

CHEMVIRON SPECIALITY CHEMICALS LIMITED

ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

TOGETHER WITH THE DIRECTORS' AND AUDITORS' REPORTS

The Company's registered number is 224165



CHEMVIRON SPECIALITY CHEMICALS LIMITED

REPORT OF THE DIRECTORS

The directors present their Annual Report on the affairs of the Company together with the accounts and auditors' report for the year ended 31 December 1998.

Principal Activities and Business Review

The principal activities of the Company are the operation of waste water purification systems installed at customers' premises and the importation and purchase of chemicals in the United Kingdom for sale to customers in the field of water treatment and the manufacturing of dispersants used in the paper industry.

Post Balance Sheet Events

On 4 January, 1999 the Company changed its name to Calgon Europe Limited.

Offer for English China Clays by Imetal

It was announced on 1 February 1999 that agreement had been reached on the terms of a recommended cash offer for English China Clays plc, this Company's ultimate holding Company. The offer is being made by N. M. Rothschild and S G Hambros on behalf of Imetal UK Ltd, a wholly owned subsidiary of Imetal SA, to acquire the entire issued share capital of English China Clays plc. The Board of English China Clays plc has unanimously recommended the offer.

Results and Dividends

Company results and dividends are as follows:

| | £'000 |
|--|-------|
| Retained profit brought forward | 433 |
| Loss on ordinary activities after taxation | (64) |
| | <hr/> |
| Retained profit carried forward | 369 |
| | <hr/> |

The directors do not recommend the payment of a dividend.

Payment Policy

The Group headed by English China Clays plc does not follow a specific standard or code for the payment of creditors. The Group's policy is to agree payment terms with its suppliers and to make payment in accordance with these terms, provided that the supplier also performs its obligations. At year end the creditor days figure was 44.

Directors and their Interests

The directors who served during the year are as shown below:

P M Elliott

P J Patrick

R W Harding (Australian)

The interests of each director who held office at 31 December 1998 and his family in the ordinary shares of English China Clays plc, the ultimate holding company, and in options held under the terms of the English China Clays plc Share Option Schemes, according to the register maintained under Section 325 of the Companies Act 1985, are shown below. All interests are beneficial.

CHEMVIRON SPECIALITY CHEMICALS LIMITED
REPORT OF THE DIRECTORS
(continued)

Directors and their Interests (continued)

| | 31 December 1998 | | | 1 January 1998 | | |
|-------------|--------------------|----------------------|-----------|--------------------|----------------------|-----------|
| | Ordinary Shares | Share Option Schemes | | Ordinary Shares | Share Option Schemes | |
| | | Savings Related | Executive | | Savings Related | Executive |
| P M Elliott | 29,214 | 5,963 | 136,111 | 14,441 | 5,963 | 142,235 |
| P J Patrick | - | - | - | - | 3,577 | - |
| R W Harding | 2,180 | - | 35,724 | - | - | 35,724 |

- (i) The Savings Related Share Option Scheme options may be exercised in normal circumstances at varying dates between 1 August 2000 and 31 January 2001 at a subscription price of 163.5p.

The Executive Share Option Scheme options were granted on 19 May 1989, 23 May 1990, 4 October 1991, 25 September 1992, 4 October 1994, 30 March 1995 and 23 October 1995 at exercise prices of 466.1p, 326.7p, 443.8p, 345.4p, 362.0p, 355.0p and 351.7p respectively. Options are exercisable in normal circumstances between the third and tenth anniversaries of the dates of grant subject to achievement of the required performance target.

- (ii) During the year options granted to P J Patrick to subscribe for 3,577 ordinary shares of the ultimate holding company at price of 163.5p lapsed under the terms of the Savings Related Share Option Scheme.

On 26 May 1998 directors options to subscribe for ordinary shares of the ultimate holding company at a subscription price of 404.0p under the terms of the Executive Share Option Scheme lapsed as follows:

| | |
|-------------|-------|
| P M Elliott | 6,124 |
|-------------|-------|

- (iii) Directors' Performance Awards

| | 31 December 1998 | Awarded in 1998 | 1 January 1998 |
|-------------|------------------|-----------------|----------------|
| P M Elliott | 42,625 | 15,071 | 27,554 |

Performance Awards involve the award of shares vesting only if the ultimate holding company's total shareholder return (TSR) exceeds the median of the comparator group, consisting of the FTSE 350 companies, over a 3 to 5 year period. If the ultimate holding company's TSR is ranked at or above the upper quartile of the comparator group, all of the shares in the above table will vest, and for performance at or above the top decile, the Trustee may, in its discretion, determine that up to a further 50% of shares may be awarded. If the ultimate holding company's TSR is ranked at the median of the comparator group, 60% of the shares in the above table will vest. For performance between the median, upper quartile and top decile the number of shares vested will be calculated on a straight line basis. If the ultimate holding company's TSR is ranked below the median of the comparator group then the Award will lapse.

Under the Share Bonus Awards, P M Elliott and R W Harding each elected to receive some of their 1997 cash bonus as shares in the ultimate holding company. This resulted in the net purchase of 3,826 and 2,180 ECC shares respectively, which will be matched on a gross basis in March 2001.

CHEMVIRON SPECIALITY CHEMICALS LIMITED

REPORT OF THE DIRECTORS

(continued)

Directors and their Interests (continued)

- (iv) Options held by the directors of the company under the Savings Related and Executive Share Option Schemes are held under terms which are in common with those applying to other participants in these schemes.
- (v) Executive Share Options granted up to and including 29 September 1993 have met the performance target and are exercisable. The performance target, which has been in place since the Scheme's introduction in 1988, requires the percentage growth in English China Clays plc's earnings per share over a period of three consecutive financial years to be greater than the percentage increase in the UK Retail Prices Index over that period, subject to adjustments in respect of the demerger of CAMAS plc, accounting policy changes and the tax charge.
- (vi) As a consequence of the merger in May 1997 of CAMAS plc with Bardon Group Plc to form Aggregate Industries plc ('AI'), the ECC Employee Trust became entitled to make an accelerated subscription for AI shares to satisfy entitlements of holders of share options outstanding on the demerger of CAMAS plc on 1 June 1994 ('Pre-1994 demerger options'). Subsequently ECC Employee Trust became the holder of 5,300,330 AI shares in June 1997. Following this event and as recognition of the Group business turnaround, the Remuneration Committee implemented the following arrangements:
1. The ECC Employee Trust distributed to holders of the remaining pre-1994 demerger options under the Savings Related Share Option Scheme, a total of 1,713,460 AI shares.
 2. With regard to the Executive Share Option Scheme, 50% of the AI shares that were attributable to the remaining pre-1994 options were distributed on the condition that these were sold and the proceeds, after payment of income tax, reinvested in ECC shares. This resulted in 63 employee holders of pre-1994 demerger options under the Executive Share Option Scheme acquiring a total of 157,332 ECC shares. The remaining 50% of the AI shares were distributed in April, 1998 subject to the same conditions due to the significant performance improvement in 1997. This resulted in 61 employees acquiring a total of 181,054 ECC shares.
- The 1998 distribution resulted in shares being allocated to the directors as follows:

P M Elliott

10,947

- (vii) The closing mid-market price of the shares at 31 December 1998 and the highest and lowest mid-market prices during the year were as follows:-

| | English China Clays plc | |
|-------------|-------------------------|-----------------|
| | 1998 | 1997 |
| 31 December | 165.5p | 269.0p |
| High | 272.5p (5 Jan) | 290.5p (16 Oct) |
| Low | 142.5p (23 Sep) | 182.5p (19 Feb) |

Year 2000

The Group's programme to ensure that the Year 2000 date change does not give rise to disruption and material economic loss to the Group continues. The scope of the programme includes not only the Group's own operations but also equipment installed by the Group at customers' sites and the Year 2000 readiness of key customers and suppliers.

Auditors

In accordance with section 385 of the Companies Act 1985 a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.


T F George
Secretary

1015 Arlington Business Park
Theale, Reading, RG7 4SA

1 March 1999

CHEMVIRON SPECIALITY CHEMICALS LIMITED

Directors' Responsibilities

The Board is required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at that date and of the profit or loss for the period. The Board is also required to maintain proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Board is also responsible to the Company for taking reasonable steps to safeguard the Company's assets and to prevent and detect fraud and other irregularities.

The Board has prepared these accounts on the going concern basis and confirms that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in their preparation and that applicable accounting standards have been followed.

Report of the auditors KPMG Audit Plc to the members of
CHEMVIRON SPECIALITY CHEMICALS LIMITED

We have audited the accounts on pages 7 to 14.

Respective responsibilities of directors and auditors

As described on page 5 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 March 1999

8 Salisbury Square
London
EC4Y 8BB

CHEMVIRON SPECIALITY CHEMICALS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

| | Note | 1998 £'000 | 1997 £'000 |
|--|------|---------------|---------------|
| Turnover | 1 | 7,922 | 7,533 |
| Cost of sales | | (5,002) | (4,346) |
| Gross profit | | 2,920 | 3,187 |
| Other operating expenses | | (2,984) | (3,202) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | 2 | (64) | (15) |
| Tax on loss on ordinary activities | 3(a) | - | (24) |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION being LOSS FOR THE FINANCIAL YEAR | | (64) | (39) |
| Retained profit brought forward | | 433 | 472 |
| RETAINED PROFIT CARRIED FORWARD | | 369 | 433 |

The notes on pages 9 to 14 inclusive form part of these accounts.

The Company has no recognised gains or losses other than the loss for the year. No material adjustments to loss on ordinary activities before taxation are required to derive the historical cost losses of the Company. All activities are continuing.

CHEMVIRON SPECIALITY CHEMICALS LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 1998

| | Note | 1998 £'000 | 1997 £'000 |
|--|------|----------------|----------------|
| FIXED ASSETS | | | |
| Tangible assets | 5 | <u>4,132</u> | <u>4,336</u> |
| CURRENT ASSETS | | | |
| Stocks | 6 | 967 | 1,150 |
| Debtors | 7 | 2,021 | 1,945 |
| Cash at bank and in hand | | <u>-</u> | <u>1</u> |
| | | 2,988 | 3,096 |
| CREDITORS: Amounts falling due within one year | 8 | <u>(1,306)</u> | <u>(1,131)</u> |
| NET CURRENT ASSETS | | <u>1,682</u> | <u>1,965</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,814 | 6,301 |
| CREDITORS: Amounts falling due after more than one year | 9 | (4,989) | (5,412) |
| PROVISIONS FOR LIABILITIES AND CHARGES | | | |
| Deferred taxation | 3(b) | <u>(390)</u> | <u>(390)</u> |
| | | <u>(5,379)</u> | <u>(5,802)</u> |
| | | <u>435</u> | <u>499</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 10 | 66 | 66 |
| Profit and loss account | | <u>369</u> | <u>433</u> |
| Equity shareholders' funds | 11 | <u>435</u> | <u>499</u> |

The accounts on pages 7 to 14 were approved by the Board of Directors on 1 March 1999 and were signed on its behalf by:

P M Elliott

The notes on pages 9 to 14 inclusive form part of these accounts.

CHEMVIRON SPECIALITY CHEMICALS LIMITED
ACCOUNTING POLICIES

1 General

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

2 Basis of Accounts

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

3 Depreciation of Tangible Fixed Assets

Plant and machinery

Depreciation of plant and machinery is calculated on the cost of each item when first brought into use, on the straight line basis, in accordance with the estimated ranges of useful lives of various categories of plant as follows:

| | |
|-----------------------|------------|
| Leasehold property | 50 years |
| Plant and equipment | 3-10 years |
| Fixtures and fittings | 5 years |

The estimated lives of categories referred to above are under constant review and changes are made when appropriate.

4 Leased Assets

Operating lease rentals are charged to profit and loss account on an appropriate basis, dependent on the terms of the lease.

5 Foreign Currencies

The foreign currency assets and liabilities of the Company are translated into sterling at the rates ruling at the accounting reference date and any adjustment is taken to profit and loss account.

6 Research, Development and Exploration Costs

Expenditure on research, development and exploration is charged to profit and loss account in the year in which it is incurred except that expenditure for such purposes on tangible fixed assets is capitalised and is depreciated over the estimated useful lives of the assets.

7 Stocks

Stocks are valued at the lower of cost and estimated net realisable value. For finished goods manufactured by the Company, cost includes, where appropriate, an element of overhead cost.

8 Taxation

Provision is made for deferred taxation in respect of timing differences which in the opinion of the directors may crystallise in the foreseeable future.

9 Turnover

Turnover represents the amounts charged to customers and is net of value added tax.

10 Pensions

Contributions to the Group's pension and life assurance schemes are charged to profit and loss account so as to spread the cost of pensions over employees' working lives with the Company.

CHEMVIRON SPECIALITY CHEMICALS LIMITED
NOTES TO THE ACCOUNTS

1. TURNOVER

All turnover arose from the Company's principal activity.

| | 1998 £'000 | 1997 £'000 |
|--------------------------------------|---------------|---------------|
| analysed by geographical destination | | |
| - United Kingdom | 5,952 | 7,111 |
| - Overseas | 1,970 | 422 |
| | <u>7,922</u> | <u>7,533</u> |

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before taxation is stated after charging:

| | | |
|------------------------------------|--------------|--------------|
| Auditors' remuneration | 10 | 8 |
| Operating lease rentals - Property | 59 | 57 |
| - Plant & machinery | 128 | 128 |
| Depreciation | 938 | 818 |
| | <u>1,135</u> | <u>1,011</u> |

3. TAXATION

| | | |
|--|----------|-----------|
| (a) UK corporation tax at 31%(1997:31.5%) | - | - |
| Amount due in respect of group relief from Group undertakings | - | (46) |
| Deferred taxation | - | 70 |
| | <u>-</u> | <u>24</u> |

(b) Deferred Taxation - Timing Differences

| | |
|----------------------|---|
| | Accelerated Capital Allowances £'000 |
| At 31 December 1997 | 390 |
| Provided in the year | - |
| At 31 December 1998 | <u>390</u> |

CHEMVIRON SPECIALITY CHEMICALS LIMITED
NOTES TO THE ACCOUNTS

(continued)

(c) Payment of Taxation

The ultimate holding company pays the corporation tax liability on behalf of the Company. The Company reimburses this amount. Conversely, any recovery of corporation tax will be transferred to the ultimate holding company.

4. EMPLOYEES AND DIRECTORS

| (a) Employment Costs | 1998 £'000 | 1997 £'000 |
|-----------------------|-------------------|-------------------|
| Wages and salaries | 1,004 | 939 |
| Social security costs | 101 | 79 |
| Other pension costs | - | 67 |
| | <hr/> 1,105 <hr/> | <hr/> 1,085 <hr/> |

(b) The average number of persons employed during the year was 31 (1997: 33).

(c) Pensions

The ECC Group operates a number of pension schemes throughout the world. The major schemes, which are of the funded, defined benefit type, are in the UK (the UK Scheme) and the USA (the US Plan) and cover 47% and 35% respectively of total Group employees. This note addresses only the major schemes.

The assets of both the UK Scheme and the US Plan are held in separate, trustee administered funds. As a matter of policy, there is no investment in the shares or other assets of the Group by either the UK Scheme or the US Plan.

There was a prepayment in respect of the UK Scheme of £3.9m and a provision in respect of the US Plan of £3.9m at 31 December 1998.

Pension costs relating to both the UK Scheme and the US Plan are assessed in accordance with the advice of independent qualified actuaries using the Projected Unit Cost method. The last actuarial valuations of the UK Scheme and the US Plan were at 5 April 1996 and 1 April 1998 respectively. The results of the actuarial valuation of the UK Scheme have been restated by the new actuary, on revised assumptions, pending a full actuarial valuation as at 5 April 1999. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of increase in salaries (6.5% per annum for the UK Scheme, 6% per annum for the US Plan) and the rate of return on investments (9.5% per annum for the UK Scheme, 9% per annum for the US Plan). For the UK Scheme, the actuary assumed that pensions would increase at 4% per annum. Also for the UK Scheme, assets were valued consistently with liabilities and the actuary assumed that dividends on equity investments would increase at 4.5% per annum.

At the dates of the last actuarial valuations given above, the market values of assets were £329.0m for the UK Scheme and £29.7m for the US Plan. The ratios of the actuarial values placed on these assets to the value of the benefits that had accrued to members, after allowing for expected future increases in earnings, were 120% for the UK Scheme and 93% for the US Plan.

(d) Directors

| | 1998 £'000 | 1997 £'000 |
|---|----------------|----------------|
| Emoluments exclusive of pension contributions | <hr/> 72 <hr/> | <hr/> 70 <hr/> |

CHEMVIRON SPECIALITY CHEMICALS LIMITED
NOTES TO THE ACCOUNTS
(continued)

(d) Directors (continued)

| | 1998 | 1997 |
|--|----------|----------|
| Retirement benefits are accruing to the following number of directors under: | | |
| Defined benefit schemes | <u>1</u> | <u>1</u> |

- (e) The interests of directors in options held under the terms of the English China Clays plc Share Option Schemes and Restricted Share Plan are given in the Report of the Directors.

5. TANGIBLE FIXED ASSETS AND DEPRECIATION

| | Leasehold Property | Plant and Equipment | Total |
|------------------------|-----------------------|------------------------|--------------|
| | £'000 | £'000 | £'000 |
| Cost: | | | |
| At 31 December 1997 | 233 | 5,767 | 6,000 |
| Additions | - | 734 | 734 |
| | <u>233</u> | <u>6,501</u> | <u>6,734</u> |
| At 31 December 1998 | 233 | 6,501 | 6,734 |
| | <u>233</u> | <u>6,501</u> | <u>6,734</u> |
| Depreciation: | | | |
| At 31 December 1997 | 127 | 1,537 | 1,664 |
| Provision for year | 32 | 906 | 938 |
| | <u>159</u> | <u>2,443</u> | <u>2,602</u> |
| At 31 December 1998 | 159 | 2,443 | 2,602 |
| | <u>159</u> | <u>2,443</u> | <u>2,602</u> |
| Net Book Value: | | | |
| At 31 December 1997 | 106 | 4,230 | 4,336 |
| | <u>106</u> | <u>4,230</u> | <u>4,336</u> |
| Net Book Value: | | | |
| At 31 December 1998 | 74 | 4,058 | 4,132 |
| | <u>74</u> | <u>4,058</u> | <u>4,132</u> |

CHEMVIRON SPECIALITY CHEMICALS LIMITED
NOTES TO THE ACCOUNTS
(continued)

| | | | |
|-----|---|---------------|---------------|
| 6. | STOCKS | 1998 £'000 | 1997 £'000 |
| | Production materials | 347 | 347 |
| | Finished goods | 620 | 803 |
| | | <u>967</u> | <u>1,150</u> |
| 7. | DEBTORS | | |
| | Amounts falling due within one year: | | |
| | Trade debtors | 1,191 | 1,186 |
| | Amounts owed by Group undertakings | 575 | 544 |
| | Other debtors | 118 | 154 |
| | Prepayments and accrued income | 137 | 61 |
| | | <u>2,021</u> | <u>1,945</u> |
| 8. | CREDITORS | | |
| | Amounts falling due within one year: | | |
| | Unsecured bank loans and overdrafts | 70 | - |
| | Trade creditors | 649 | 504 |
| | Amounts owed to Group undertakings | 364 | 342 |
| | Value added tax creditor | 50 | 104 |
| | Other creditors and accruals | 173 | 181 |
| | | <u>1,306</u> | <u>1,131</u> |
| 9. | CREDITORS | | |
| | Amounts falling due after more than one year: | | |
| | Advances from holding company | <u>4,989</u> | <u>5,412</u> |
| | The advances from the holding company, English China Clays plc, are interest free and there is no fixed date for repayment. | | |
| 10. | SHARE CAPITAL | | |
| | Authorised: | | |
| | 66,000 ordinary shares of £1 each | <u>66</u> | <u>66</u> |
| | Allotted, called up and fully paid: | | |
| | 65,780 ordinary shares of £1 each | <u>66</u> | <u>66</u> |

CHEMVIRON SPECIALITY CHEMICALS LIMITED
NOTES TO THE ACCOUNTS
(continued)

11. EQUITY SHAREHOLDERS' FUNDS

| | 1998 | 1997 |
|------------------------------------|------------|------------|
| | £'000 | £'000 |
| Opening shareholders' funds | 499 | 538 |
| Loss for the year | (64) | (39) |
| Closing equity shareholders' funds | <u>435</u> | <u>499</u> |

12. FINANCIAL COMMITMENTS

Leasing

| | 1998 | 1998 | 1997 | 1997 |
|--|-----------|------------|-----------|------------|
| | Property | Plant and | Property | Plant and |
| | £'000 | Machinery | £'000 | Machinery |
| | | £'000 | | £'000 |
| Annual commitments in respect of operating lease rentals expiring: | | | | |
| Within one year | - | - | - | 67 |
| Between two and five years | 54 | 128 | - | 68 |
| After five years | - | - | 44 | - |
| | <u>54</u> | <u>128</u> | <u>44</u> | <u>135</u> |

13. ULTIMATE HOLDING COMPANY

The Company is a subsidiary undertaking of English China Clays plc, incorporated in Great Britain and registered in England and Wales.

The largest and smallest group in which the results of the Company are consolidated is that headed by English China Clays plc. The consolidated accounts of this group are available to the public and may be obtained from:

1015 Arlington Business Park
Theale
Reading RG7 4SA

14. EXEMPTIONS FROM DISCLOSURE

The Company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as 90% or more of the voting rights of the company's shares are controlled by English China Clays plc. The consolidated financial statements of English China Clays plc, which include the company, are publicly available.

The company, 90% or more of the voting rights of its shares being controlled by English China Clays plc, is exempt from the requirement of Financial Reporting Standard No 8 to disclose transactions with entities that are part of the group or investees of the group qualifying as related parties.