: £344,000) that the Group has not provided for. The directors believe that these amounts are still considered recoverable from customers for whom there is no recent history of default.

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15.3 Liquidity risk

Liquidity risk is the risk that the Group will have sufficient funds to meet liabilities. The Group's policy is to maintain a mix of short, medium and long term borrowings with a number of banks. Short term flexibility is achieved through overdraft facilities. In addition, it is the Group's policy to maintain undrawn committed borrowing facilities in order to provide flexibility in the management of liquidity.

Current and non-current financial liabilities

The maturity profile of the carrying amount of the current and non-current financial liabilities, at 27 March 2010, was as follows

| | Finance lease | | | Finance lease | | |
|---|---------------|------------------|------------|---------------|------------------|------------|
| | Debt 2010 | obligations 2010 | Total 2010 | Debt 2009 | obligations 2009 | Total 2009 |
| Group | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| In less than one year | 2,850 | 345 | 3,195 | 1,855 | 279 | 2,134 |
| In more than one year but not more than two years | 746 | 343 | 1,089 | 1,037 | - | 1,037 |
| In more than two years but not more than five years | 358 | 439 | 797 | 3,012 | 905 | 3,917 |
| In more than five years | - | - | - | - | - | - |
| | 3,954 | 1,127 | 5,081 | 5,904 | 1,184 | 7,088 |

| | Finance lease | | | Finance lease | | |
|---|---------------|------------------|------------|---------------|------------------|------------|
| | Debt 2010 | obligations 2010 | Total 2010 | Debt 2009 | obligations 2009 | Total 2009 |
| Company | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| In less than one year | 1,180 | 345 | 1,525 | 1,855 | 279 | 2,134 |
| In more than one year but not more than two years | 746 | 343 | 1,089 | 1,037 | - | 1,037 |
| In more than two years but not more than five years | 358 | 439 | 797 | 1,247 | 905 | 2,152 |
| In more than five years | - | - | - | - | - | - |
| | 2,284 | 1,127 | 3,411 | 4,139 | 1,184 | 5,323 |

Trade payables

Trade payables at the reporting date was

| | Group | | Company | |
|------------------------------|-------|-------|---------|-------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Total contractual cash flows | 2,410 | 1,950 | 1,880 | 1,323 |

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 27 March 2010

| | Floating rate | Floating rate |
|---|---------------|---------------|
| | £'000 | £'000 |
| Expiring within one year (renewable annually) | 5,087 | 5,172 |

The Group's expiry profile of the drawn down facilities is as follows

| | Bank Borrowings |
|----------------|-----------------|
| | £'000 |
| Expiry by | |
| August 2010 | 1,670 |
| September 2010 | 143 |
| January 2011 | 714 |
| April 2012 | 355 |
| December 2012 | 286 |
| January 2013 | 786 |

15.4 Currency risk

The Group publishes its consolidated financial statements in sterling but also conducts business in foreign currencies. As a result it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Group's transaction costs or in the underlying foreign currency assets of its foreign operations. The Group has operations in the US. The Group is exposed to foreign exchange risks primarily with respect to US Dollars and the Euro. Where possible, the Group maintains a policy of balancing sales and purchases denominated in foreign currencies. Where an imbalance remains, the Group has also entered into certain forward exchange contracts. No material contracts were outstanding at the year end. The management of foreign currency is described in further detail in the Financial Review.

Represented below is the net exposure to foreign currencies, reported in pounds sterling, and arising from all Group activities, as at 27 March 2010.

At the 27 March 2010 the Group's exposure to foreign currency risk was as follows:

| | USD £'000 | Euro £'000 | GBP £'000 | Total £'000 |
|-----------------------------|--------------|---------------|--------------|----------------|
| Trade Receivables | 2,445 | 2,754 | 8,290 | 13,489 |
| Cash and cash equivalents | 958 | 999 | 3,093 | 5,050 |
| Trade Payables | (63) | (545) | (1,802) | (2,410) |
| Unsecured current loans | (1,670) | - | (1,180) | (2,850) |
| Finance lease current | - | - | (345) | (345) |
| Unsecured non-current loans | - | - | (1,104) | (1,104) |
| Finance lease non-current | - | - | (782) | (782) |
| Net exposure | 1,670 | 3,208 | 6,170 | 11,048 |

At the 28 March 2009 the Group's exposure to foreign currency risk was as follows:

| | USD £'000 | Euro £'000 | GBP £'000 | Total £'000 |
|-----------------------------|--------------|---------------|--------------|----------------|
| Trade Receivables | 2,108 | 2,072 | 7,548 | 11,728 |
| Cash and cash equivalents | 305 | 1 | 2,330 | 2,636 |
| Trade Payables | (44) | (227) | (1,679) | (1,950) |
| Unsecured current loans | - | - | (1,855) | (1,855) |
| Finance lease current | - | - | (279) | (279) |
| Unsecured non-current loans | (1,765) | - | (2,284) | (4,049) |
| Finance lease non-current | - | - | (905) | (905) |
| Net exposure | 604 | 1,846 | 2,876 | 5,326 |

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15.4 Currency risk continued

At the 27 March 2010 the Company's exposure to foreign currency risk was as follows

| | USD £'000 | Euro £'000 | GBP £'000 | Total £'000 |
|------------------------------|--------------|---------------|--------------|----------------|
| Trade Receivables | - | - | - | - |
| Cash and cash equivalents | 1 | 790 | 2,629 | 3,420 |
| Trade Payables | - | (507) | (1,373) | (1,880) |
| Unsecured current loans | - | - | (1,180) | (1,180) |
| Finance lease current | - | - | (345) | (345) |
| Unsecured non- current loans | - | - | (1,104) | (1,104) |
| Finance lease non-current | - | - | (782) | (782) |
| Net exposure | 1 | 283 | (2,155) | (1,871) |

At the 28 March 2009 the Company's exposure to foreign currency risk was as follows

| | USD £'000 | Euro £'000 | GBP £'000 | Total £'000 |
|-----------------------------|--------------|---------------|--------------|----------------|
| Trade Receivables | - | - | - | - |
| Cash and cash equivalents | (16) | (51) | 2,121 | 2,054 |
| Trade Payables | (13) | (138) | (1,172) | (1,323) |
| Unsecured current loans | - | - | (1,855) | (1,855) |
| Finance lease current | - | - | (279) | (279) |
| Unsecured non-current loans | - | - | (2,284) | (2,284) |
| Finance lease non-current | - | - | (905) | (905) |
| Net exposure | (29) | (189) | (4,374) | (4,592) |

A one percent strengthening of the pound against the Euro and the US Dollar at 27 March 2010 would have had the following impact on equity and profit by the amounts shown below

| Group | | Equity £'000 | SCI £'000 |
|---------------|------|-----------------|--------------|
| 27 March 2010 | USD | (17) | (24) |
| 27 March 2010 | Euro | (32) | (22) |
| 28 March 2009 | USD | (6) | (20) |
| 28 March 2009 | Euro | (18) | (18) |

| Company | | Equity £'000 | SCI £'000 |
|---------------|------|-----------------|--------------|
| 27 March 2010 | USD | - | - |
| 27 March 2010 | Euro | (3) | 5 |
| 28 March 2009 | USD | - | - |
| 28 March 2009 | Euro | 2 | 1 |

This sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations assume all other variables, in particular interest rates, remain constant.

15.5 Interest rate risk

Interest rate risk derives from the Group's exposure to changes in value of an asset or liability or future cash flow through changes in interest rates. The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currencies at floating rates of interest and then uses interest rate caps to manage its exposure to interest rate fluctuations. There are no outstanding financial instruments that are designated as hedges outstanding at the year-end. The exposure is therefore measured on variable rate debt and instruments. The net exposure to interest rates at the Statement of Financial Position date can be summarised as follows:

| | Group | | Company | |
|---|-------|-------|---------|-------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Interest bearing liabilities - floating | | | | |
| Borrowings | 3,953 | 5,904 | 2,283 | 4,139 |
| Finance lease | 1,128 | 1,184 | 1,128 | 1,184 |
| | 5,081 | 7,088 | 3,411 | 5,323 |

The effective interest rates at the balance sheet date were as follows:

| | 2010 | 2009 |
|----------------|------|------|
| | % | % |
| Bank overdraft | 1.5 | 1.5 |
| Borrowings | 1.8 | 2.1 |

The sensitivity analysis below assumes a 100 basis point change in interest rates from their levels at the reporting date, with all other variables held constant. A 1% rise in interest rates would result in an additional £51,000 for the Group and £34,000 for the Company in interest expense being incurred per year. The impact of a decrease in rates would be an identical reduction in the annual charge.

| | Group | Company |
|---------------|-------|---------|
| | SCI | SCI |
| 27 March 2010 | 51 | 34 |
| 28 March 2009 | 71 | 53 |

16 Retirement benefits

The Group operates a number of pension schemes. Two of these schemes, the James Cropper plc Works Pension Plan ("Works Scheme") and the James Cropper plc Pension Scheme ("Staff Scheme") are funded schemes of the defined benefit type. The Group also operates a defined contribution scheme and makes contributions to personal pension plans for its employees in the USA.

Pension costs for the defined contribution scheme and personal pension contributions are as follows:

| | Group | |
|--------------------------------|-------|-------|
| | 2010 | 2009 |
| | £'000 | £'000 |
| Defined contribution schemes | 244 | 225 |
| Personal pension contributions | 23 | 14 |

Other pension costs totalled £228,000 (2009: £90,000) and represent life assurance charges and government pension protection fund levies.

Defined benefit plans

The most recent actuarial valuations of the Staff Scheme and the Works Scheme have been updated to 27 March 2010 by qualified independent actuaries. The major assumptions used by the actuary for each scheme were as noted below. The expected return on plan assets is calculated by using a weighted average across each category of asset.

| | Staff Scheme | | Works Scheme | |
|--|--------------|------|--------------|------|
| | 2010 | 2009 | 2010 | 2009 |
| | % | % | % | % |
| Rate of increase in pensionable salaries | 4.5 | 4.1 | 4.5 | 4.1 |
| Rate of increase of pensions in payment and deferred | 3.8 | 3.5 | 3.8 | 3.5 |
| Discount rate | 5.6 | 6.7 | 5.6 | 6.7 |
| Inflation assumption | 3.7 | 3.1 | 3.7 | 3.1 |
| Expected return on plan assets | 6.8 | 6.7 | 6.9 | 6.7 |

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16 Retirement benefits continued

In respect of mortality for the Works members the PA92 series table has been used with the medium cohort projections applied, and a plus three year age rating. For the Staff members the PNA00 tables with a 120% rating has been used with the long cohort projections and a 1% underpin. The different tables and methods applied to each Scheme reflect the different characteristics of the members within these Schemes.

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates. The long-term expected return on bonds is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance.

The amounts recognised in the Statement of Financial Position are determined as follows:

| | 2010 £'000 | 2009 £'000 | 2008 £'000 | 2007 £'000 | 2006 £'000 |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Present value of scheme liabilities | (78,130) | (57,333) | (60,335) | (66,733) | (66,007) |
| Fair value of plan assets | 63,950 | 48,257 | 58,531 | 60,581 | 55,692 |
| Net liability recognised in the SFP | (14,180) | (9,076) | (1,804) | (6,152) | (10,315) |

The fair value of the plan assets comprises the following categories of asset in the stated proportions:

| | Staff Scheme | | Works Scheme | |
|-----------------|--------------|-----------|--------------|-----------|
| | 2010 % | 2009 % | 2010 % | 2009 % |
| Equities | 53 | 45 | 57 | 55 |
| Bonds | 15 | 18 | 39 | 36 |
| Property | - | - | - | 1 |
| Cash | 1 | 1 | 4 | 8 |
| Annuities | 6 | 8 | - | - |
| Corporate Bonds | 25 | 28 | - | - |

The pension plan assets include investments in the shares of the Company with a fair value of £580,000 (2009: £345,000).

The amounts recognised in the Statement of Comprehensive Income are as follows:

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| Current service cost | 826 | 1,300 |
| Total included within employee benefit costs | 826 | 1,300 |
| Expected return on plan assets | (3,202) | (4,179) |
| Interest on pension scheme liabilities | 3,828 | 3,953 |
| Total included within interest | 626 | (226) |
| Total | 1,452 | 1,074 |

Analysis of the movement in the Statement of Financial Position liability

| | 2010 £'000 | 2009 £'000 |
|------------------------------------|-----------------|----------------|
| Brought forward | (9,076) | (1,804) |
| Total expense as above | (1,452) | (1,074) |
| Contributions paid | 1,197 | 1,536 |
| Actuarial losses recognised in SCI | (4,849) | (7,734) |
| At 27 March 2010 | (14,180) | (9,076) |

The actual return on plan assets was £15,746,000 (2009: negative £10,539,000). The Company expects to pay £774,000 (2009: £586,000) in contributions to the Staff Scheme and £987,000 (2009: £802,000) in contributions to the Works Scheme in the next financial period.

The cumulative amount of gains/losses recognised in the Statement of Comprehensive Income since the adoption of IAS 19 are losses of £2,795,000 (2009: gains of £2,054,000).

Analysis of the movement in the defined benefit obligation (DBO) and scheme assets

| | Works Scheme | | Staff Scheme | | Works Scheme | | Staff Scheme | |
|---|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|
| | Assets | DBO | Assets | DBO | Assets | DBO | Assets | DBO |
| | 2010 | 2010 | 2010 | 2010 | 2009 | 2009 | 2009 | 2009 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Brought forward | 24,467 | (30,172) | 23,790 | (27,161) | 29,509 | (31,302) | 29,022 | (29,033) |
| Expected return on assets | 1,622 | - | 1,580 | - | 2,197 | - | 1,982 | - |
| Current service costs | - | (608) | - | (218) | - | (869) | - | (431) |
| Benefits paid | (1,014) | 1,014 | (790) | 790 | (1,096) | 1,096 | (797) | 797 |
| Contributions by plan participants | 331 | (331) | 223 | (223) | 403 | (403) | 219 | (219) |
| Employer contributions | 657 | - | 540 | - | 916 | - | 620 | - |
| Interest cost | - | (2,019) | - | (1,809) | - | (2,056) | - | (1,897) |
| Actuarial gains/(losses) | 7,109 | (9,935) | 5,435 | (7,458) | (7,462) | 3,362 | (7,256) | 3,622 |
| At 27 March 2010 / 28 March 2009 | 33,172 | (42,051) | 30,778 | (36,079) | 24,467 | (30,172) | 23,790 | (27,161) |

Experience adjustments

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Arising on plan assets | 12,544 | (14,718) | (5,780) | 763 | 6,786 |
| Percentage of scheme assets | 19.6% | (30.5%) | (9.9%) | 1.3% | 12.2% |
| Arising on plan liabilities | (15) | 152 | 3,291 | (204) | 1,983 |
| Percentage of scheme liabilities | - | 0.3% | 5.5% | 0.3% | 3.0% |

17 Deferred taxation

The movement on the deferred tax account is shown below

| | Group | | Company | |
|---|--------------|----------------|----------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| At 28 March 2009 | (1,588) | (3,291) | 1,993 | 19 |
| Deferred tax on actuarial gains on retirement liabilities | 1,358 | 2,166 | 1,358 | 2,165 |
| SCI credit/(charge) | 419 | (463) | 111 | (191) |
| Rate change | - | - | - | - |
| Other | - | - | - | - |
| At 27 March 2010 | 189 | (1,588) | 3,462 | 1,993 |

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered

No deferred tax is recognised on the un-remitted earnings of overseas subsidiaries

Based on the combined distributable reserves in the US Companies of (£85,000) (2009 surplus £74,000), tax at 28% of £24,000 could be receivable, before any application for double tax relief, which could be expected to reduce the UK liability to nil

NOTES TO THE FINANCIAL STATEMENTS

continued

17 Deferred taxation continued

Deferred tax liabilities

| | Accelerated capital allowances £'000 | Other £'000 | Total £'000 |
|-------------------------|---|----------------|----------------|
| At 28 March 2009 | (4,000) | (129) | (4,129) |
| SCI credit/(charge) | 449 | (101) | 348 |
| At 27 March 2010 | (3,551) | (230) | (3,781) |

Deferred tax assets

| | Pension £'000 | Total £'000 |
|--|------------------|----------------|
| At 28 March 2009 | 2,541 | 2,541 |
| Deferred tax on actuarial gains on retirement liabilities | 1,358 | 1,358 |
| Deferred tax on difference between contribution paid and net pension cost to the SCI | 71 | 71 |
| At 27 March 2010 | 3,970 | 3,970 |

| | Total £'000 |
|-------------------------------|----------------|
| Net deferred tax asset | 189 |

18 Called up equity share capital

Group and Company

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| Authorised | | |
| 10,000,000 (2009 10,000,000) ordinary shares of 25p each | 2,500 | 2,500 |

Issued and fully paid

| | Number of Ordinary shares | £'000 |
|--------------------------|------------------------------|--------------|
| At 28 March 2009 | 8,472,368 | 2,118 |
| Issued during the period | - | - |
| At 27 March 2010 | 8,472,368 | 2,118 |

Potential issue of ordinary shares

Under the James Cropper plc Executive Share Option Scheme, options were outstanding at 27 March 2010 in respect of the following

| Year of grant | Exercise price (p) | Exercise period | 2010 Number | 2009 Number |
|---------------|-----------------------|--------------------------------|----------------|----------------|
| 1999 | 205 9 | December 2002 to December 2009 | - | 18,900 |
| 2000 | 261 5 | August 2003 to August 2010 | 60,000 | 60,000 |
| 2001 | 206 5 | June 2004 to June 2011 | 90,000 | 90,000 |
| | | | 150,000 | 168,900 |

There were no share options exercised in the period and therefore there were no gains made by directors on the exercise of share options

For share options outstanding at the end of the period, the range of exercise prices was 206 5p to 261 5p, and the weighted average contractual life was 7 years

Under the Group's long-term incentive plan for executive directors and senior executives, such individuals hold rights over ordinary shares that may result in the issue of up to 312,000 25p ordinary shares by 2013 (2009 216,000 25p ordinary shares by 2012). There were no share options exercised in the period (2009 no options were exercised)

The Save As You Earn (SAYE) schemes were introduced in August 2007 and August 2009 respectively and each run for either a three or five year period

Options were valued using a Black-Scholes option pricing model. The fair value per option and assumptions used in the calculation are as follows

| | Aug-07 3 year scheme | Aug-07 5 year scheme | Aug-09 3 year scheme | Aug-09 5 year scheme |
|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Fair value per option | 62p | 69p | 23p | 23p |
| Date of grant | 21 Aug 07 | 21 Aug 07 | 18 Aug 09 | 18 Aug 09 |
| Exercise Price | 191p | 191p | 85p | 85p |
| Market Price at date of grant | 235p | 235p | 112p | 112p |
| Volatility | 22% | 22% | 27% | 27% |
| Net dividend yield | 3% | 3% | 6% | 6% |
| Term of option | 3 25 years | 5 25 years | 3 25 years | 5 25 years |
| Risk free rate of interest | 5 2% | 5 2% | 1 9% | 2 8% |

During the period no options were exercised (2009 no options were exercised)

19 Reserves, shareholders's funds and changes in shareholders' equity

| Group | Share capital £'000 | Share premium £'000 | Translation reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|------------------------------------|------------------------------------|--|--|------------------------|
| At 28 March 2009 | 2,118 | 573 | 532 | 16,951 | 20,174 |
| Profit for the period | - | - | - | 1,808 | 1,808 |
| Exchange differences | - | - | (267) | - | (267) |
| Dividends paid | - | - | - | (515) | (515) |
| Share based payment charge | - | - | - | 102 | 102 |
| Actuarial gains on retirement benefit liabilities (net of deferred tax) | - | - | - | (3,491) | (3,491) |
| At 27 March 2010 | 2,118 | 573 | 265 | 14,855 | 17,811 |

| | Share capital £'000 | Share premium £'000 | Translation reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|------------------------------------|------------------------------------|--|--|------------------------|
| At 29 March 2008 | 2,118 | 573 | 22 | 22,948 | 25,661 |
| Loss for the period | - | - | - | (87) | (87) |
| Exchange differences | - | - | 510 | 36 | 546 |
| Dividends paid | - | - | - | (525) | (525) |
| Share based payment charge | - | - | - | 147 | 147 |
| Actuarial gains on retirement benefit liabilities (net of deferred tax) | - | - | - | (5,568) | (5,568) |
| At 28 March 2009 | 2,118 | 573 | 532 | 16,951 | 20,174 |

NOTES TO THE FINANCIAL STATEMENTS

continued

19 Reserves, shareholders's funds and changes in shareholders' equity continued

| Company | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total £'000 |
|---|------------------------|------------------------|----------------------------|----------------|
| At 28 March 2009 | 2,118 | 573 | 16,572 | 19,263 |
| Profit for the period | - | - | 872 | 872 |
| Dividends paid | - | - | (525) | (525) |
| Share based payment charge | - | - | 102 | 102 |
| Actuarial gains on retirement benefit liabilities (net of deferred tax) | - | - | (3,491) | (3,491) |
| At 27 March 2010 | 2,118 | 573 | 13,530 | 16,221 |

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total £'000 |
|---|------------------------|------------------------|----------------------------|----------------|
| At 29 March 2008 | 2,118 | 573 | 20,112 | 22,803 |
| Profit for the period | - | - | 2,406 | 2,406 |
| Dividends paid | - | - | (525) | (525) |
| Share based payment charge | - | - | 147 | 147 |
| Actuarial gains on retirement benefit liabilities (net of deferred tax) | - | - | (5,568) | (5,568) |
| At 28 March 2009 | 2,118 | 573 | 16,572 | 19,263 |

As permitted by Section 408 of the Companies Act 2006 the Company has not presented its own Statement of Comprehensive Income

The Company's profit for the financial period is disclosed above

20 Employees and directors

Staff costs during the period

| | Note | Group | | Company | |
|------------------------|------|---------------|---------------|---------------|---------------|
| | | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Wages and salaries | | 17,118 | 15,589 | 2,716 | 1,955 |
| Social Security costs | | 1,416 | 1,361 | 216 | 198 |
| Pension costs | 16 | 1,375 | 1,629 | 462 | 690 |
| | | 19,909 | 18,579 | 3,394 | 2,843 |
| Own labour capitalised | | - | (368) | - | (368) |
| | | 19,909 | 18,211 | 3,394 | 2,475 |

The average monthly number of people (including executive directors) employed in the Group during the year, analysed by division was as follows

| | 2010 Number | 2009 Number |
|---------------------------------|----------------|----------------|
| James Cropper Speciality Papers | 294 | 288 |
| The Paper Mill Shop | 125 | 135 |
| James Cropper Converting | 54 | 54 |
| Technical Fibre Products | 91 | 93 |
| James Cropper plc company | 61 | 59 |
| | 625 | 629 |

Key management compensation

| | 2010 £'000 | 2009 £'000 |
|----------------------------------|---------------|---------------|
| Salaries and short term benefits | 1,072 | 990 |
| Post-employment benefits | 98 | 97 |
| Shared based payments | 74 | 106 |
| | 1,244 | 1,193 |

21 Commitments under operating leases

| Group | 2010 Property £'000 | 2010 Plant & machinery £'000 | 2009 Property £'000 | 2009 Plant & machinery £'000 |
|---|---------------------------|---------------------------------------|---------------------------|---------------------------------------|
| Commitments under non-cancellable operating leases expiring | | | | |
| Within one year | 141 | - | 48 | 43 |
| Later than one year and less than five years | 2,017 | 1,431 | 2,013 | 1,663 |
| After five years | 545 | - | 2,227 | - |
| | 2,703 | 1,431 | 4,288 | 1,706 |

| Company | 2010 Property £'000 | 2010 Plant & machinery £'000 | 2009 Property £'000 | 2009 Plant & machinery £'000 |
|---|---------------------------|---------------------------------------|---------------------------|---------------------------------------|
| Commitments under non-cancellable operating leases expiring | | | | |
| Later than one year and less than five years | - | 572 | - | 479 |
| | - | 572 | - | 479 |

22 Capital commitments

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Contracts placed for future capital expenditure not provided in the financial statements | 556 | 372 | - | 8 |

23 Contingent liabilities

There were no contingent liabilities at the period end for the Group. The Company is included in a cross guarantee between itself and its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

continued

24 Related party transactions

Group

The Group has taken advantage of the exemption not to disclose intra-group transactions that are eliminated on consolidation

Company

The Company pays £35,000 (2009 £35,000) annually to Mr J A Cropper for the use of reservoirs to supply water to the factory premises

The contract is based on a twenty year repairing lease with rent reviews every five years. The rent is negotiated through independent advisers representing each party. The Company paid £1,700 (2009 £10,000) to Wilks & Partners, a company in which David R Wilks, (a non executive director for James Cropper plc), is a director, in the period for consultancy services relating to strategic development programmes

The Company also has the following transactions with related entities

2010

| | Sales £'000 | Management charges £'000 | Receivable / (Payable) £'000 | Loans and net inter- company funding £'000 |
|---|----------------|--------------------------------|------------------------------------|--|
| James Cropper Speciality Papers Limited | 32,438 | 3,090 | 3,670 | 7,462 |
| The Paper Mill Shop Company Limited | 72 | 115 | (100) | 1,075 |
| James Cropper Converting Limited | 7,289 | 605 | 786 | 4,934 |
| Technical Fibre Products Limited | 436 | 757 | 596 | 833 |
| James Cropper EBT Limited | - | - | - | 368 |
| | 40,235 | 4,567 | 4,952 | 14,672 |

2009

| | Sales £'000 | Management charges £'000 | Receivable / (Payable) £'000 | Loans and net inter- company funding £'000 |
|---|----------------|--------------------------------|------------------------------------|--|
| James Cropper Speciality Papers Limited | 34,989 | 3,037 | 2,799 | 8,449 |
| The Paper Mill Shop Company Limited | 54 | 25 | (129) | 1,315 |
| James Cropper Converting Limited | 7,444 | 597 | 230 | 4,500 |
| Technical Fibre Products Limited | 401 | 752 | 225 | 2,381 |
| James Cropper EBT Limited | - | - | - | 368 |
| | 42,888 | 4,411 | 3,125 | 17,013 |

2009 - 2010 SHAREHOLDER INFORMATION

Reporting

Interim Results announced and sent to

Ordinary Shareholders 17 November 2009

Final results announced 22 June 2010

Annual Report issued by 7 July 2010

Annual General Meeting -
at The Bryce Institute, Burneside, Kendal
Wednesday 28 July 2010 at 11 0am

Dividends on Ordinary Shares

Interim dividend paid on 15 January 2010 to Ordinary Shareholders registered on 18 December 2009

Final dividend to be paid on 13 August 2010 to Ordinary Shareholders registered on 23 July 2010

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0GA
Tel 0871 664 0300
www.capitaregistrars.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and twenty-first Annual General Meeting of James Cropper plc (the "Company") will be held at The Bryce Institute, Burneside, Kendal, Cumbria at 11 00am on Wednesday 28 July 2010 to consider and, if thought fit, pass the following resolutions of which resolutions 1 to 10, 13 and 14 are being proposed as ordinary resolutions and resolutions 11 and 12 as special resolutions -

- 1 To receive and consider the statement of accounts and reports of the directors and the auditors for the 52 weeks ended 27 March 2010
- 2 To declare a final dividend of 5 3p per share in respect of the ordinary shares in the Company payable on 13 August 2010 to all ordinary shareholders on the register at the close of business on 23 July 2010
- 3 To re-elect James A Cropper as a director of the Company
- 4 To re-elect Mark A J Cropper as a director of the Company
- 5 To re-elect George T Quayle as a director of the Company
- 6 To re-elect James E Sharp as a director of the Company
- 7 To re-appoint KPMG Audit Plc as auditors to hold office from the conclusion of the meeting until the next Annual General Meeting
- 8 To authorise the directors to agree the remuneration of the auditors of the Company
- 9 To consider and approve the directors' remuneration report for the 52 weeks ended 27 March 2010
- 10 That the directors be authorised for the purpose of Section 551 of the Companies Act 2006 to allot shares in the Company or grant rights to subscribe for, or to convert any security into, shares in the Company up to an aggregate nominal amount of £381,908 provided that -
 - 10 1 except as provided in paragraph 10 2 below this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, or 15 months from the date of this resolution (whichever is earlier) but may be previously revoked or varied by an ordinary resolution of the Company, and
 - 10 2 the Company may before such expiry make an offer or agreement which would or might require the allotment of shares in the Company or the grant of rights to subscribe for, or to convert any security into, shares in the Company after such expiry and the directors may allot shares in the Company, or grant rights to subscribe for, or convert any security into, shares in the Company, in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired
- 11 That subject to the passing of and pursuant to the general authority conferred by the resolution numbered 10 in the notice convening this meeting the directors be empowered pursuant to Section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 of the Act) for cash, either pursuant to the authority so conferred or where the equity securities are held by the Company as treasury shares (within the meaning of Section 724(5) of the Act), as if Section 560 of the Act did not apply to any such allotment, provided that this power shall be limited to -
 - 11 1 the allotment of equity securities in connection with any rights or other pre-emptive issue in favour of the ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on a fixed record date (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever), and
 - 11 2 otherwise than pursuant to paragraph (a) of this resolution, the allotment of equity securities up to an aggregate nominal amount of £211,810, and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the date of this resolution (whichever is earlier) except 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 any such offer or agreement as if the power conferred by this resolution had not expired

12 That the Company be generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of Section 693(4) of the Act) on the London Stock Exchange of ordinary shares of 25p each in the capital of the Company either for cancellation or to hold as treasury shares (within the meaning of Section 724(5) of the Act) provided that -

12 1 the maximum aggregate number of ordinary shares hereby authorised to be purchased is 1,270,855,

12 2 the maximum number of shares held in treasury will never exceed 10% of the issued share capital of the Company,

12 3 the minimum price which may be paid for such shares is 25p per ordinary share,

12 4 the maximum price which may be paid for such ordinary shares shall not be more than 5% above the average of the market values for a ordinary share as derived from the AIM appendix to the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the ordinary shares are purchased,

12 5 unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or 15 months from the date of this resolution (whichever is earlier), and

12 6 the Company may make a contract or contracts to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts

13 That the Company and all companies that are or become its subsidiaries at any time during the period for which this resolution is effective are hereby authorised to -

13 1 make political donations to political parties and/or to independent election candidates,

13 2 make political donations to political organisations other than political parties, and

13 3 incur political expenditure

during the period commencing on the date of the passing of this resolution and ending on the earlier of fifteen months from that date and the date of next year's annual general meeting provided that any such donation and expenditure made by the Company and any subsidiary do not in aggregate exceed £25,000

For the purposes of this resolution, the terms "political donations", "political parties", "independent election candidates", "political organisation" and "political expenditure" have the meanings set out in Sections 363 to 365 of the Companies Act 2006

14 That the rules of the James Cropper plc Savings-related Share Option Scheme adopted by the Company on 2 August 2000 be amended by the deletion of the following wording in rule 11 10:

'upon the 10th Anniversary of the Adoption Date or at any earlier time'

By order of the Board

D R Carey
Secretary

5 July 2010

Registered office
Burneside Mills
Kendal
Cumbria
LA9 6PZ

Registered in England and Wales No 30226

NOTICE OF ANNUAL GENERAL MEETING

continued

Notes

The following notes explain your general rights as a shareholder and your right to attend and vote at this meeting or to appoint someone else to vote on your behalf

- 1 Only those members registered in the Register of Members of the Company as at 6 00pm on 26 July 2010 shall be entitled to attend and vote at the meeting convened above in respect of the number of shares registered in their names at that time
- 2 A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at a meeting of the Company. Any such member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such member. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please photocopy the form of proxy and indicate in the box next to the proxy's name the number of shares in relation to which he or she is authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A proxy need not be a member of the Company. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman of the meeting) and give your instructions directly to that person.
- 3 A form of appointment of proxy is enclosed. If you return more than one proxy appointment, that received last by the registrar before the latest time for the receipt of proxies will take precedence.
- 4 The form of proxy includes a vote withheld option. Please note that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes for and against any particular resolution.
- 5 The appointment of a proxy and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated should be deposited with the Company's registrar at the address shown on the proxy form not later than 11 00am on 26 July 2010 or 48 hours before the time for holding any adjourned meeting.
- 6 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 7 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10 no later than 48 hours before the time set for the Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 8 CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those Sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 9 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 10 As at 9 00am on 1 June 2010, being the last practicable day prior to the publication of this notice, the Company's issued share capital comprised 8,472,368 ordinary shares of 25p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 9 00am on 1 June 2010, being the last practicable date prior to the publication of this notice is 8,472,368.
- 11 Copies of the contracts of service for directors, the rules of the James Cropper plc Savings-related Option Scheme, and a statement of directors' interests are available for inspection during normal business hours at the registered office of the Company and they may be inspected at the place of the Annual General Meeting for at least 15 minutes prior to the meeting and at the meeting.

Production

Produced in Cumbria

Paper

All the paper used in this report has been produced by James Cropper plc

Cover

Zen Pure White 300gsm

Inset

Accent Glacier White 160gsm

Available from

Zen and Accent are both made exclusively for GFSmith & Son (London) Limited

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