James Cropper PLC

Annual Report 2007

for the period ended
31 March 2007

Registered number: 30226

Over the next few years it is anticipated that there will be a significant increase in output from our manufacturing facility in Burneside. 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").

Landfill site will be returned to a natural state

Lagoons will be replaced with our new Effluent Disposal Plant

Water

- 1 million gallons/ 4,545 cubic metres of water are abstracted from the River Kent each working day
- 10 million gallons/ 45,450 cubic metres of water are re-cycled every working day
- 1 million gallons/ 4,545 cubic metres of water effluent are discharged to the Effluent De-watering Plant (EDP) per working day
- Papermaking fibres were recovered from water effluent in the form of "sludge"
- A study is to be undertaken into the feasibility of the Group cleaning its water effluent, thus allowing the Group to discharge its cleaned water directly into the River Kent. This would sever the Group's dependency on United Utilities PLC.

Land

- In 2005/06 10,000 tonnes of recovered papermaking "sludge" was deposited in the Group's landfill site
- A new EDP was commissioned in May 2007
- Landfilling of papermaking "sludge" ceased in 2007/08
- The new EDP recovers papermaking fibres in the form of "cake", which is considerably dryer than "sludge"
- Annual output of "cake" will be 3,750 tonnes.
- Landspreading of papermaking "cake" commenced in 2007/08
- A feasibility study indicates that "cake" and other waste reclaimed materials can be utilised as fuels in a biomass boiler.

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.

Air

- The Group operates a "good quality" Combined Heat and Power (CHP) Plant
- In 2005/06 the CHP Plant consumed 7.5 million therms of gas
- In 2005/06 the Group emitted 44,000 tonnes of carbon dioxide
- The Group will have to comply with the EUETS from January 2008
- The Group's Phase 2 EUETS allocation is 41,000 tonnes of carbon dioxide per annum
- A waste heat recovery unit commissioned in 2006/07 will reduce gas consumption and CO^2 emissions by 5% per annum
- The Biomass feasibility study indicates that a biomass boiler would reduce gas consumption by 20%
- The Biomass boiler would generate steam from waste that is regarded to be carbon neutral
- The Group has now exceeded all 3 of its Climate Change Agreement (CCA) Milestones for specific energy use per tonne of saleable product.

Vision Statement

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

Summary of Results

Summary of Results	IFRS basis			UK GAAP basis		
Group 5 Year Performance	**2007**	**2006**	**2005**	**2005**	**2004**	**2003**
Group turnover £'000	**69,085**	**64,201**	**64,568**	**64,568**	**58,010**	**56,419**
Profit and Loss Summary £'000						
Trading activities						
Paper Division (papermaking and retail)	1,077	(6)	2,157	2,207	806	1,011
Converting Division	460	62	385	389	438	551
Technical Fibre Products	2,053	777	521	522	506	646
Other Group expenses	(86)					
	3,504	833	3,063	3,118	1,750	2,208
Director and employee bonuses	(433)					
"On-going" trading operating profit	3,071	833	3,063	3,118	1,750	2,208
Profit on sale of trade investment		116				
Trading operating profit	3,071	949	3,063	3,118	1,750	2,208
Joint venture	(95)	(89)	(114)	(114)	(93)	(23)
Other (expenditure)/income			(200)	(200)	(50)	16
Trading profit before interest	2,976	860	2,749	2,804	1,607	2,201
Net interest	(438)	(511)	(357)	(337)	(355)	(408)
Trading profit before tax	**2,538**	**349**	**2,392**	**2,467**	**1,252**	**1,793**
(After future service pension contributions paid)						
Net pension adjustments to						
Operating profit	(610)	(364)	(423)	(696)	(467)	74
Net interest	179	(114)	(330)			
Net pension adjustment before tax	**(431)**	**(478)**	**(753)**	**(696)**	**(467)**	**74**
Overall Group after pension adjustments						
Operating profit	2,461	585	2,640	2,422	1,283	2,282
Joint venture	(95)	(89)	(114)	(114)	(93)	(23)
Other (expenditure)/income			(200)	(200)	(50)	16
Profit before interest	2,366	496	2,326	2,108	1,140	2,275
Net interest	(259)	(625)	(687)	(337)	(355)	(408)
Profit/(loss) before tax	**2,107**	**(129)**	**1,639**	**1,771**	**785**	**1,867**
Earnings/(Loss) per Share	**16.2p**	**(1.2p)**	**12.6p**	**13.8p**	**7.6p**	**15.1p**
Dividends per Share	**7.0p**	**4.1p**	**8.2p**	**8.2p**	**7.8p**	**7.5p**
Balance Sheet Summary £'000						
Non-pension assets - excluding cash	45,758	46,668	47,005	46,155	45,759	43,627
Non-pension liabilities - excluding borrowings	(13,505)	(11,993)	(11,524)	(12,044)	(11,184)	(10,376)
	32,253	34,675	35,481	34,111	34,575	33,251
Net pension (liabilities)/assets	(4,306)	(7,221)	(7,495)	831	(73)	394
	27,947	27,454	27,986	34,942	34,502	33,645
Net borrowings	(5,294)	(8,595)	(8,350)	(7,404)	(7,427)	(6,526)
Equity shareholders' funds	**22,653**	**18,859**	**19,636**	**27,538**	**27,075**	**27,119**
Gearing %	**23**	**46**	**43**	**27**	**27**	**24**
Capital Expenditure £'000	**2,756**	**2,889**	**3,228**	**3,228**	**3,101**	**2,299**

Following adoption of Regulation 1606/2002 by the European Parliament in July 2002 all EU listed companies are required to report their consolidated financial statements under IFRS adopted for use in the EU ("adopted IFRS") for accounting periods beginning on or after 1 January 2005. Prior to this period James Cropper PLC had previously reported its results under UK Generally Accepted Accounting Principles ("UK GAAP").

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Directors, Bankers and Advisers

Non-Executive 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.

Executive Directors

Chief Executive & Managing Director, Paper Division
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, Safety and Environment, 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 director of the Paper Federation of Great Britain Limited.

Sales and Marketing Director, Paper Division
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, Paper Division
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

John R Sclater MA, MBA – Born 1940. He joined the Board in 1972. He is Chairman of Graphite Enterprise Trust PLC, Argent Group (Europe) Limited and Finsbury Emerging Biotechnology Trust PLC. He is a director of Millennium & Copthorne Hotels PLC. He was formerly Chairman of Nordic Bank PLC, Guinness Mahon & Co Limited, Hill Samuel Bank Limited, Berisford International PLC, The Union Discount Company of London PLC and various other companies. He was also the First Church Estates Commissioner, a member of the Council of the Duchy of Lancaster and a Trustee of The Grosvenor Estate.

Peter L Herring BSc (Econ) – Born 1940.
He joined the Board in 1997. He is a director of Brenmatch Limited and was previously a director of BPB PLC.

David R Wilks LLB (Hons) – Born 1954. He joined the Board in April 2004. He is a Director of Wilks & Partners, the management consultancy 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.

Mark Cropper MA - Born in 1974.
He joined the Board in 2006 and is the sixth generation of the Cropper family to be involved in the business. Mark is a FSA authorised corporate finance adviser for Turquoise International, which specialises in energy and environmental investment. He previously worked at Johnson Matthey PLC as a fuel cell analyst. He is a director of Ellergreen Limited and formerly a director of Riva Society GB Limited.

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
Singer & Friedlander Limited
The Royal Bank of Scotland PLC
HSBC Bank PLC
Fortis Bank SA/NV

Independent Auditors
PricewaterhouseCoopers LLP,
Newcastle upon Tyne

Tax Advisors
PricewaterhouseCoopers LLP,
Newcastle upon Tyne

Stockbrokers
Brewin Dolphin Securities, Birmingham

Corporate Lawyers
Dickinson Dees, Newcastle upon Tyne

Financial Advisers
Close Brothers PLC, London

Registrars
Capita Registrars, Huddersfield

Public Relations
Citigate Dewe Rogerson, Birmingham

Pension Advisors
Watson Wyatt, Manchester

James Cropper PLC
Burneside Mills, Kendal, Cumbria
LA9 6PZ, England

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website: www.cropper.com

Company Registration
No: 30226 (Limited by shares)

BS EN ISO 9001: 2000
FM 10048

BS EN ISO 14001: 2004
EMS 57536

OHSAS 18001: 1999
OHS 93474

Chairman's Review

I am delighted to report that the Group recorded a profit before tax of £2,107,000 for the year (a profit of £2,538,000 prior to net IFRS pension adjustments). This compares with a loss before tax of £129,000 in 2006 (a profit of £349,000 prior to net IFRS pension adjustments).

Dividends
Our strong recovery and return to profitability is reflected in the proposed increase in dividend to shareholders. The Board is proposing a final dividend payment of 5.1p, making a total dividend for the full year of 7.0p compared to 4.1p in 2006, an overall increase of 71%.

AIM
The Board, after careful consideration, proposes to move the trading of the Company's issued share capital from the Official List of the UK Listing Authority to the Alternative Investment Market ("AIM") of the London Stock Exchange plc. The Board considers that AIM would provide a regulatory framework more appropriate to a company of James Cropper's size.

A Circular explaining the implications of the proposed move to AIM and giving Notice of an Extraordinary General Meeting to approve the de-listing of the Company's shares from the Official List is expected to be despatched to shareholders at the same time as the Company's Annual Report and Financial Statements scheduled to be posted on 9 July 2007.

It is expected that the Extraordinary General Meeting to approve the de-listing will be held following the conclusion of the Annual General Meeting, which is to be held on 1 August 2007.

Technical Fibre Products ("TFP")
Operating profit for the year was £2,053,000 against £777,000 in 2006, with turnover improving overall by 34% on the previous year to £9,003,000.

Given the 11% weakening of the US$ over the year TFP's results are impressive. Sales into the North American market grew by 48% in £Sterling terms and by 61% in US$ terms. Global growth of engineered composite materials, the continued resurgence of commercial aircraft new-builds and the commercialisation of conductive components in consumer electronics have been prime drivers behind this growth. At the average exchange rate for the year, sales to the North American market represented approximately 48% of TFP's turnover in £Sterling terms.

Sales to Rest of the World were ahead by 23%, with sales of composite and insulating materials leading the way. Our position in the European thermal insulation market has been strengthened as a consequence of TFP's main customer in this market transfering responsibility for converting operations to TFP in the fourth quarter of the year.

James Cropper Speciality Papers ("Speciality Papers")
Speciality Papers reported an operating profit of £1,435,000 compared to a loss of £247,000 last year.

Sales increased by 5% to £45,967,000, with UK and export sales improving by 7% and 2% respectively. Volume increased by 3%. Although price increases were achieved, the competitive nature of both UK and export markets limited the full recovery of the dramatic cost increases experienced and reported in previous years.

The sudden reversal in the latter part of the year of the steep upward trend in the cost of natural gas experienced in the previous 12-month period had a very significant impact on the profitability of Speciality Papers. Although the average cost of natural gas in the first half was 34p per therm, up 15% on the previous period, prices fell in the second half of the year bringing the average for the full year to 31p per therm, down 34%. The fall was driven by increased UK storage capacity, commissioning of additional pipelines from Europe and a milder winter. Expenditure on gas totalled £2.2m for the year against £3.2m in the previous year.

The saving derived from the fall in energy costs was offset by a steady increase in the cost of pulp. Although the € was relatively stable against £Sterling throughout the year, the US$ fell significantly against both currencies. This affected the relative prices of Northern Bleached Softwood Kraft ("NBSK") pulp, the market benchmark priced in US$s and hardwoods priced in €. NBSK opened the financial year at US$630 per tonne and increased progressively to US$760 per tonne at the end of the financial year, up 21%. The cost of € priced hardwoods fluctuated by a much smaller degree during the course of the year. Overall pulp costs in the year were £0.8m higher than in the previous 12 months.

During the year significant progress was made with regard to the reduction of the cost base through greater energy efficiency, improved productivity and lower wastage.

James Cropper Converting ("Converting")
Converting's turnover increased by 2% to £11,157,000. Operating profit was £460,000 compared to £62,000 in the previous year. (The prior year's profit was after a deduction of £250,000 relating to accelerated depreciation attributable to the rationalisation of laminating equipment anticipated in the past financial year).

The incremental improvement in profitability in the year primarily derived from the substantial refurbishment of an existing laminating line. This investment was commissioned half way through the financial year being reported and has delivered a significant increase in capability, output and productivity. The weakening of the US$ over the year adversely affected margins on mountboard sales to the USA.

The Paper Mill Shop
The depressed level of consumer spending across most of the retail sector, which has been widely reported, continued to affect The Paper Mill Shop.

Turnover was £6,038,000, down 2% on the previous year, whilst the operating profit of £241,000 reported last year was reduced to a loss of £358,000. Although only one new outlet was opened during the course of the year, brand development was extended through the launch of an Internet offering which commenced trading in the second half-year.

During the year we also commissioned external research into the papercraft market. The Board, having reviewed the results of this research, has agreed a plan to implement the recommendations made in order to restore this subsidiary's profitability.

Pensions and International Accounting Standard 19 ("IAS 19")
Over the course of the year we have witnessed a significant improvement in the pension position, with the IAS19 deficit declining by £4,163,000 to £6,152,000 as at 31 March 2007. (2006 -£10,315,000).

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 £988,000. Under IAS 19 the charge against profit in the year was £1,419,000, which was £431,000 in excess of the future service contributions that were actually required. In addition, contributions totalling £838,000 were paid to the two schemes in respect of their past service deficits brought forward.

People

The past few years have been especially challenging for the employees of James Cropper PLC as the Group strived to make in-roads into its cost base, whilst improving customer service, against the background of adverse trading conditions. The year has seen the completion of major investments in Speciality Papers and Converting, which together eliminated some 25 jobs. Most of the employees affected by these changes have been re-deployed into other roles as a consequence of natural turnover within the business. Other changes have also led to improved productivity through the reduction of jobs.

The involvement, inventiveness and flexibility of our employees are essential components in our objective to improve performance across the Group. I am delighted that in striving for this, our employees will be rewarded with bonuses for their endeavours to improve profitability, safety and attendance performance over the year.

It has been a time of change at senior management level. Nigel Mitchell, our HR Manager left us and was succeeded by Jonathan Smith, whilst Isabelle Maddock was recruited as Financial Controller in anticipation of David Carey's retirement in September 2007. I was particularly delighted to welcome my son Mark to the Board as a Non-Executive Director, the sixth generation of my family to be involved with James Cropper PLC.

Jonathan Smith Isabelle Maddock Mark Cropper

Safety

There were 12 Lost Time Accidents ("LTAs") in the past financial year compared to 17 in the previous year. Over the last six years the 12-month moving average has fallen from 3.5 LTAs per month to 1 LTA per month. This improvement marks the steady progress of our Safety Strategy over this period. We firmly believe that a safer working environment also provides a more effective, productive and cost efficient working environment. The creation of a safer working environment is therefore of fundamental importance to the Group's employees and other stakeholders.

Environment

The Group has embarked on an ambitious investment programme to ensure that energy and environmental issues do not constrain the Group from meeting its strategic objectives. Initially the programme will focus on effluent treatment, solid waste and energy generation and usage. This programme will stretch out over the next four years.

In the past year a project to capture and re-use heat escaping from our power station was successfully commissioned. Initial performance has been very encouraging, suggesting that it will reduce the Group's gas consumption by 5% per annum. Also, in the year the Group invested in a new Effluent Dewatering Plant ("EDP"), which has dramatically reduced the water content of papermaking sludge. Although in the short-term sludge will be spread on farmland, a feasibility study currently being undertaken indicates that it could be consumed as an energy source in biomass combustion.

Outlook

TFP's exceptional growth in the past financial year being reported has rewarded our patient, long-term resolve in developing this business. The extent and varied nature of our current commercial product portfolio and product development programme gives us increased confidence that TFP will continue to grow profitably, although as shareholders should appreciate, it may be unrealistic to expect growth to be sustainable at the rate achieved in the past year.

The impact of reduced energy costs on Speciality Papers is most welcome. However a further significant fall in the price of gas over the coming year is not anticipated, whilst pulp is expected to continue on an upward trend over this period. In the past year Speciality Papers has successfully developed and implemented plans that have lead to improved productivity and reduced wastage. Our efforts to increase efficiency will continue, along with our drive to increase sales of higher margin products.

The recovery of Converting's fortunes following the commissioning of the re-furbished laminating line is gratifying. We believe that the full year impact of this investment will be evident in this new financial year.

It is clear from The Paper Mill Shop's detailed research that the papercraft market continues to grow and provide opportunities. The research gives the Board confidence that this subsidiary can be developed into a substantially bigger retail business and that its profitability can be restored over the next three years.

Cash management continues to be under firm control. Investment over the next two years will be prioritised on business development and projects to minimise energy costs and improve operating efficiencies.

We look forward to restoring our progressive dividend policy as we continue to make further progress with the business.

James Cropper

James Cropper
Chairman

Financial Review

International Financial Reporting Standards ("IFRS")

From accounting periods starting after 31 December 2004 all EU listed groups are required to prepare their statutory accounts in compliance with IFRS. IFRS has introduced changed Profit and Loss Account and Balance Sheet formats and new accounting policies. Although a number of the Group's accounting policies have changed, the only area where there has been a significant change to the Profit and Loss Account and the Balance Sheet is the treatment of our final salary pension schemes in accordance with IAS 19. The table opposite distinguishes between the Group's trading activities and the elements relating to the performance of the Group's two final salary schemes in accordance with IAS 19.

The Group's principal accounting policies are noted in the Statutory Accounts section of the Annual Report.

Overall performance

- "On-going" trading operating profit was £3,071,000 compared to £833,000 in the previous year.
- Net trading interest charges for the year were £438,000 against £511,000 previously.
- Trading profit before tax was £2,538,000 compared to £349,000 in 2006.
- The net adverse IFRS pension adjustment was £431,000 compared to a net adverse adjustment in the previous year of £478,000.
- The Group recorded an overall profit before tax of £2,107,000 for the year. This compares with a loss before tax of £129,000 for the previous year.
- A tax charge of £746,000 arose with respect to the year. This comprised a current tax charge of £641,000 and a deferred tax charge of £105,000.
- The Profit after Tax was therefore reduced to £1,361,000 compared to a Loss after Tax of £102,000 in the previous year.
- Basic and diluted earnings per share were 16.2 pence for the year compared to a loss of 1.2 pence in 2006.
- Shareholders' funds at the year-end were £22,653,000, with net debt of £5,294,000, resulting in a gearing ratio of 23%.
- On 24 May 2007 a statement was made to the market stating that, whilst audit clearance had not yet been received, barring unforeseen circumstances the group profit before tax for the year to 31 March 2007 would be not less than £1,900,000. As the audit had not been completed this was a cautious statement and the final audited accounts show a group profit before tax of £2,107,000.

	2007 £'000	2006 £'000	Change £'000s	Change %
Trading Profit and Loss Account				
Turnover				
Speciality Papers	45,967	43,839	2,128	5
The Paper Mill Shop	6,038	6,159	(121)	(2)
Converting	11,157	10,887	270	2
Technical Fibre Products	9,003	6,700	2,303	34
	72,165	67,585	4,580	7
Less inter-segmental sales	(3,080)	(3,384)	304	(9)
	69,085	64,201	4,884	8
Expenses				
Raw materials and consumables used	(30,425)	(27,720)	(2,705)	10
Energy costs	(2,833)	(4,139)	1,306	(32)
Employee benefit costs *	(16,659)	(16,542)	(117)	1
Depreciation and amortisation	(3,315)	(3,715)	400	(11)
Other expenses	(12,890)	(11,709)	(1,181)	10
Other income and changes in inventory	108	457	(349)	(76)
	(66,014)	(63,368)	(2,646)	4
"On-going" trading operating profit *	**3,071**	**833**	**2,238**	**269**
(* Before net pension adjustments)				
Profit and Loss Summary				
Trading activities				
Speciality Papers	1,435	(247)	1,682	
The Paper Mill Shop	(358)	241	(599)	
Converting	460	62	398	
Technical Fibre Products	2,053	777	1,276	
Other Group expenses	(86)		(86)	
	3,504	833	2,671	
Director and employee bonuses	(433)		(433)	
"On-going" trading operating profit	**3,071**	**833**	**2,238**	
Profit on sale of trade investment		116	(116)	
Trading operating profit	3,071	949	2,122	
Joint Venture	(95)	(89)	(6)	
Trading profit before interest	2,976	860	2,116	
Net interest	(438)	(511)	73	
Trading profit before tax	**2,538**	**349**	**2,189**	
(After future service pension contributions paid)				
Net pension adjustments				
Group operating profit	(610)	(364)	(246)	
Net interest	179	(114)	293	
Net pension adjustment before tax	**(431)**	**(478)**	**47**	
Overall Group after pension adjustments				
Profit before interest	2,366	496	1,870	
Net interest	(259)	(625)	366	
Profit/(Loss) before tax	**2,107**	**(129)**	**2,236**	
Balance Sheet Summary				
Non-pension Assets - excl. Cash	45,758	46,668	(910)	
Non-pension Liabilities - excl. Borrowings	(13,505)	(11,993)	(1,512)	
	32,253	34,675	(2,422)	
Net pension liabilities	(4,306)	(7,221)	2,915	
	27,947	27,454	493	
Net Borrowings	(5,294)	(8,595)	3,301	
Equity shareholders' funds	22,653	18,859	3,794	
Gearing %	23	46		

Financial Review

Trading Profit and Loss Account

Group turnover was £69,085,000 compared to £64,201,000 last year, up 8%. Overall Group raw material and consumable costs, excluding energy, were £30,425,000 up 10% on last year. The cost of energy consumption fell over the previous year by £1,306,000 to £2,833,000, down 32%.

As a result of reduced energy costs, increased turnover and improved efficiencies the profitability of James Cropper Speciality Papers increased from a trading loss of £247,000 to a profit of £1,435,000. Sales increased by 5% with volume up by 3%. Although price increases were achieved, the competitive nature of both UK and export markets limited the full recovery of the dramatic cost increases experienced in previous years.

Although the € was relatively stable against £Sterling throughout the year, the US$ fell significantly against both currencies. This affected the relative prices of Northern Bleached Softwood Kraft (“NBSK”) pulp, the market benchmark priced in US$s and hardwoods priced in €. NBSK opened the financial year at US$630 per tonne and increased progressively to US$760 per tonne at the end of the financial year, up 21%. The cost of € priced hardwoods fluctuated by a much smaller degree during the course of the year. Currency and pulp trends are shown in the following graphs.

The depressed level of consumer spending across most of the retail sector continued to affect The Paper Mill Shop. Turnover was £6,038,000, down 2% on the previous year, whilst the operating profit of £241,000 was reduced to a loss of £358,000.

The profitability of Converting and Technical Fibre Products (“TFP”) were adversely affected by the 11% weakening of the US$ during the period.

Converting’s turnover increased by 2% to £11,157,000. Operating profit was £460,000 compared to £62,000 in the previous year (which was after a deduction of £250,000 relating to accelerated depreciation). Comparable profit was up 47%. The incremental improvement in profitability primarily derived from the substantial refurbishment of an existing laminating line, which has delivered a significant increase in capability, output and productivity.

The operating profit of TFP was £2,053,000 against £777,000, with turnover up 34% on the previous year at £9,003,000. Sales into the US market grew by 48% in £Sterling terms and by 61% in US$ terms. At the average exchange rate for the year, sales to the US market represented approximately 48% of TFP’s turnover in £Sterling terms.

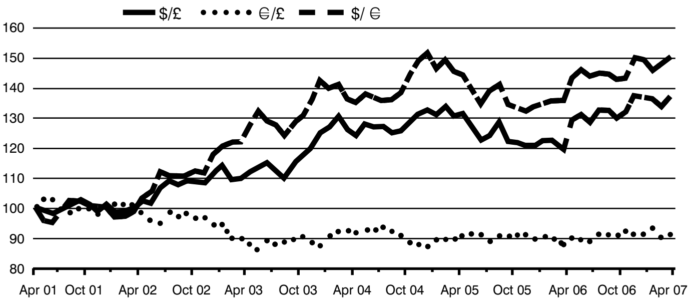
Electro Fiber Technologies Inc, the joint venture company based in the USA in which TFP has a 50% share, incurred a loss, the Group’s share of which was £95,000. This was slightly up on the previous year.

Prior to net IFRS pension adjustments employment costs increased by 1% to £16,659,000 compared to £16,542,000 in the previous year. The average number of people employed fell from 613 to 605 over the year. For greater analysis see Table F.

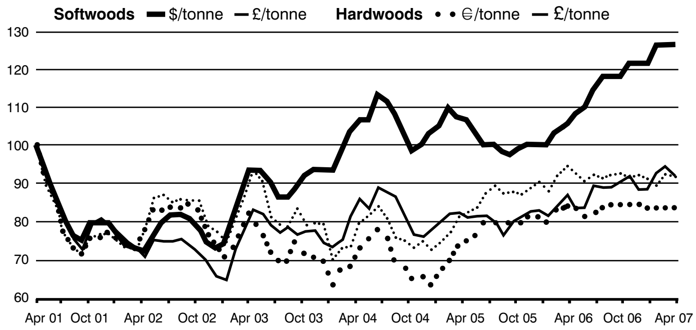
Other external charges increased from £11,709,000 to £12,890,000, up £1,181,000. Increases were associated with the impact of foreign currency exchange rate changes on Balance Sheet items, retailing activity, effluent treatment charges, operating leases, consultancy and the cost of regulatory compliance.

Depreciation and amortisation totalled £3,315,000 compared to £3,715,000 in 2006. The 2006 charge included £250,000 relating to accelerated depreciation attributable to equipment due to be decommissioned later in 2006.

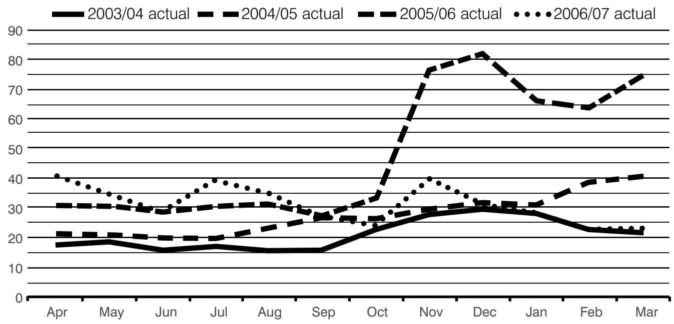
Currency Index



Pulp Index in Denominated Currencies



Gas Cost (pence per therm)



Balance Sheet

Shareholders’ Funds increased by £3,794,000 from £18,859,000 at the previous year-end to £22,653,000 as at 31st March 2007 as a consequence of the profit for the year of £1,361,000, actuarial gains (net of deferred tax) of £2,629,000 and proceeds of share issues of £147,000, offset by dividends paid during the year of £343,000.

Capital expenditure was £2,756,000, with the major investment being devoted to effluent treatment and energy saving projects.

Net current assets increased by £1,630,000 over the year from £12,994,000 to £14,624,000, with working capital (stocks, debtors, net of creditors) decreasing by £208,000 and net cash increasing by £1,838,000. Working capital movements included a £99,000 increase in stocks and a £1,063,000 increase in trade and other debtors, offset by a £817,000 increase in trade and other creditors.

Over the year bank loans falling due after more than a year fell by £1,463,000 from £8,113,000 to £6,650,000.

Financial Review (continued)

Cash Flow

Summarised cash flow is shown in Table A.

Net cash inflow from operating activities in the year was after deducting past service pension deficit payments of £838,000.

Net cash outflow from investing activities in the year includes capital expenditure totaling £2,756,000 offset by £1,691,000 received from the sale and subsequent lease back of assets.

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

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 C illustrates the Group's currency management process in practice, comparing the opening and closing exchange rates for the financial year.

Converting and TFP generated surplus US$s during the year, which, as a consequence of the weakened US$ had a detrimental impact on divisional profitability. Speciality Papers absorbed a proportion of these US$ funds. The € deficit principally arose in Speciality Papers. Potential foreign currency surpluses or deficits are dealt with by a combination of foreign currency forward selling and forward purchasing contracts.

Table A	**2007 £'000**	**2006 £'000**	**Change £'000s**
Net cash inflow from operating activities	4,656	3,086	1,570
Net cash outflow from investing activities	(1,152)	(2,645)	1,493
	3,504	441	3,063
Net cash flow from financing activities	(1,536)	1,375	(2,911)
Net increase in cash and cash equivalents	1,968	1,816	152
Opening cash and cash equivalents	1,762	(54)	1,816
Closing cash and cash equivalents	3,730	1,762	1,968
Closing cash and cash equivalents comprises:			
Cash at bank and in hand	3,730	1,762	1,968

Table B Net debt	**2007 £'000**	**2006 £'000**	**Change £'000s**
Cash and cash equivalents	3,730	1,762	1,968
Borrowings: repayable within one year	(2,374)	(2,244)	(130)
Net cash	1,356	(482)	1,838
Borrowings: non-current	(6,650)	(8,113)	1,463
Net debt	**(5,294)**	**(8,595)**	**3,301**
Facilities			
Borrowings: repayable within one year	2,374	2,244	130
Borrowings: non-current	6,650	8,113	(1,463)
Facilities drawn down	9,024	10,357	(1,333)
Undrawn facilities	3,455	3,484	(29)
Facilities	**12,479**	**13,841**	**(1,362)**
Funds available			
Cash and cash equivalents	3,730	1,762	1,968
Undrawn facilities	3,455	3,484	(29)
Funds available at year end	**7,185**	**5,246**	**1,939**
Borrowings: repayable within one year	(2,374)	(2,244)	(130)
Funds available in excess of one year	**4,811**	**3,002**	**1,809**

Table C		**US$**	**€**
Opening rate April 2006 v. £		1.73	1.43
Closing rate March 2007 v. £		1.92	1.47
Exchange rate movement	%	(11)	(2)
Strengthened/(Weakened) v. £			
Currency transactions in year			
Sales receipts	'000	17,708	14,327
Purchase payments	000	(16,459)	(17,649)
Surplus/(deficit)	'000	1,249	(3,322)
£ @ Opening rate	£'000	723	(2,319)
£ @ Closing rate	£'000	649	(2,267)
(Loss)/gain	£'000	(74)	52

Financial Review

Pensions

The Group operates two funded pension schemes providing defined benefits for the majority of its full time employees including Executive Directors. 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 using the projected unit method as at 1 April 2005. The results of the valuations are shown in Table D.

These results show a significant improvement in funding over the previous valuations in April 2003. The main underlying factors leading to the improvement in funding are:

- An injection of £800,000 into each scheme during the course of 2004 and
- An increase in stock market values over the intervening period, offset by more pessimistic assumptions relating to:

  - Longevity
  - Low yields
  - Low interest rates and
  - Low inflation

It is the intention of the Board to eliminate the deficits over a period of ten years. During the past financial year further injections of £420,000 and £418,000 were made to the Staff Scheme and Works Scheme respectively.

Membership of Staff and Works 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.

Table D	Assets £'000	Liabilities £'000	Deficit £'000	Funding Level %
"On-going" valuation as at April 2005				
Staff Scheme	20,341	(23,533)	(3,192)	86
Works Scheme	22,072	(25,747)	(3,675)	86
Combined deficit			(6,867)	
"On-going" valuation as at April 2003				
Staff Scheme	15,866	(20,238)	(4,372)	78
Works Scheme	15,012	(19,664)	(4,652)	76
Combined deficit			(9,024)	
Change				
Staff Scheme	4,475	(3,295)	1,180	
Works Scheme	7,060	(6,083)	977	
Combined deficit			2,157	

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. Surpluses or deficits revealed by these valuations are included on the sponsoring company's balance sheets, either directly against Reserves or via the Profit and Loss Account. Under IAS 19 pension scheme liabilities are measured on an actuarial basis using the projected unit method. (This is the same method as used for the "on-going" valuation of the Group's schemes). 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. 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. 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:

Profit and Loss Account

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.

Financial Review (continued)

Statement of Total Recognised Gains and Losses

- 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 E shows the results of the IAS 19 valuations.

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 £988,000. Under IAS 19 the charge against profit in the year was £1,419,000, which was £431,000 in excess of the future service contributions that were actually required.

It should be noted that the combined IAS 19 deficit as at 1 April 2005 of £10,707,000 compares with the combined "on-going" deficit of £6,867,000 as at the same date shown in table D.

Table F analyses employment costs charged against Operating Profit.

Table E **IAS19 DEFICIT**	**Staff 2007 £'000**	**Works 2007 £'000**	**Total 2007 £'000**	**Total 2006 £'000**
Current Service Charge	(654)	(944)	(1,598)	(1,392)
Finance income/(costs)	149	30	179	(114)
Future service contributions paid	488	500	988	1,028
Net impact on Profit and Loss Account	**(17)**	**(414)**	**(431)**	**(478)**
Past service deficit contributions paid	420	418	838	914
Actuarial gains or losses	1,833	1,923	3,756	(44)
Opening deficit	(3,519)	(6,796)	(10,315)	(10,707)
Closing deficit	**(1,283)**	**(4,869)**	**(6,152)**	**(10,315)**
Deferred Taxation @ 30%	385	1,461	1,846	3,095
Net - Deficit	**(898)**	**(3,408)**	**(4,306)**	**(7,220)**

Table F **Total adjusted employment costs**	**2007 £'000**	**2006 £'000**	**Change £'000s**
Wages and salaries	13,989	14,292	(303)
Director and employee bonuses	433		433
Social security costs	1,244	1,245	(1)
Future service pension contributions paid	988	1,028	(40)
Other pension costs	292	290	2
Total employment costs	16,946	16,855	91
Own labour capitalised	(287)	(313)	26
Chargeable against Trading Operating Profit	**16,659**	**16,542**	**117**
Wages and salaries	13,989	14,292	(303)
Director and employee bonuses	433		433
Social security costs	1,244	1,245	(1)
Current service pension charge (IAS 19)	1,598	1,392	206
Other pension costs	292	290	2
Total employment costs	17,556	17,219	337
Own labour capitalised	(287)	(313)	26
Chargeable against Group Operating Profit	**17,269**	**16,906**	**363**
Difference being:			
Net IAS 19 pension adjustment against operating profit	610	364	246
Average monthly number of employees	605	613	(8)

Speciality Papers

While the well-documented reversal in the cost of gas grabbed the headlines, the real success for Speciality Papers lay in the contribution made by business development plans and operating efficiency improvements deployed over the course of recent years.

Despite the competitive nature of both UK and export markets, the financial year saw Speciality Papers make encouraging progress in delivering profitable and sustainable growth, with sales value increasing by 5% to £45,967,000 and volume by 3% to 41,282 tonnes.

UK sales led the way with strong performances from book and file covering materials, filing grades and industrials, while export markets, despite the continuing impact of the weakening US$, gained significant new business in a number of packaging and graphical applications. Although price increases were achieved, the competitive nature of both UK and export markets limited the full recovery of the dramatic cost increases experienced in previous years.

Within operations, the focus as always was on the efficiencies and effectiveness of equipment and key processes in support of customers' requirements. It is pleasing to record that despite the increasingly complexity and technically demanding nature of the product range, improvements in productivity, quality and energy efficiencies all made significant contributions to returning the business to profitability after last year's disappointing result.

After two years of dramatic gas price increases, culminating in the unprecedented levels experienced over the winter of 2005/06, the dire predictions for the cost of gas during the last winter did not materialise, with the profile of gas prices for the second half of the year more in line with historical levels. Pulp price increases, on the other hand, did continue to increase over the course of the year broadly in line with expectations and as the single largest purchased raw material, served to erode some of the cost relief seen with energy.

Subsidiary investment over the course of the year included a number of successful energy projects, ranging from energy efficient pumps and motors to the successful commissioning of a waste heat recovery unit for the combined heat and power plant. Improvement team activities and targeted investment on two of our paper machines delivered valuable additional capacity and improved quality, while the Finishing Department benefitted from the final commissioning of the investment in automating the packing line.

While the challenges to the industry over recent years have seen an acceleration in consolidation and closures of many mills across all sectors in Europe and the USA, the old adage "get big, get niche or get out" is more relevant now than ever before for the paper industry in general. Fortunately, Speciality Papers is both clear and focused in terms of its strategy. The continued development of its process and people capabilities is well placed to service its targeted niche markets with its bespoke approach to small batch manufacturing of technically demanding, coloured paper and boards.

	2007 £'000	2006 £'000	Change £'000	Change %
Turnover	45,967	43,839	2,128	5
Operating profit/(loss)	1,435	(247)	1,682	

Business Review

The Paper Mill Shop

It proved to be an extremely difficult year for The Paper Mill Shop ("TPMS") with a disappointing sales level and a significant operating loss in the year. Although consumer confidence and the general retail climate improved from the previous year, we were unable to take advantage of this in our chain of shops. Sales were 2% lower than in the previous year but this relatively small fall was only possible because we benefited from full year sales at the five stores opened during the course of the previous year.

Last year's Annual Report referred to the growth in retail competition in the papercraft market; this has continued to gather pace during the year with some very significant growth amongst both large specialist craft chains and supermarkets. In this more hostile trading environment some of the weaknesses of our offer have been exposed; what was acceptable to consumers in the early years of our retail initiative has become less acceptable to today's more sophisticated crafting customer.

During the final quarter of the financial year we commissioned detailed market research into the papercraft market, the needs of the different types of customer and the fit between these and the current TPMS offer. This research included focus groups of our current customers as well as crafters who do not buy from us. The results have given us a fascinating insight into the market's perception of who we are and what we do.

The Board reviewed the results of this research and has agreed an Action Plan to implement the many improvements that need to be made in order to restore the subsidiary's profitability. This includes a strengthening of TPMS's management team, which we can now see has been under-resourced over the last couple of years.

It is clear that this is still a growing and interesting market and the Board is confident that TPMS can develop into a substantially bigger business and that profitability will be restored over the next three years. As well as pointing out our weaknesses, the market research also highlighted some very positive aspects of our business and these give us the platform on which we will be able to build.

We launched our transactional website in November 2006; this was intentionally a low-key start as we learned more about this route to market and the behaviour of the web customer. We have been able to replicate aspects of our pick and mix paper and card offer on the site and consumer feedback has been encouraging. As with the stores, much needs to be done to leverage the potential of this route to market.

	2007 £'000	2006 £'000	Change £'000	Change %
Turnover	6,038	6,159	(121)	(2)
Operating (loss)/profit	(358)	241	(599)	

Business Review

Converting

The improvement in Converting's profitability primarily derived from a substantial refurbishment of Laminator 1. This has delivered a significant increase in capability, output and productivity. As this investment was not commissioned until half way through the financial year the full benefits will only be evident in the coming year. It had been planned to mothball the second line, Laminator 2, but an increase in sales of lower caliper point of sales displayboard reversed this decision.

The UK trading environment over the whole year was slightly more favourable than the prior year as there was some underlying growth in retail sales and the housing market remained relatively buoyant. Demand for displayboard products is very much tied to the health of the retail sector, however there were technical changes in the market during the course of the year. A number of large UK printers installed large format litho machines as an alternative to traditional screen-printing machines. This created a demand for lower thickness products, which have to be suitable for the litho printing process.

As a consequence Converting was able to meet this demand and secure additional business. There was also a trend for some retailers to use our fully recyclable displayboard products in place of plastic alternatives. These developments are welcomed given that the displayboard market is generally accepted to be mature.

Converting remains the world's only picture mountboard producer vertically integrated with a paper mill capable of supplying all the elements of the product. UK demand for picture mountboard continued to be competitive, particularly at the lower value, price lead end of the market. However, by working closely with Arqadia, our long established distributor, we managed to maintain sales and even modestly increase sales of higher value added products during the year. The US$ weakened by 11% over the year impacting adversely on margins on sales of picture mountboard to the USA. As Converting has little expenditure denominated in US$ against which to offset its US$ revenues, this impact was felt on the bottom line. Currency concerns apart, the weakness of the USA housing market created a subdued market for framed art. However USA sales held up reasonably well over the course of the year.

Sales of digital printing products to small businesses and the professional via our website, www.papermilldirect.com, though relatively modest, continued to grow. Ironically one spin off from this activity has resulted in major OEMs, such as Fuji and Epson, placing orders on Converting to manufacturer own brand products.

During the year a specialist film laminator was installed. This has generated considerable interest from existing and potential customers. A number of products are at the final development stage, with commercial sales anticipated in the coming year.

	2007 £'000	2006 £'000	Change £'000	Change %
Turnover	11,157	10,887	270	2
Operating profit	460	62	398	

Business Review

Technical Fibre Products

The Company's 20th year of trading marked a significant growth in its earnings as its latent potential began to be realised. This has been achieved through our resolve to patiently service technically driven applications and markets over many years in the knowledge that commercialisation would bring its rewards.

Sales for the year, at just over £9 million, represents a 34% increase on the previous year. The USA market again delivered the highest annual growth rate at 61% in US$ terms and accounted for 48% of total £Sterling revenues. A 29% growth in European markets was also delivered. However a 15% decline was experienced in our much smaller and cyclical Asian market. Return on sales and return on investment more than doubled, at 22% and 35%, respectively.

The majority of sales growth in the USA has been derived from the continued expansion of global aerospace and fire protection markets, combined with commercial consolidation of our conductive materials in consumer electronic devices. We remain confident that expansion of these markets will continue at a reasonable pace in the near term alongside existing and new opportunities in composite material fabrications.

Growth in European sales of composite and insulating materials has also been significant. Our position in the European thermal insulation market has been strengthened as a consequence of TFP's main customer in this market transfering responsibility for converting operations to TFP in the fourth quarter.

In order to effectively service this business a dedicated satellite operation has been set up in Cheshire, where experienced personnel and efficient distribution networks are available.

As the fuel cell market develops demand for our electrode support substrates continues. This trend is expected to experience an upward move in the near term. This follows from renewed interest in phosphoric acid fuel cells, for stationary applications, and new materials developed for automotive PEM systems. The latter resulting from our participation in a collaborative research project sponsored by the Department of Trade and Industry. A new collaborative two-year programme to develop high temperature electrode systems has recently commenced with financial support again from the DTI.

The extent and varied nature of our commercially driven product development pipeline, together with the commitment and determination of our people to deliver strong, value adding partnerships, provides confidence for the continued growth and success of TFP.

	2007 £'000	2006 £'000	Change £'000	Change %
Turnover	9,003	6,700	2,303	34
Operating profit	2,053	777	1,276	

Health and Safety

The Group's Safety Strategy embraces the need to create well-developed safety management processes and a sound safety culture. The long-term aim of the Strategy is to achieve zero injuries. By adopting the principle that all injuries are preventable, management are accepting that it is their responsibility to achieve this aim in the long term.

There were 12 Lost Time Accidents ("LTAs") in the past financial year compared to 17 in the previous year. The chart illustrates the incidence of LTAs over the last six years. The 12-month moving average has fallen from 3.5 per month to 1 per month over this period.

Total Lost Time Accidents
For the last 6 years with a 12 month moving average

The generally accepted statistical safety theory, known as the "Safety Iceberg" or "Safety Triangle" theory, indicates that for every lost time accident that happens, there are a relatively large number of near misses or dangerous occurrences ("DOs"). Using this theory, a variation of the Safety Triangle is used by the Group to estimate how many DOs should be reported compared to the number of LTA's that actually arose. Using this basis it is assumed that for every 1 LTA there were 160 underlying DOs. Given that there were 12 LTAs in the past financial year, statistically 1,920 DOs should have arisen.

An organisation's behaviour towards safety reflects its underlying values. Culture is shaped by management attitude and actions. In a long established organisation such as James Cropper PLC culture is deep rooted and is moulded by history. Inevitably this has a strong influence on current values and behaviours. Culture takes a long time to change. Without a doubt changing the Safety Culture within an organisation is the hardest challenge of any safety strategy.

An improvement in safety culture will follow improvements in safety hardware and systems driven by management. From the outset the Safety Strategy Team recognised that the Strategy would progress from a "regulation led" phase through a " management led" phase to a "people led" phase.

These phases correspond to the categorisation of development of safety culture and improvement in performance identified by the Health and Safety Executive. After five years of significant investment in guarding, processes, training, systems and personal protection the Group can be confident that it has embarked upon the "management led" phase. In the "management led" phase culture will change once management has demonstrated that it is seriously committed to change by delivering against positive actions that are perceived to make changes for the better. The Safety Culture elements of the Safety Strategy will therefore primarily focus on providing management with the competences and processes required to facilitate change through their behaviour towards safety and their relationships with their people. The Safety Strategy Team firmly believes that a safer working environment is also a more effective, productive and cost efficient working environment. Therefore the creation of a safer working environment is of fundamental importance to the Group's key stakeholders, namely employees, shareholders, customers, suppliers, bankers, insurers and government agencies.

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.
- Ensure that the approach to compliance and improvements delivers cost saving and efficiency gains.
- Maintain ISO14001 certification
- 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.

The Group has embarked on an ambitious investment programme to ensure that energy and environmental issues do not constrain the Group from meeting its strategic objectives. Initially the programme will focus on effluent treatment, landfill, solid waste and energy generation and usage. This programme will stretch out over the next four years and will comprise three phases. The phases are shown in the following diagrams.

Treated water

Solid
waste 85%
water content

Liquid
waste

1m gallons discharged
every day

Water

Effluent

Steam

Gas

Electricity

Phase 1

The 2006 Annual Report indicated that a project to capture and re-use heat escaping from the CHP chimney stack had been authorised. This investment, which cost £0.4m, was commissioned late in the year. Initial performance is very encouraging, suggesting that it will reduce the Group's gas consumption and hence its exposure to gas price volatility, by 5% per annum. This will ensure compliance with all remaining Climate Change Agreement ("CCA") targets to 2010. As a consequence of this investment carbon dioxide emissions will also be reduced by 5%.

The Group has operated its own landfill site for the disposal of papermaking sludge for many years. The capacity of the site was limited and operations will cease in mid 2007. During the course of the year the Group invested in a new Effluent Dewatering Plant ("EDP"). The aim of the investment was to dramatically reduce the water content of sludge, from 85% to 60% and to dispose of the sludge from the site on a daily basis. The new EDP, which cost £1.5m, was commissioned in May 2007. Whilst investigating alternative forms of disposal, such as biomass combustion, sludge will be spread on farmland. This is a well-established and environmentally acceptable method of disposal. Sludge generated by the Group has been passed for such use by the Environment Agency.

Environment

Treated water

Solid
waste water
content = 85%

Liquid
waste

1m gallons discharged
every day

Solid
waste water
content = 60%

Water

Effluent

Steam

Gas

5% saving in
gas consumption

Electricity

Phase 2
During the year investigations were undertaken into the feasibility of generating steam from biomass combustion. Energy derived from burning waste wood and paper, papermaking waste and forest timber is regarded as carbon-neutral. The investigation is also considering the feasibility of including fuel derived from processed municipal domestic waste as an energy source. Preliminary studies indicate that such fuel material is dry, light and odourless. It would be mixed with other biomass fuels. If feasible and cost effective, biomass combustion would lead to a reduction in gas consumption of up to 20%, mitigate the impact of the European Union Emission Trading Scheme ("EUETS") and minimise the disposal of sludge by landspreading and of solid waste to landfill.

The biomass initiative is clearly in line with Government policies to reduce the amount of waste buried in landfill sites and to generate more energy from renewable sources. A conclusion on the viability of the biomass combustion is expected by the autumn of 2007. If the results of the feasibility study are positive the proposal would need to be submitted for planning permission. The Group would also consult with other interested parties, including our neighbours, to provide assurance as to the health and safety aspects of such an operation. It will be important to gain strong local support for the project if it moved beyond the feasibility stage.

Environment (continued)

Phase 3

In recent years the Group has been subjected to significant increases in the cost of treating waste water effluent discharged to sewer by its EDP. Five years ago the annual cost of treatment was £0.4m. By 2007 this had risen to £1.0m per annum. Double-digit increases are also forecast for the next five years. These increases, which do not relate to the actual cost of treatment, have been granted by OfWat, the UK water regulator, to allow United Utilities PLC, the water utility company responsible for North West England to raise revenue to fund general investment. These increases have been imposed on users on a mandatory basis. Given these circumstances a study will be undertaken during the coming year into the feasibility of full on-site water treatment that would allow direct discharge of treated water into the River Kent thus avoiding the need for water to be treated by United Utilities PLC. Before such a project could go ahead it would, of course involve gaining the agreement of the Environment Agency and English Nature, given the special status of the river.

Climate Change Regulations

The Group is a signatory to the paper sector Climate Change Agreement ("CCA") negotiated with DEFRA by the Confederation of Paper Industries. 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 met all three of its CCA milestones targets for specific energy use per tonne of saleable product.

EUETS, a mandatory scheme for greenhouse gas emission allowance trading within the EU, was introduced in 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 will be subject to this scheme as from 1 January 2008. In 2005/06 the Group emitted 44,000 tonnes of carbon dioxide. EUETS allows the Group to emit 41,000 tonnes of carbon dioxide per annum. The waste heat recovery unit commissioned in 2006/07 will reduce emissions by 5.0% per annum. By the end of 2007/08 the Group will be EUETS neutral.

Forestry

James Cropper PLC continues its policy of purchasing only from those suppliers who demonstrate practical application of environmentally sound management. Annual purchases are some 40,000 tonnes of virgin wood pulp of the highest environmental pedigree. All of our suppliers commit to the concept of sustainable forest management and comply fully with their local national standards and legislation. Formal statements of suppliers' environmental policies are received and assessed by the Group through visits and audits of our suppliers. All of our suppliers have attained the International Standards ISO 9000 and ISO 14001 relating to quality and environmental management procedures respectively. Increasing volumes of wood supply to our pulp producers are subject to forest certification procedures and chain of custody accreditation. Our pulp comes substantially from Sweden and Finland and relationships with suppliers have been established and continued over many years.

Effluent De-watering Plant

For many decades approximately 1 million gallons (4,545 cubic metres) of papermaking effluent were discharged each day into settlement lagoons on the Group's Burneside site. Within the lagoons the effluent underwent primary settlement.

This process separated out solid material, "sludge", whilst liquids were pumped to United Utilities' Kendal Wastewater Treatment Works for further treatment before being discharged into the River Kent. The primary settlement process yielded approximately 10,000 tonnes of "sludge" per annum, of which the water content was 85%. The operation necessitated the alternative use of two primary settlement lagoons, each being emptied every 6 to 8 weeks once full. On removal from the lagoons "sludge" was deposited in the Group's landfill site. The capacity of this site was limited.

To ensure compliance with ever more stringent environmental regulations, whilst simultaneously maintaining efficient support to growing manufacturing activities, it became clear that an improved effluent dewatering system had to be installed to replace the historical settlement, desludging and landfilling disposal methods. The aim of the project was to dramatically reduce the water content of "sludge" and for it to be disposed from site on a daily basis. Following investigations into available technologies on site trials were conducted against projected volumes and content of effluents. The trials identified that dissolved air flotation (DAF) was the most appropriate solution.

Our DAF plant was supplied by Nijhuis Water Treatment. The plant has made it possible to separate solids from liquid effluent on a continuous basis. The installation of additional dewatering devices has enabled water content of solid effluent to be dramatically reduced to 60% with the total tonnage reduced to 3,750 tonnes per annum. This dewatered "cake" provides opportunities for alternative re-use / recycling or disposal options to be considered.

The installation of the DAF plant will now make it possible to explore in more detail the available technologies to support the future strategy for complete on-site effluent treatment and possible direct discharge to the River Kent, via a Phase 2 water cleaning process.

Key to images below

1 General storage building owned by James Cropper PLC
2 Demolition of existing structures
3 Site ground prepared for foundations
4 Concrete and steel create new bases
5 Steelwork erected
6 Base laid for circular tank
7 Delivery of equipment
8 Equipment being installed
9 Circular storage rises vertically section by section
10 Completed circular storage
11 Fitting of equipment

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

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. This accreditation is subject to triennial audits. The next audit will take place in late 2008.

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 set 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.

BS EN ISO 9001: 2000
FM 10048

BS EN ISO 14001: 2004
EMS 57536

OHSAS 18001: 1999
OHS 93474

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 31 March 2007.

The Annual General Meeting of the Group will be held at the Bryce Institute, Burneside on Wednesday, 1 August 2007 at 10.30am.

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 31 March 2007 is set out in the Profit and Loss Account. 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.

Corporate Governance

(i) Directors' Responsibilities

The Board is accountable to the Group's shareholders for corporate governance and this section describes how the relevant principles of governance are applied to the Group. Throughout the year the Group has complied with the provisions set out in the Combined Code on Corporate Governance issued in July 2003 by the Financial Reporting Council ("FRC") except where stated below and in the Directors' Remuneration Report.

The Combined Code on Corporate Governance issued in June 2006 (Combined Code (2006)) contains only a limited number of modifications to the Combined Code (2003). The Listing Rules were amended in October 2006 for the Combined Code (2006) and this applies to reporting periods beginning on or after 1 November 2006.

The Group has also complied with the Turnbull Guidance.

(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 five Non-Executive Directors.

Despite three 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 and John Sclater and Peter Herring have each served on the Board for more than nine years. They display independence of character and judgment and provide unequivocal counsel and advice to the Board.

James Cropper is the Chairman of the Company and is responsible for the running of the Board. Alun Lewis is the Chief Executive and is responsible for the running of the Company's business. Peter Herring is the senior independent Non-Executive Director.

The Group Board meets eight times per year, each meeting scheduled over two days, 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 seven 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.

(iii) Board Committees

There are four sub-committees reporting to the Group Board:

- Executive Committee
- Remuneration Committee
- Audit Committee
- Nomination Committee

The Executive Committee comprises the executive directors and its 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 Committee, and the Nomination Committee comprise the non-executive directors of the Company. David Wilks is Chairman of the Audit Committee, Peter Herring is Chairman of the Remuneration Committee, and James 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 Committee	Nominations Committee
			(Executive Directors attend by invitation)		
	(8 in the year)	(7 in the year)	(2 in the year)	(3 in the year)	(2 in the year)
Chairman					
J A Cropper	8		2	3	2
Executive Directors					
A I Lewis (Chief Executive)	8	6	1	3	2
J M Denman	8	7	1		
G T Quayle	8	6			
N A Read	8	7			
P J Willink	8	7			
Non Executive Directors					
P L Herring	8		2	3	2
J R Sclater	8		2	3	2
D R Wilks	8		2	3	2
M A J Cropper (appointed 25.10.06)	4				

Report of the Directors (continued)

(iv) Re-election
The Directors are subject to retirement by rotation and re-election by the shareholders in accordance with the Articles of Association whereby one third of the Directors retire by rotation each year. George Quayle and David Wilks retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves up for re-election.

Mark Cropper was appointed a Director on 25 October 2006, and in accordance with the Articles of Association will retire at the Annual Meeting but is offering himself for re-election.

The Combined Code provides that any Director who has served more than nine years as a non-executive director should retire and be re-appointed annually. Peter Herring and John Sclater have served more than nine years and accordingly are retiring from the Board of Directors at the Annual General Meeting but are offering themselves for re-election.

Resolutions 3 to 7 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 1985 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 report from the external auditors' confirming their independence and objectivity was reviewed by the Audit Committee. All non-audit services undertaken by the external auditors were reviewed and agreed by the Audit Committee.

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 make presentations to institutional investors at the time of the announcement of the interim and final results, and the presentations can be found on the Company's website.

Citigate Dewe Rogerson, the Company's public relations advisors, and 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 have considered the current trading prospects, working capital requirements, and the availability of finance and 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 32 days (2006: 30 days) purchases outstanding at 31 March 2007. 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 receive 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 152,000 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

No donations for political purposes were made by the Group. Donations totalling £13,000 (2006: £13,000) were made for various local charitable purposes.

Directors' Authority to allot shares

Resolution 11 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 this resolution other than pursuant to existing rights under employee share schemes. To ensure compliance with recently published institutional guidelines and market practice, it is proposed that the authority will 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.

Disapplication of Pre-emption Rights

Resolution 12 is being proposed as a special resolution and renews an authority that expires at the Annual General Meeting. The resolution would grant the Directors authority for the ensuing year to allot shares by way of rights to shareholders and to issue a maximum of £105,905 (being 5% of the issued ordinary share capital) for cash without first offering the shares to the existing shareholders pursuant to Section 95 of the Companies Act 1985. The resolution also disapplies pre-emption rights in the event of sales of treasury shares. 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.

Purchase by the Company of its own Shares

Resolution 13 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 such repurchases. If such repurchases were made, the Directors would have to agree whether the shares are 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 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.

Delisting and Admission to AIM

A separate circular is being sent to shareholders incorporating a notice convening an extraordinary general meeting in connection with the proposed delisting of the Company's ordinary shares and admission to AIM.

Substantial Interests

Apart from the interests of Directors referred to overleaf, the notified shareholdings in excess of 3% of the issued capital at 1 June 2007 were as follows: -

J A Cropper 1974 Settlement	1,062,974	12.5%
Credit Agricole Cheuvreux International Limited	542,500	6.4%
Barclayshare Nominees Ltd	423,278	5.0%
Stargas Nominees Ltd	264,320	3.1%
P O'Reilly	254,500	3.0%

Report of the Directors (continued)

Details of Directors' Interests

		At 31 March 2007		At 1 April 2006	
		Ordinary Shares	Options on Ordinary Shares	Ordinary Shares	Options on Ordinary Shares
Director	**Interest**				
J A Cropper	Beneficial	412,989	2,565	412,989	2,565
	Non-beneficial	531,796	-	531,796	-
A I Lewis	Beneficial	12,761	54,725	12,761	54,725
J M Denman	Beneficial	1,610	35,000	1,610	44,200
	Non-beneficial	231,000	-	231,000	-
N A Read	Beneficial	3,289	39,725	3,289	39,725
	Non-beneficial	231,000	-	231,000	-
P J Willink	Beneficial	7,035	39,725	7,035	39,725
	Non-beneficial	28,084	-	28,084	-
G T Quayle	Beneficial	4,221	39,725	4,221	39,725
	Non-beneficial	28,084	-	28,084	-
J R Sclater	Beneficial	10,000	-	10,000	-
P L Herring	Beneficial	1,000	-	1,000	-
D R Wilks	Beneficial	1,000	-	1,000	-
M A J Cropper	Beneficial	922,189	-	922,189	-

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 2007.

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.

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 Company's auditors, PricewaterhouseCoopers LLP have indicated that they will not seek re-appointment at the Annual General Meeting. The Company has received special notice of the intention to propose a resolution at the Annual General Meeting to appoint KPMG Audit Plc as auditors of the Company, and Resolution 8 contains such a proposal.

J A Cropper

Chairman

Burneside Mills
Kendal

19 June 2007

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

An Executive Directors' Incentive Scheme was introduced in April 2005 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.

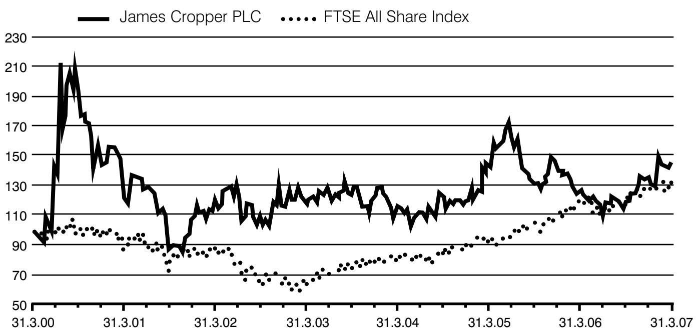
Share Option Schemes

The Group operates an Inland Revenue Approved Share Option Scheme and an Unapproved Share Option Scheme for Executive Directors. Details of the options granted are shown later in this report. No options were granted in the year.

Comparison of Five 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 31 March 2007 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.

James Cropper & FTSE All Share Total Returns Rebased



Information Subject to Audit

Details of Directors' Remuneration

The following table brings together the various elements of remuneration of each director for the financial period ended 31 March 2007: -

	Salary and Fees		Benefits		Annual Bonus		Total	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Executive								
A I Lewis	96	94	15	13	11	-	122	107
J M Denman	81	79	13	13	11	-	105	92
N A Read	77	75	12	11	10	-	99	86
P J Willink	73	71	17	15	11	-	101	86
G T Quayle	73	71	14	12	15	-	102	83
Non-Executive								
J A Cropper	34	36	11	8	-	-	45	44
J R Sclater	15	15	-	-	-	-	15	15
P L Herring	17	17	-	-	-	-	17	17
D R Wilks	17	17	-	-	-	-	17	17
M A J Cropper*	7	-	-	-	-	-	7	-
	490	475	82	72	58	-	630	547

*(appointed 25.10.06)

Directors' Remuneration Report (continued)

Highest paid Director

	2007 £'000	2006 £'000
Aggregate emoluments	122	107
Accrued pension under defined benefit pension scheme	31	28

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 £'000	Increase in accrued pension excluding inflation per annum £'000	Total accrued pension at 31 March 2007 per annum £'000	Transfer value of net increase in accrual after inflation over period £'000	Increase in transfer value less directors' contributions £'000	Transfer value of accrued pension at 31 March 2007 £'000	Transfer value of accrued pension at 1 April 2006 £'000
A I Lewis	1	2	31	5	13	372	350
J M Denman	2	3	31	25	39	434	388
N A Read	1	2	32	5	15	426	403
P J Willink	1	2	18	3	4	164	153
G T Quayle	2	2	17	19	25	243	211

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

The Inland Revenue Approved Share Option Scheme introduced in 1987 expired in January 1998. The movements and outstanding options remaining to be exercised on the Scheme are:-

	Number at 1 April 2006	Number granted in period	Number exercised in period	Options lapsed in period	Exercise Price £	Exercisable	Number at 31 March 2007
J M Denman	9,200	-	-	9,200	3.25	August 1999 to August 2006	-

The above options are not subject to performance conditions, since it was not market practice to impose these at the time the Scheme was established.

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 1 April 2006	Number granted in period	Number exercised in period	Options lapsed in period	Exercise Price £	Exercisable	Number at 31 March 2007
J A Cropper	2,565	-	-	-	2.027	August 2001 to August 2008	2,565
A I Lewis	10,000	-	-	-	2.027	August 2001 to August 2008	10,000
	4,725	-	-	-	2.059	December 2002 to December 2009	4,725
N A Read	10,000	-	-	-	2.027	August 2001 to August 2008	10,000
	4,725	-	-	-	2.059	December 2002 to December 2009	4,725
P J Willink	10,000	-	-	-	2.027	August 2001 to August 2008	10,000
	4,725	-	-	-	2.059	December 2002 to December 2009	4,725
G T Quayle	10,000	-	-	-	2.027	August 2001 to August 2008	10,000
	4,725	-	-	-	2.059	December 2002 to December 2009	4,725

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 1 April 2006	Number granted in period	Number exercised in period	Options lapsed in period	Exercise Price £	Exercisable	Number at 31 March 2007
A I Lewis	10,000	-	-	-	2.615	August 2003 to August 2010	10,000
	30,000	-	-	-	2.065	June 2004 to June 2011	30,000
J M Denman	20,000	-	-	-	2.615	August 2003 to August 2010	20,000
	15,000	-	-	-	2.065	June 2004 to June 2011	15,000
N A Read	10,000	-	-	-	2.615	August 2003 to August 2010	10,000
	15,000	-	-	-	2.065	June 2004 to June 2011	15,000
P J Willink	10,000	-	-	-	2.615	August 2003 to August 2010	10,000
	15,000	-	-	-	2.065	June 2004 to June 2011	15,000
G T Quayle	10,000	-	-	-	2.615	August 2003 to August 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.

The market price of the shares at the period end was £1.81 and the high and low for the period was £1.895 and £1.40 respectively.

P L Herring

Chairman of the Remuneration Committee

19 June 2007

Independent Auditors' Report to the Members of James Cropper PLC

We have audited the group and parent company financial statements (the ''financial statements'') of James Cropper PLC for the 52 weeks ended 31 March 2007 which comprise the Group Profit and Loss Account, the Balance Sheets, the Cash Flow Statements, the Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities 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 are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors'

Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Review, the Financial Review, the Business Reviews, the Heath and Safety Review, the Environmental Review, Effluent De-watering Plant, the Risk Management Report, the Report of the Directors and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2007 and of its profit and cash flows for the 52 weeks then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2007 and cash flows for the 52 weeks then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors

Newcastle upon Tyne

19 June 2007

Notes:

(a) The maintenance and integrity of the James Cropper PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group Profit and Loss Account

for the period ended 31 March 2007

	Note	2007 £'000	2006 £'000
Continuing operations			
Turnover	2	69,085	64,201
Other income		195	247
Changes in inventories of finished goods and work in progress		(87)	210
Raw materials and consumables used		(30,425)	(27,720)
Energy costs		(2,833)	(4,139)
Employee benefit costs	22	(17,269)	(16,906)
Depreciation and amortisation	4	(3,315)	(3,715)
Other expenses		(12,890)	(11,709)
Profit on sale of trade investment		-	116
Operating profit	2	2,461	585
Interest expense	3	(783)	(888)
Interest income	3	524	263
Share of post tax loss from joint ventures	10	(95)	(89)
Profit/(loss) before tax	4	2,107	(129)
Taxation	5	(746)	27
Profit/(loss) for the period attributable to equity holders of the company	20	1,361	(102)
Earnings/(loss) per share expressed in pence per share	6		
- Basic		16.2p	(1.2p)
- Diluted		16.2p	(1.2p)
Dividends per share expressed in pence per share	7		
- 2007 interim dividend paid		1.9p	1.9p
- 2007 final dividend proposed		5.1p	2.2p

Balance Sheets

as at 31 March 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Assets					
Non-current assets					
Intangible assets	8	1,351	1,316	1,351	1,316
Property, plant and equipment	9	21,517	23,763	1,080	1,295
Investments in subsidiary undertakings	10	-	-	7,350	7,350
Investments in joint ventures	10	58	77	-	-
Deferred tax assets	18	1,846	3,095	1,846	3,095
		24,772	28,251	11,627	13,056
Current assets					
Inventories	11	8,366	8,267	-	-
Trade and other receivables	12	14,462	13,399	26,500	28,839
Financial assets					
- Derivative financial instruments	16	4	2	4	2
Cash and cash equivalents	13	3,730	1,762	422	1,087
Current tax assets		-	-	67	-
		26,562	23,430	26,993	29,928
Liabilities					
Current liabilities					
Trade and other payables	14	(8,544)	(7,727)	(3,173)	(4,516)
Financial liabilities					
- Borrowings	15	(2,374)	(2,244)	(2,374)	(2,244)
Current tax liabilities		(1,020)	(465)	-	(104)
		(11,938)	(10,436)	(5,547)	(6,864)
Net current assets		14,624	12,994	21,446	23,064
Non-current liabilities					
Financial liabilities					
- Borrowings	15	(6,650)	(8,113)	(6,650)	(8,113)
Retirement benefit liabilities	17	(6,152)	(10,315)	(6,152)	(10,315)
Deferred tax liabilities	18	(3,941)	(3,958)	(584)	(558)
		(16,743)	(22,386)	(13,386)	(18,986)
Net assets		22,653	18,859	19,687	17,134
Shareholders' equity					
Ordinary share capital	19	2,118	2,090	2,118	2,090
Share premium	20	573	454	573	454
Translation reserve	20	(8)	10	-	-
Other reserves	20	-	61	-	14
Retained earnings	20	19,970	16,244	16,996	14,576
Total shareholders' equity		22,653	18,859	19,687	17,134

The financial statements on pages 31 to 55 were approved by the Board of Directors on 19 June 2007 and were signed on its behalf by:

J A Cropper

Director

Cash Flow Statements

Cash Flow Statements for the period ended 31 March 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Cash flows from operating activities					
Cash generated from/(used by) operations	21	4,954	3,876	(824)	393
Interest received		549	262	1,822	1,623
Interest paid		(760)	(854)	(740)	(753)
Tax paid		(87)	(198)	-	(76)
Net cash from operating activities		4,656	3,086	258	1,187
Cash flow from investing activities					
Investment in joint venture		(87)	(67)	-	-
Purchase of intangible assets		(254)	(206)	(254)	(206)
Purchase of property, plant and equipment		(2,502)	(2,683)	-	(214)
Proceeds from sale of trade investment		-	311	-	311
Proceeds from sale of property, plant and equipment		1,691	-	10	-
Dividends received		-	-	850	-
Net cash (used in)/generated from investing activities		(1,152)	(2,645)	606	(109)
Cash flows from financing activities					
Net proceeds from issue of new bank loan		1,000	4,000	1,000	4,000
Net proceeds from issue of ordinary share capital		147	-	147	-
Finance lease capital payments		-	(96)	-	-
Repayment of borrowings		(2,333)	(1,843)	(2,333)	(1,843)
Dividends paid to shareholders		(343)	(686)	(343)	(686)
Net cash (used in)/generated from financing activities		(1,529)	1,375	(1,529)	1,471
Effects of exchange rate changes		(7)	-	-	-
Net increase/(decrease) in cash and cash equivalents		1,968	1,816	(665)	2,549
Cash and cash equivalents at the start of the period		1,762	(54)	1,087	(1,462)
Cash and cash equivalents at the end of the period		3,730	1,762	422	1,087

Cash and cash equivalents consists of:

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Cash at bank and in hand	13	3,730	1,762	422	1,087

Statements of Recognised Income and Expense

Statements of Recognised Income and Expense for the period ended 31 March 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Profit/(loss) for the financial period		1,361	(102)	102	580
Currency translation differences on foreign currency investment		(18)	16	-	-
Retirement benefit liabilities – actuarial gains/(losses)	17	3,756	(44)	3,756	(44)
Deferred tax on actuarial gains/(losses) on retirement benefit liabilities	18	(1,127)	13	(1,127)	13
Total recognised income/(expense) for the period		3,972	(117)	2,731	549

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
These financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of land and buildings and derivative financial instruments and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions 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. Assumptions used in the calculation of the Group's retirement liability have the biggest impact on these financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

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.

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.

Segmental reporting
The group's primary reporting format is business segments and its secondary format is geographical segments based on location of customer. 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
The functional currency and presentational currency of the group is Sterling. Transactions in currencies other than Sterling are translated using exchange rates prevailing at the dates of the transactions. Translation differences on the settlement of those transactions are dealt with in the profit and loss account. Monetary assets and liabilities denominated in a foreign currency are translated into Sterling at rates ruling at the period end.

The profits and losses of foreign subsidiary undertakings are translated into Sterling at weighted average rates of exchange prevailing during the period. Assets and liabilities of these companies are translated into Sterling at rates ruling at the period end. Differences arising on the retranslation of the opening net assets and the results for the period are taken directly to reserves.

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 tangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. 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 balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet 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 profit and loss in the statement of recognised income and expense.

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
The fair values of employee share options and share allocations are calculated using the Black-Scholes pricing model.

The fair values are recognised as a cost in the profit and loss account on a straight line basis over the vesting period of the related share options or share allocations and are adjusted to reflect expected and actual levels of vesting.

Intangible fixed assets
Intangible fixed assets represent computer software and are stated at cost less accumulated amortisation. Intangible fixed assets are amortised over their expected useful lives, which are between 3 and 10 years.

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 and leasehold buildings14 – 40 years

Fixtures, fittings, plant and machinery 4 – 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.

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 profit and loss account 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 balance sheet and are depreciated over the expected useful life of the asset. The interest element of the rental obligation is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

In the event that assets are sold and are subject to leaseback, the terms and conditions of the leaseback are reviewed and the lease is accounted for as a sale and operating leaseback or a sale and finance leaseback as appropriate.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Financial risk management
The group's activities expose it to a variety of financial risks including the effects of changes in foreign exchange rates, credit risks, liquidity and interest rates.

The group uses derivative financial instruments to hedge certain risk exposures.

a) Foreign exchange risk
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.

b) Interest rate risk
The group finances its operations through a mixture of retained profits and bank borrowings. The group borrows in the desired currencies at both fixed and floating rates of interest and then uses interest rate caps to manage its exposure to interest rate fluctuations.

c) Liquidity risk
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. It is, in addition, the group's policy to maintain undrawn committed borrowing facilities in order to provide flexibility in the management of liquidity.

d) Credit risk
The group has implemented policies that require appropriate credit checks on potential customers before sales commence for some of its businesses. In addition, some of the group's businesses operate credit insurance.

Investments
Trade investments are stated at cost less any provision for permanent diminution in value.

The group's share of the profit less losses of joint ventures is included in the profit and loss account on the equity accounting basis. The carrying value of joint ventures in the group balance sheet 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 balance sheet.

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 profit and loss account over the period of the borrowings using the effective interest method. Interest is not capitalised within property, plant and equipment.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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 balance sheet date. The resulting gain or loss on re-measurement is recognised in the profit and loss account, unless hedge accounting is applicable.

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 balance sheet date, which are classified as non-current assets. Loans and receivables are included within trade and other receivables in the balance sheet.

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

Interest
Interest is recognised in the consolidated income statement on an accruals basis using the effective interest method.

Trade receivables
Trade receivables are recorded at their nominal amount less an allowance for doubtful debts.

Trade payables
Trade payables are stated at their nominal 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.

Joint ventures
Joint ventures are entities over which the group has joint control, established by contractual agreement. Investments in joint ventures are accounted for using the equity method. If the group's share of losses in a joint venture equals or exceeds its investment in the joint venture the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

New standards and interpretation not applied
The following key standards and interpretations have been issued by the International Accounting Standards Board (IASB) and IFRIC with an effective date that does not impact on these financial statements so they have not been applied.

International Accounting Standards and Interpretations		Effective date
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment - Presentation of financial statements	1 January 2007
IFRS 8	Operating Segments	1 January 2009
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of embedded derivatives	1 June 2006
IFRIC 10	Interim financial reporting and impairment	1 November 2006
IFRIC 11	IFRS 2: Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008
IAS 23	Revised- Borrowing costs	1 January 2009

Upon adoption of IFRS 7, the group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail although there is not expected to be any effect on the reported income or net assets. The directors do not anticipate that the adoption of any of the other above standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

2 Segmental reporting

Primary reporting format – business segments

Period ended 31 March 2007	Papermaking £'000	Retail £'000	Converting £'000	Technical Fibre Products £'000	Group Services £'000	Other £'000	Eliminations £'000	Group £'000
Continuing operations								
Revenue - external	43,680	6,038	10,364	9,003	-	-	-	69,085
- inter segment	2,287	-	793	-	-	-	(3,080)	-
Segment profit/(loss) before HQ Intra Group charges	1,896	(336)	551	2,144	(1,794)	-	-	2,461
Segment profit/(loss) after HQ Intra Group charges	1,435	(358)	460	2,053	(1,129)	-	-	2,461
Interest expense								(783)
Interest income								524
Share of post tax results of joint ventures								(95)
Profit before tax								2,107
Taxation								(746)
Profit for the year from continuing operations								1,361
Segment assets	28,352	1,832	9,145	9,864	38,619	1,648	(38,077)	51,383
Investment in equity accounted joint venture	-	-	-	58	-	-	-	58
Total assets	28,352	1,832	9,145	9,922	38,619	1,648	(38,077)	51,441
Total liabilities	(22,799)	(1,426)	(6,970)	(7,176)	(18,932)	-	28,515	(28,788)
Other segment items								
Capital expenditure	1,731	52	323	396	254	-	-	2,756
Depreciation	1,742	365	367	417	205	-	-	3,096
Amortisation of intangible assets	-	-	-	-	219	-	-	219
Impairment of trade receivables	(4)	-	(5)	28	-	-	-	19

At 31 March 2007, the Group is organised into five main business segments:

- Papermaking – relates to James Cropper Speciality Papers. Manufacturer of coloured paper and boards.
- Retail – relates to The Paper Mill Shop. Retailing of paper and associated products.
- 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

Comparative information is presented on the same basis.

Notes to the Financial Statements (continued)

2 Segmental reporting (continued)

Period ended 1 April 2006	Papermaking **£'000**	Retail **£'000**	Converting **£'000**	Technical Fibre Products **£'000**	Group Services **£'000**	Other **£'000**	Eliminations **£'000**	Group **£'000**
Continuing operations								
Revenue - external	41,231	6,159	10,111	6,700	-	-	-	64,201
- inter segment	2,608	-	776	-	-	-	(3,384)	-
Segment profit/(loss) before HQ Intra Group charges	214	265	158	867	(1,035)	-	-	469
Segment profit/(loss) after HQ Intra Group charges	(247)	241	62	777	(364)	-	-	469
Interest expense								(888)
Interest income								263
Share of post tax results of joint ventures								(89)
Profit on sale of trade investment								116
Loss before tax								(129)
Taxation								27
Loss for the year from continuing operations								(102)
Segment assets	27,763	2,101	9,890	8,180	42,827	1,648	(40,962)	51,447
Investment in equity accounted joint venture	-	-	-	77	-	-	-	77
Total assets	27,763	2,101	9,890	8,257	42,827	1,648	(40,962)	51,524
Total liabilities	(23,240)	(1,425)	(7,931)	(5,508)	(25,693)	-	31,132	(32,665)
Other segment items								
Capital expenditure	1,363	573	381	152	420	-	-	2,889
Depreciation	2,017	280	615	448	173	-	-	3,533
Amortisation of intangible assets	-	-	-	-	182	-	-	182
Impairment of trade receivables	(5)	-	8	(14)	-	-	-	(11)

Secondary reporting format – geographical segments

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

	Revenue		Segment asset		Capital expenditure	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Continuing operations	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
UK	43,871	40,591	49,833	50,049	2,756	2,889
Europe	12,000	11,230	-	-	-	-
Asia	4,413	4,637	-	-	-	-
The Americas	7,036	5,955	1,550	1,398	-	-
Australasia	1,558	1,473	-	-	-	-
Africa	207	315	-	-	-	-
	69,085	64,201	51,383	51,447	2,756	2,889
Investment in equity accounted joint ventures	-	-	58	77	-	-
	69,085	64,201	51,441	51,524	2,756	2,889

Company

The Company's business is to invest in its subsidiaries and, therefore, it operates in a single segment.

3 Finance costs

	2007 £'000	2006 £'000
Interest expense		
Interest payable on bank borrowings	783	761
Interest payable on finance leases	-	13
Retirement benefits:		
Expected return on pension scheme assets	-	(2,954)
Interest on pension scheme liabilities	-	3,068
Total interest expense	783	888

Interest income		
Interest receivable on bank borrowings	345	263
Retirement benefits:		
Expected return on pension scheme assets	3,492	-
Interest on pension scheme liabilities	(3,313)	-
Total interest income	524	263

4 Profit/(loss) before tax

	2007 £'000	2006 £'000
The following items have been charged/(credited) in arriving at profit/(loss) before tax:		
Staff costs (note 22)	17,269	16,906
Depreciation of property, plant and equipment:		
- owned assets	3,096	3,430
- under finance leases	-	103
Amortisation of intangibles	219	182
Profit on disposal of fixed assets	(39)	-
Other operating lease rentals payable		
- Plant and machinery	386	234
- Retail outlets	972	851
Repairs and maintenance expenditure on property, plant and equipment	2,342	2,307
Government grants received	(133)	(190)
Fair value adjustments relating to financial assets and liabilities at fair value through profit and loss	8	19
Research and development expenditure	767	972
Foreign exchange differences	267	(116)
Trade receivables impairment	19	(11)
Fixed asset impairment	-	250

Government grants relate to assistance received for research projects.

Services provided by the group's auditor and network firms
During the period the group obtained the following services from the group's auditor at costs as detailed below:

	2007 £'000	2006 £'000
Audit services:		
- Fees payable to the company's auditor for the audit of parent company and consolidated accounts	13	12
Other services:		
- Remuneration payable to the company's auditor for the auditing of accounts of associates of the company pursuant to legislation (including that of countries and territories outside Great Britain)	40	40
- Fees in respect of work performed on grants	3	5
- IFRS accounting advisory services	-	2
- Tax compliance services	32	29
- Tax advisory services	-	2
	88	90

Notes to the Financial Statements (continued)

5 Taxation

Analysis of charge in period

Continuing operations	**2007 £'000**	**2006 £'000**
Current tax	958	155
Prior year adjustments in respect of current tax	(317)	19
	641	174
Deferred tax (note 18)	(116)	(129)
Prior year adjustments in respect of deferred tax (note 18)	221	(72)
	105	(201)
Taxation	746	(27)

Tax on items charged to equity		
Deferred tax on actuarial gains on retirement benefit liabilities	1,127	(13)

The tax for the period is higher (2006: higher) than the standard rate of corporation tax in the UK (30%).
The differences are explained below:

	2007 £'000	**2006 £'000**
Profit/(loss) on ordinary activities before tax	2,107	(129)
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 30% (2006: 30%)	632	(39)
Effects of:		
Adjustments to tax in respect of prior period	(96)	(53)
Unrelieved tax losses	129	-
Tax at marginal rates	-	(11)
Expenses not deductible for tax purposes	79	67
Other	2	9
Total taxation (continuing operations)	746	(27)

6 Earnings/(loss) 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.

	2007			**2006**		
	Earnings £'000	**Weighted average number of shares '000**	**Per-share amount pence**	**Earnings £'000**	**Weighted average number of shares '000**	**Per-share amount pence**
Basic EPS						
Earnings attributable to ordinary shareholders	1,361	8,376	16.2	(102)	8,359	(1.2)
Effect of dilutive securities						
Options	-	9	-	-	-	-
Diluted EPS	1,361	8,385	16.2	(102)	8,359	(1.2)

7 Dividends

	2007 £'000	2006 £'000
Final paid for the period ended 1 April 2006/period ended 2 April 2005	184	527
Interim paid for the period ended 31 March 2007/period ended 1 April 2006	159	159

In addition, the directors are proposing a final dividend in respect of the financial period ended 31 March 2007 of 5.1p per share which will absorb an estimated £432,000 (2006:£184,000) of shareholders' funds. If approved by members at the Annual General Meeting, it will be paid on 10 August 2007 to shareholders who are on the register of members at 20 July 2007. 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 and Company

	Computer Software £'000
Cost	
At 2 April 2006	2,717
Additions – externally generated	109
Additions – internally generated	145
At 31 March 2007	2,971
Aggregate amortisation	
At 2 April 2006	1,401
Charge for the period	219
At 31 March 2007	1,620
Net book amount at 31 March 2007	1,351

	Computer Software £'000
Cost	
At 3 April 2005	2,511
Additions – externally generated	20
Additions – internally generated	186
At 1 April 2006	2,717
Aggregate amortisation	
At 3 April 2005	1,219
Charge for the period	182
At 1 April 2006	1,401
Net book amount at 1 April 2006	1,316

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 8 years (2006: 9 years).

Notes to the Financial Statements (continued)

9 Property plant and equipment

Group	Freehold land & buildings £'000	Plant & machinery £'000	Total £'000
Cost			
At 2 April 2006	10,068	66,028	76,096
Additions at cost	100	2,402	2,502
Disposals	(24)	(3,003)	(3,027)
At 31 March 2007	10,144	65,427	75,571
Accumulated depreciation			
At 2 April 2006	3,940	48,393	52,333
Charge for the period	287	2,809	3,096
Disposals	(24)	(1,351)	(1,375)
At 31 March 2007	4,203	49,851	54,054
Net book amount at 31 March 2007	5,941	15,576	21,517

Group	Freehold land & buildings £'000	Plant & machinery £'000	Total £'000
Cost			
At 3 April 2005	10,068	63,345	73,413
Additions at cost	-	2,683	2,683
At 1 April 2006	10,068	66,028	76,096
Accumulated depreciation			
At 3 April 2005	3,673	45,127	48,800
Charge for the period	267	3,266	3,533
At 1 April 2006	3,940	48,393	52,333
Net book amount at 1 April 2006	6,128	17,635	23,763

9 Property plant and equipment

Company

	Freehold land & buildings £'000	Plant & machinery £'000	Total £'000
Cost			
At 2 April 2006	951	2,117	3,068
Additions at cost	-	-	-
Disposals	(24)	(10)	(34)
At 31 March 2007	927	2,107	3,034
Accumulated depreciation			
At 2 April 2006	243	1,530	1,773
Charge for the period	38	167	205
Disposals	(24)	-	(24)
At 31 March 2007	257	1,697	1,954
Net book amount at 31 March 2007	670	410	1,080

Company	Freehold land & buildings £'000	Plant & machinery £'000	Total £'000
Cost			
At 3 April 2005	951	1,903	2,854
Additions at cost	-	214	214
At 1 April 2006	951	2,117	3,068
Accumulated depreciation			
At 3 April 2005	229	1,371	1,600
Charge for the period	14	159	173
At 1 April 2006	243	1,530	1,773
Net book amount at 1 April 2006	708	587	1,295

Notes to the Financial Statements (continued)

10 Investments

(i) Investments in subsidiary undertakings

	Group		Company	
	2007 £'000	**2006 £'000**	**2007 £'000**	**2006 £'000**
At 31 March 2007 and 2 April 2006	-	-	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**	**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
Technical Fiber Products Inc.	USA	100	Sales organisation
Melmore Limited	England	100	Dormant company
Papermilldirect.com Limited	England	100	Dormant company

(ii) Investments in joint ventures

	Group		Company	
	2007 £'000	**2006 £'000**	**2007 £'000**	**2006 £'000**
At 2 April 2006	77	83	-	-
Investment in the year	87	67	-	-
Share of loss in the year	(95)	(89)	-	-
Exchange adjustments	(11)	16	-	-
At 31 March 2007	58	77	-	-

The investment in joint ventures relates to the Group's 50% shareholding in Electro Fiber Technologies Inc., a company based in the USA. The investment is held by Technical Fiber Products Inc.

The aggregate amounts included in the financial statements relating to the Group's share of joint ventures are:

	Group	
	2007 £'000	**2006 £'000**
Gross assets	73	97
Gross liabilities	(15)	(20)
	58	77

11 Inventories

	Group		Company	
	2007 £'000	**2006 £'000**	**2007 £'000**	**2006 £'000**
Materials	3,961	3,775	-	-
Work in progress	1,674	1,515	-	-
Finished goods	2,731	2,977	-	-
	8,366	8,267	-	-

Inventories are stated after a provision for impairment of £121,000 (2006: £126,000)

12 Trade and other receivables

	Group		Company	
	2007 £'000	**2006 £'000**	**2007 £'000**	**2006 £'000**
Trade debtors	13,554	11,467	-	-
Less: Provision for impairment of receivables	(67)	(48)	-	-
Trade debtors – net	13,487	11,419	-	-
Amounts owed by group undertakings	-	-	26,062	27,456
Other debtors	140	1,020	114	1,001
Prepayments	835	960	324	382
	14,462	13,399	26,500	28,839

Concentrations of credit risk with respect to trade receivables are mitigated by the Group as described in the accounting policies. Due to this, management believe there is no further credit risk provision required in excess of normal provision for doubtful receivables.

13 Cash and cash equivalents

	Group		Company	
	2007 £'000	**2006 £'000**	**2007 £'000**	**2006 £'000**
Cash at bank and in hand	3,730	1,762	422	1,087

14 Trade and other payables

	Group		Company	
	2007 £'000	**2006 £'000**	**2007 £'000**	**2006 £'000**
Trade payables	1,813	1,640	1,081	1,160
Amounts owed to group undertakings	-	-	-	2,264
Other tax and social security payable	1,164	867	852	572
Other creditors	169	43	149	33
Accruals	5,398	5,177	1,091	487
	8,544	7,727	3,173	4,516

Notes to the Financial Statements (continued)

15 Borrowings

	Group		Company	
	2007 **£'000**	**2006** **£'000**	**2007** **£'000**	**2006** **£'000**
Current				
Bank loans and overdrafts due within one year or on demand:				
Unsecured	2,374	2,244	2,374	2,244
Non-current				
Bank loans:				
Unsecured	6,650	8,113	6,650	8,113

Bank loans are denominated in Sterling and bear interest at rates between 1% and 1.5% above UK bank base rates. As part of the Group's interest rate management strategy, the Company entered into two interest rate caps for total consideration of £27,000 maturing in September 2007 and September 2008. Under these caps, the maximum LIBOR interest rate the group will pay on its bank borrowings of £7.5 million is 6%.

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

	Group	
	2007 %	**2006** %
Bank overdraft	6.3	5.5
Bank borrowings	6.5	5.7

16 Financial instruments

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies relating to risk management.

	Group and Company	
	Assets **£'000**	**Liabilities** **£'000**
At 31 March 2007		
Interest rate caps	4	-
Forward foreign currency contracts	-	-
	4	-
At 1 April 2006		
Interest rate caps	2	-
Forward foreign currency contracts	-	-
	2	-

In accordance with IAS 39, "Financial Instruments: Recognition and measurement", James Cropper PLC has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such embedded derivatives were identified from this review.

There are no outstanding financial instruments that are designated as hedges at the balance sheet date.

Fair values of non-derivative financial assets and financial liabilities
Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year end exchange rates. The carrying amounts of short-term borrowings approximate to book value.

16 Financial instruments (continued)

Fair value of non-current borrowings

	Group 2007		Group 2006	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Long term borrowings (note 15)	(6,650)	(6,650)	(8,113)	(8,113)

Fair value of other financial assets and financial liabilities

Short term borrowings (note 15)	(2,374)	(2,374)	(2,244)	(2,244)
Trade and other payables (note 14)	(8,544)	(8,544)	(7,727)	(7,727)
Trade and other receivables (note 12)	14,462	14,462	13,399	13,399
Cash at bank and in hand (note 13)	3,730	3,730	1,762	1,762

The fair values are based on cash flows discounted using a rate based on borrowings of 6.5% (2006: 5.7%). The fair value of long term borrowings approximates to the carrying value reported in the balance sheet as these are floating rates where payments are reset to market rates at intervals of less than one year, and the current rate is below the Group's interest rate cap.

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non-current financial liabilities, at 31 March 2007, was as follows:

	Debt £'000	Other financial liabilities £'000	2007 Total £'000	Debt £'000	Other financial liabilities £'000	2006 Total £'000
In more than one year but not more than two years	2,182	-	2,182	2,194	-	2,194
In more than two years but not more than five years	4,111	-	4,111	4,991	-	4,991
In more than five years	357	-	357	928	-	928
	6,650	-	6,650	8,113	-	8,113

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 31 March 2007 in respect of which all conditions precedent had been met at that date:

	Floating rate £'000	Fixed rate £'000	2007 Total £'000	2006 Total £'000
Expiring within one year	3,455	-	3,455	3,484

The facilities expiring within one year are annual facilities subject to review at various dates during 2007/08. All these facilities incur commitment fees at market rates.

Notes to the Financial Statements (continued)

17 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 defined the contribution scheme and personal pension contributions are as follows:

	Group	
	2007 £'000	**2006 £'000**
Defined contribution schemes	139	135
Personal pension contributions	9	10

Other pension costs totalled £144,000 (2006: £145,000) 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 31 March 2007 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**	
	2007 %	**2006 %**	**2007 %**	**2006 %**
Rate of increase in pensionable salaries	4.2	4.0	4.2	4.0
Rate of increase of pensions in payment and deferred	3.2	3.0	3.2	3.0
Discount rate	5.4	5.0	5.4	5.0
Inflation assumption	3.2	3.0	3.2	3.0
Expected return on plan assets	6.3	6.2	6.4	6.3

In respect of mortality, PA92 series' tables, projected to 2010 for the Works Plan and 2020 for the Staff Scheme, have been used.

The amounts recognised in the balance sheet are determined as follows:

	2007 £'000	**2006 £'000**	**2005 £'000**	**2004 £'000**	**2003 £'000**
Present value of scheme liabilities	(66,733)	(66,007)	(55,436)	(51,855)	(43,565)
Fair value of plan assets	60,581	55,692	44,729	38,080	30,634
Net liability recognised in the balance sheet	(6,152)	(10,315)	(10,707)	(13,775)	(12,931)

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

	Staff Scheme		**Works Scheme**	
	2007 %	**2006 %**	**2007 %**	**2006 %**
Equities	59	57	68	71
Bonds	32	35	28	25
Property	-	-	1	1
Cash	3	1	3	3
Annuities	6	7	-	-

The pension plan assets include investments in the shares of the Company with a fair value of £418,000 (2006: £368,000).

Defined benefit plans (continued)

The amounts recognised in the profit and loss account are as follows:

	2007 £'000	2006 £'000
Current service cost	1,598	1,392
Total included within employee benefit costs	1,598	1,392
Expected return on plan assets	(3,492)	(2,954)
Interest on pension scheme liabilities	3,313	3,068
Total included within interest	(179)	114
Total	1,419	1,506

Analysis of the movement in the balance sheet liability

	2007 £'000	2006 £'000
At 2 April 2006	(10,315)	(10,707)
Total expense as above	(1,419)	(1,506)
Contributions paid	1,826	1,942
Actuarial gains/(losses) recognised in SORIE	3,756	(44)
At 31 March 2007	(6,152)	(10,315)

The actual return on plan assets was £4,255,000 (2006: £9,740,000). The Company expects to pay £935,000 (2006: £895,000) in contributions to the Staff Scheme and £946,000 (2006: £971,000) in contributions to the Works Scheme in the next financial period.

The cumulative amount of gains/losses recognised in the SORIE since the adoption of IAS 19 is gains of £5,933,000 (2006: gains of £2,177,000).

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

	Works scheme		**Staff scheme**	
	Assets £'000	DBO £'000	Assets £'000	DBO £'000
At 2 April 2006	28,596	(35,392)	27,096	(30,615)
Expected return on assets	1,808	-	1,684	-
Current service cost	-	(944)	-	(654)
Benefits paid	(1,110)	1,110	(793)	793
Contributions by plan participants	416	(416)	295	(295)
Employer contributions	918	-	908	-
Interest cost	-	(1,778)	-	(1,535)
Actuarial (losses)/gains	(67)	1,990	830	1,003
At 31 March 2007	30,561	(35,430)	30,020	(31,303)

Experience adjustments

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Arising on plan assets	763	6,786	2,253	5,035	(10,445)
Percentage of scheme assets	1.3%	12.2%	5.0%	13.0%	(34.0%)
Arising on plan liabilities	(204)	1,983	(32)	(1,458)	684
Percentage of scheme liabilities	(0.3%)	3.0%	(0.1%)	(3.0%)	2.0%

Notes to the Financial Statements (continued)

18 Deferred taxation

The movement on the deferred tax account is shown below:

	Group		Company	
	2007 £'000	**2006 £'000**	**2007 £'000**	**2006 £'000**
At 2 April 2006	(863)	(1,077)	2,537	2,591
Deferred tax on actuarial gains on retirement benefit liabilities	(1,127)	13	(1,127)	13
Profit and loss (charge)/credit	(105)	201	(148)	(67)
At 31 March 2007	(2,095)	(863)	1,262	2,537

Deferred tax assets have been recognised in respect of all tax losses and other 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 and joint ventures. As the earnings are continually reinvested by the group, no tax is expected to be payable on them in the foreseeable future. If the earnings were remitted, tax of £46,000 would be payable before any double tax relief.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same legal jurisdiction as permitted by IAS 12) during the period are shown below.

Deferred tax liabilities

Group	Accelerated capital allowances £'000	Other £'000	Total £'000
At 2 April 2006	(3,816)	(142)	(3,958)
Profit and loss credit/(charge)	56	(39)	17
At 31 March 2007	(3,760)	(181)	(3,941)

Deferred tax assets

	Accelerated capital allowances £'000	Other £'000	Total £'000
At 2 April 2006	-	3,095	3,095
Deferred tax on actuarial gains on retirement liabilities charged to equity	-	(1,127)	(1,127)
Deferred tax on difference between contribution paid and net pension cost charged to the Profit and Loss account	-	(122)	(122)
At 31 March 2007	-	1,846	1,846

	Total £'000
Net deferred tax liability	(2,095)

19 Called up equity share capital

Group and Company

Authorised	**2007 £'000**	**2006 £'000**
10,000,000 (2006: 10,000,000) ordinary shares of 25p each	2,500	2,500

Issued and fully paid

	Number of Ordinary shares	£'000
At 2 April 2006	8,359,114	2,090
Issued during the period	113,254	28
At 31 March 2007	8,472,368	2,118

Potential issue of ordinary shares

Under the James Cropper PLC Executive Share Option Scheme, options were outstanding at 31 March 2007 in respect of the following:

Year of grant	**Exercise price (p)**	**Exercise period**	**2007 Number**	**2006 Number**
1996	325.0	August 1999 to August 2006	-	9,200
1998	202.7	August 2001 to August 2008	42,565	42,565
1999	205.9	December 2002 to December 2009	18,900	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
	221.3		211,465	220,665

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 202.7p to 261.5p, and the weighted average contractual life was 7 years.

Share based payments

The Save As You Earn (SAYE) schemes were introduced in December 2003 and run for either a three or five year period respectively.

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

	3 year scheme	**5 year scheme**
Fair value per option	42p	46p
Date of grant	18 December 2003	18 December 2003
Exercise price	130.5p	130.5p
Market price at date of grant	156p	156p
Volatility	32.5p	32.5p
Net dividend yield	4%	4%
Term of option	3.25 years	5.25 years
Risk free rate of interest	4.4%	4.6%

During the period options on 113,254 ordinary shares were exercised (2006: nil).

Notes to the Financial Statements (continued)

20 Reserves, shareholders' funds and changes in shareholders' equity

Group	Share capital £'000	Share premium £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	**Total £'000**
At 2 April 2006	2,090	454	10	61	16,244	18,859
Profit for the period	-	-	-	-	1,361	1,361
Exchange differences	-	-	(18)	-	-	(18)
Dividends paid	-	-	-	-	(343)	(343)
Share based payment charge	-	-	-	-	18	18
Actuarial gains on retirement benefit liabilities (net of deferred tax)	-	-	-	-	2,629	2,629
Transfer from other reserve	-	-	-	(61)	61	-
Proceeds from shares issued	28	119	-	-	-	147
At 31 March 2007	2,118	573	(8)	-	19,970	22,653

	Share capital £'000	Share premium £'000	Translation reserve £'000	Other reserve £'000	Retained earnings £'000	**Total £'000**
At 3 April 2005	2,090	454	(6)	100	16,998	19,636
Loss for the period	-	-	-	-	(102)	(102)
Exchange differences	-	-	16	-	-	16
Dividends paid	-	-	-	-	(686)	(686)
Share based payment charge	-	-	-	-	26	26
Actuarial (losses) on retirement benefit liabilities (net of deferred tax)	-	-	-	-	(31)	(31)
Transfer from other reserve	-	-	-	(39)	39	-
At 1 April 2006	2,090	454	10	61	16,244	18,859

Company	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	**Total £'000**
At 2 April 2006	2,090	454	14	14,576	17,134
Profit for the period	-	-	-	102	102
Dividends paid	-	-	-	(343)	(343)
Share based payment charge	-	-	-	18	18
Actuarial gains on retirement benefit liabilities (net of deferred tax)	-	-	-	2,629	2,629
Transfer from other reserve	-	-	(14)	14	-
Proceeds from shares issued	28	119	-	-	147
At 31 March 2007	2,118	573	-	16,996	19,687

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	**Total £'000**
At 3 April 2005	2,090	454	23	14,678	17,245
Profit for the period	-	-	-	580	580
Dividends paid	-	-	-	(686)	(686)
Share based payment charge	-	-	-	26	26
Actuarial (losses) on retirement benefit liabilities (net of deferred tax)	-	-	-	(31)	(31)
Transfer from other reserve	-	-	(9)	9	-
At 1 April 2006	2,090	454	14	14,576	17,134

As permitted by Section 230(1) of the Companies Act 1985 the Company has not presented its own profit and loss account.

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

21 Cash flow from operating activities

Reconciliation of net profit/(loss) to net cash generated from operating activities:

	Group		Company	
Continuing operations	**2007 £'000**	**2006 £'000**	**2007 £'000**	**2006 £'000**
Net profit/(loss)	1,361	(102)	102	580
Adjustments for:				
Tax	746	(27)	(23)	20
Interest income and expense	259	625	(1,024)	(847)
Depreciation/amortisation	3,315	3,715	424	355
Share of loss of joint venture	95	89	-	-
Profit on sale of trade investment	-	(116)	-	(116)
Dividends from subsidiary companies	-	-	(850)	-
Past service deficit payments	(838)	(914)	(838)	(914)
Net IFRS pension adjustments	431	478	431	478
Profit on disposal of property, plant and equipment	(39)	-	-	-
Share based payments	17	25	17	25
Changes in working capital:				
Increase in inventories	(99)	(604)	-	-
(Increase)/decrease in trade and other receivables	(1,100)	(233)	2,304	(2,048)
Increase/(decrease) in payables	806	940	(1,367)	2,860
Cash generated from/(used by) operating activities	4,954	3,876	(824)	393

22 Employees and directors

Staff costs for the group during the period	**2007 £'000**	**2006 £'000**
Wages and salaries	14,422	14,292
Social security costs	1,244	1,245
Pension costs (note 17)	1,890	1,682
	17,556	17,219
Own labour capitalised	(287)	(313)
	17,269	16,906

The average monthly number of people (including executive directors) employed in the Group was 605 (2006: 613).

The average monthly number of people (including executive directors) employed in the Company was 57 (2006:60).

Key management compensation	**2007 £'000**	**2006 £'000**
Salaries and short term benefits	800	703
Post-employment benefits	111	109
Share based payments	1	1
	912	813

Notes to the Financial Statements (continued)

23 Commitments under operating leases

Group	2007 Property £'000	2007 Plant and machinery £'000	2006 Property £'000	2006 Plant and machinery £'000
Commitments under non-cancellable operating leases:				
Within one year	-	2	34	2
Later than one year and less than five years	1,257	569	1,221	628
After five years	4,545	1,820	5,002	-
	5,802	2,391	6,257	630

Company	2007 Property £'000	2007 Plant and machinery £'000	2006 Property £'000	2006 Plant and machinery £'000
Commitments under non-cancellable operating leases expiring:				
Later than one year and less than five years	-	438	-	415

Contingent rent payments are determined on the basis of turnover.

24 Capital commitments

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Contracts placed for future capital expenditure not provided in the financial statements	557	589	14	57

25 Contingent liabilities

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

26 Related party transactions

Group

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

The Group also has the following transactions with related parties that are not eliminated on consolidation:

	Sales £'000	Purchases £'000	Receivable £'000	2007 Payable £'000
Electro Fiber Technologies Inc.	-	105	-	5

	Sales £'000	Purchases £'000	Receivable £'000	2006 Payable £'000
Electro Fiber Technologies Inc.	-	103	-	4
Pacofa SA	120	-	21	-
	120	103	21	4

Company

The Company pays £35,000 (2006: £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 also has the following transactions with related entities:

	Sales £'000	Management charges £'000	Receivable £'000	2007 Loans and net Inter-Company funding £'000
James Cropper Speciality Papers Limited	45,161	3,829	858	16,000
The Paper Mill Shop Company Limited	53	133	49	-
James Cropper Converting Limited	13,387	589	34	6,000
Technical Fibre Products Limited	339	606	121	3,000
	58,940	5,157	1,062	25,000

	Sales £'000	Management charges £'000	Receivable £'000	2006 Loans and net Inter-Company funding £'000
James Cropper Speciality Papers Limited	34,335	3,369	2,817	12,654
The Paper Mill Shop Company Limited	573	148	140	50
James Cropper Converting Limited	8,040	697	747	5,082
Technical Fibre Products Limited	152	628	147	3,555
	43,100	4,842	3,851	21,341

27 Post balance sheet events

On 21 March 2007 the 2007 Budget was announced by the Chancellor of the Exchequer. One of the changes stated was that the rate of UK Corporation Tax will be reduced from 30% to 28% with effect from 1 April 2008. As the changes were not substantively enacted as at 31 March 2007 the changes are treated as non adjusting post balance sheet events. The effect of the changes on the financial statements would be that the deferred tax balance for the group would be changed to £1,955,000 from £2,095,000 for 2007 and to £805,000 from £863,000 for 2006. The deferred tax balance for the company would be changed to £1,177,000 from £1,262,000 for 2007 and £2,368,000 from £2,537,000 for 2006. This does not include the impact of the withdrawal of Industrial Building Allowances anticipated in 2011.

2006 - 2007 Shareholder Information

Reporting

Interim Results announced and sent to Ordinary Shareholders	21 November 2006
Final results announced	19 June 2007
Annual Report Issued by	10 July 2007

Annual General Meeting - at Bryce Institute, Burneside, Kendal, Wednesday 1 August 2007 at 10.30am.

Dividends on Ordinary Shares

Interim dividend paid on 12 January 2007 to Ordinary Shareholders registered on 22 December 2006.

Final dividend to be paid on 10 August 2007 to Ordinary Shareholders registered on 20 July 2007.

Registrars

Capita Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Tel 01484 600900
Fax 01484 600911

Notice of Annual General Meeting

Notice is hereby given that the one hundred and eighteenth annual general meeting of James Cropper PLC (the "Company") will be held at the Bryce Institute, Burneside, Kendal, Cumbria at 10.30am on Wednesday 1 August 2007 to consider and, if thought fit, pass the following resolutions, of which resolutions 12 and 13 are to be proposed as special resolutions of the Company: -

1. To receive and consider the statement of accounts and reports of the directors and the auditors for the 52 weeks ended 31 March 2007.
2. To declare a final dividend.
3. To re-elect Mr G. T. Quayle as a director of the Company.
4. To re-elect Mr D. R. Wilks as a director of the Company.
5. To re-elect Mr P. L. Herring as a director of the Company.
6. To re-elect Mr J. R. Sclater as a director of the Company.
7. To confirm the appointment of Mr M. A. J. Cropper as a director of the Company, having been appointed during the course of the year.
8. Special notice having been given, to appoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of the meeting until the next Annual General Meeting.
9. To authorise the directors to agree the remuneration of the auditors of the Company.
10. To consider and approve the directors' remuneration report for the 52 weeks ended 31 March 2007.
11. That the directors be authorised for the purpose of section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £381,908 provided that: -
    (a) except as provided in paragraph (b) 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 the earlier), but may be previously revoked or varied by an ordinary resolution of the Company; and
    (b) the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.
12. That subject to the passing of and pursuant to the general authority conferred by the resolution numbered 11 in the notice convening this meeting the directors be empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in section 94 of the Act) or where the equity securities are held by the Company as qualifying shares (to which sections 162A to 162 G of the Act apply), in each case as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:-
    (a) 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 number 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
    (b) otherwise than pursuant to paragraph (a) of this resolution, the allotment of equity securities up to an aggregate nominal amount of £105,905 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.

Notice of Annual General Meeting (continued)

13. That the Company be generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of 25p each in the capital of the Company provided that:-

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

13.2 the minimum price which may be paid for such shares is 25p per ordinary share;

13.3 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 London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the ordinary shares are purchased;

13.4 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

13.5 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.

By order of the Board

D R Carey
Secretary

10 July 2007

Registered office:-
Burneside Mills
Kendal
Cumbria
LA9 6PZ

Registered in England and Wales No. 30226

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 10.30am on 30 July 2007 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 of the Company who is entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Appointing a proxy will not preclude a shareholder from attending in person and voting at the meeting if he later decides to do so.
3. A form of appointment of proxy is enclosed. You may register your proxy appointment or voting directions electronically through the website of the Company's Registrars and details are set out in the enclosed form of proxy. If you return more than one proxy appointment, either by paper or by electronic communication, that received last by the registrar before the latest time for the receipt of proxies will take precedence.
4. 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 Registrars at the address shown on the proxy form or received via the website of the Company's Registrars not later than 10.30am on 30 July 2007 or 48 hours before the time for holding any adjourned meeting.
5. Copies of the contracts of service for directors 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.
6. The reasons for the proposal of Resolutions 3, 4, 5, 6, 7, 8, 11, 12 and 13 are set out in the Report of the Directors contained in the Annual Report.

James Cropper PLC

The Report

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