FINANCIAL SUMMARY

Key assumptions

5.01 The key assumptions used in the projections are set out below.

Sales

5.02 Sales are calculated from both volume and price information. This enables the strategy of moving the business towards production of high value lines from contract grades to be reflected in the projections. It has been assumed that in the current economic conditions no change will occur in sales mix until the years ending 31 March 1993 and 1994. Price rises of about 5% are also reflected in the years ending 31 March 1993 and 1994.

Cost of sales

5.03 The costs of sales are split into materials and labour. Labour is calculated by multiplying the wage rate per shift by the number of shifts worked and the number of people employed. This enables a varying shift pattern to be reflected should the need arise. Changes in the number of people employed reflect management's view of the number required to meet production requirements. The amount of finished product required to be produced is determined from the sales information. There is a 5% wage increase on 1 April 1992 and 1993.

The cost of materials is calculated by multiplying the sales volume by the unit costs per item. The unit cost is set for the year but is calculated by multiplying the tonnage of paper required by the price per tonne and adding packing costs. All three elements can be varied as necessary. A price increase of 10% has been included in the year ending 31 March 1993 and 5% in the year ending 31 March 1994. This reflects management's view of how the paper market will change over the next 2 years (see marketing section).

Salary costs and directors remuneration

5.04 An annual 5% increase is reflected for salary costs and directors remuneration in each of the years ending 31 March 1993 and 1994. Salary costs are calculated by multiplying the number of people in each pay band by the average pay rate for that band.

Carriage costs

5.05 Carriage costs are primarily a fixed charge per week plus costs for ad hoc deliveries. 75% of the carriage cost is the weekly charge. This reduces in October 1991 due to the non-renewal of one vehicle lease, and the re-deployment of another

vehicle. An increase of 5% is included in each of the years ending 31 March 1993 and 1994.

Stock and production

5.06 Stock is calculated on the basis of a certain number of days sales or cost of sales, for finished goods and raw materials respectively. The number of working days in the month for this purpose is 22 days. Consequently the current stock turn of 33 days reflects one and a half calender months sales. The setting of the closing stock figures determines the amount of production required in that month to meet forecast sales. It has been assumed that, due to the short process time, there is no work in progress. There is a planned destocking exercise being undertaken now. The projections assume that this will bring the stock turn down to the target figure of 28 days over a period of 7 months. This may give rise to stock being sold at below selling price. The projections therefore also include a margin provision in the months from September 1991 onward.

Cashflow

5.07 Debtor and creditor days reflect the collection pattern currently being achieved. Debtor days have reduced in recent months because of the more aggressive attitude to collection being adopted by management. This has resulted in debtor days being some 20 days less than creditor days. No change in this pattern has been planned for the years ending 31 March 1993 and 1994. The timings of the other payments are set out in the cashflows for each year. The contingency provision reflects an inflation factor relating to expenses of 5% per annum. VAT is included in debtors and creditors and is included in the calculation of cash collections and payments, but excluded from the determination of sales and purchases.

Capital purchases

5.08 Two major items of capital expenditure totalling £170,000 are planned in the year ending 31 March 1993. It has been assumed that a 20% deposit will be required in cash, with the balance being leased on the terms currently obtained on vehicle leases. A third item of capital expenditure of £350,000 will occur in April 1993. Further items of capital expenditure will only take place when the sale of the freehold at Crayford occurs (see below in 'Future Developments'.

Redundancy

5.09 Allowance has been made for the redundancy costs associated with the changing staff numbers. This cost is high because many of the staff have been with the company for a long time.

Interest and borrowings

5.10 Interest is calculated using a base rate of 11.0% in the period to 31 March 1992 and the year ending 31 March 1983, and 12% in the year ending 31 March 1994. Borrowings excluding current account overdrafts are repaid in full during 1992. For ease of presentation the cashflow reflects all movements in the National Westminster current account. In realility the TSB current account would also fluctuate.

Projected Results

5.11

	Annualised figures for 10 months to 31/3/92	Year ending 31 March 1993	Year ending 31 March 1994
	£.000	£.000	£.000
Sales	7,540	8,683	9,630
Cost of Sales	(5,940)	(6,705)	(7,413)
Gross Margin	1,600	1,978	2,217
Interest Cost	(86)	(63)	(48)
Overheads	(1,761)	(1,778)	(1,939)
Net (loss)profit before taxation	(247)	137	230
Exceptional gains (paragraph 5.13)	115	150	
	(132)	287	230

Key Ratios

5.12

	1992	1993	1994
Gross margin %	20.89	22.79	23.02
Material cost %	61.58	62.67	63.21
Labour cost %	15.97	14.54	13.77
Interest cover	-	4.56	4.79
Debtor days	51	46	46
Creditor days	73	68	67
Peak bank borrowing (including loans)	£806,072	£652,805	£546,701

The actual gross margins achieved in the years ended 31 March 1990 and 1991 were 22.7% respectively. Therefore a margin of 20.89% for the year to 31 March 1992 is not unreasonable. In the following years the margin moves up to 22.79% and 23.02% respectively reflecting a move towards the higher margin products. The bought-in content of lower margin work is also higher as no expansion in the workforce is planned, thereby

resulting in the materials content rising from 61.58% in the year to 31 March 1992 to 63.21% in the year ending 31 March 1994.

Overheads are reduced in the periods to 31 March 1992 and 1993 as the savings in labour costs and the cost reduction programme take full effect. The company will be continually reviewing these costs so as to further reduce overheads wherever possible. In addition to the staff changes included in these projections, a detailed organisational review is expected to take place in the coming months which should yield savings and increase organisational efficiencies.

Exceptional Gains

5.13 The exceptional gains in the period to 31 March 1992 are the sale of Tanners investment (£87,000) and the sale of plant and machinery (£28,500). The exceptional gain the year ending 31 March 1993 is the net proceeds from the insurance claim in respect of the Crayford roof.

Sensitivities

5.14 We detail below the effect on the peak borrowing requirement of a change in the key assumptions.

	Increase in peak borrowing £
Decrease sales volumes by 5%	12,318
Increase debtor days by 10	231,652
Increase base rate by 1%	1,632

In practice, if debtor days did increase, longer credit periods would be taken from suppliers to compensate.

Future Developments

5.15 These projections include all the changes in personnel and a re-examination of overheads. They also include the sale of the company's investment which has already realised £90,000 (profit £87,000) and the expected settlement of the legal claim over the roof at £150,000.

Tanners would also move out of Dartford at the same time and sub-lease the remaining 3 years of the lease. Agreement has been reached with the owners (Rochester) of the neighbouring property at Crayford to rent warehouse space until the sale of the combined site. It is expected that this might take place during 1992 with the move out of Crayford occurring around April 1993. The following results reflect the effect of the above on the results for the year ending 31 March 1994. It has been assumed that the net sale price will be £600,000, leased capital

purchases will be £480,000, moving costs will be £150,000, and a new annual rental cost will be £75,000.

	Year ending 31 March 1994
Sales	9,630
Cost of Sales	(7,365)
Gross Margin	2,265
Interest cost	(5)
Overheads	(2,151)
Net Profit before taxation	109
Exceptional gain (Crayford sale)	417
	526
Gross margin %	23.52
Material cost %	63.21
Labour cost%	13.27
Interest cover	-
Debtor days	46
Creditor days	67
Peak borrowing	£136,451

It is clear from these results that this option is beneficial to the company, and is being actively pursued. Although this will result in a reduction in the security available to the banks, all bank debt will have been eliminated.

At this time the company will finalise its future capital expenditure programme, which would be funded by a combination of leasing and new equity. New working capital facilities may be required to fund the resulting increase in the volume of business.

Consideration has been given to selling the Herne Bay land. Professional advice received, however, indicates that the likely sales proceeds in the current property market would be minimal and would therefore make no impact on the company's cash position. Accordingly, the projections assume that Herne Bay will be retained for the foreseeable future.