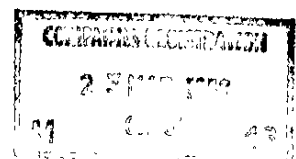


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E.C.C. QUARRIES LIMITED

REPORT AND ACCOUNTS FOR THE YEAR ENDED
30 SEPTEMBER 1987

Peat Marwick McLintock
Phoenix House, Notte Street, Plymouth



E.C.C. QUARRIES LIMITEDREPORT OF THE DIRECTORS

The Directors submit their Report and Accounts of the Company for the year ended 30 September 1987.

1. Result for the Year

	<u>£'000</u>
Profit on ordinary activities for the year	26,383
Taxation charge	9,606
Profit on ordinary activities after taxation	16,777
Transfer to reserves	470
Dividend	16,307

2. Principal Activities of the Company

The principal activities of the Company are those of quarrying and the manufacture of concrete products.

3. Business Review

On 1 October 1986, the businesses of Charcon (E.C.C.) Limited, its principal subsidiaries and Westmorland Concrete Products Limited were transferred to the Company.

Aggregates are still the cornerstone of the Company's business and volumes were up by some 28%, helped by deliveries to a number of major roadworks in the South West. In addition, the basic business expanded by a healthy margin over last year.

Although second to aggregates, concrete is still a major contributor to profits, and volumes rose overall by some 14% helped by a surge in sales of garden and leisure concrete. The demand for the Company's highly respected Denzcrete concrete building blocks also improved on the back of a busy housing and commercial building market.

Research and development continues with the general objective of improving efficiency, quality and the introduction of new products.

4. Directors

The Directors who have served during the year and particulars of their interests in the shares and loan capital of the Holding Company, English China Clays P.L.C., in accordance with the Companies Act 1985 are as follows:

E.C.C. QUARRIES LIMITEDREPORT OF THE DIRECTORS
(continued)4. Directors (continued)

		<u>At 30 September 1987</u>		<u>At 1 October 1986 or Subsequent Date of Appointment</u>	
		<u>Beneficial</u>	<u>Options</u>	<u>Beneficial</u>	<u>Options</u>
<u>Holding Company Directors</u>					
T.W. Stobart	See note				
Sir Alan Dalton	See note				
<u>Other Directors</u>					
G. Fisher	Ordinary	43	-	43	-
M.R. Green	Ordinary	7,484	4,644	6,836	4,644
R.O. Hudson	Ordinary	260	-	260	-
Dr. J.W. Inglis	Ordinary	2,129	3,705	2,129	3,705
G.R. Shove	Ordinary	2,038	-	1,375	-
A.L. Shearer	Ordinary	-	-	-	-
C.S. Bailey	Ordinary	18	1,689	18	1,689
(appointed 1.7.87)					

Under the Group's Savings Related Share Option Scheme, Mr M.R. Green holds an option to subscribe for 2,771 shares at a price of 173.2p and 1,873 shares at a price of 234.7p within six months following 6 June 1990 and 6 June 1992 respectively; Dr J.W. Inglis holds options to subscribe for 1,832 shares at a price of 201.8p and 1,873 shares at a price of 234.7p within six months following 6 June 1989 and 6 June 1992 respectively; Mr C.S. Bailey holds options to subscribe for 366 shares at a price of 201.8p, 554 shares at a price of 173.2p, 369 shares at a price of 300.5p, and 400 shares at a price of 369.4p within six months following 6 June 1989, 6 June 1990, 6 June 1991 and 6 June 1992 respectively.

Note: In accordance with Statutory Instrument 802 (1985) made under authority of Section 324(3) of the Companies Act 1985, interests of the Holding Company Directors are not reported.

5. Employees

E.C.C. Quarries Limited is a member of the English China Clays P.L.C. Group of Companies. For many years it has been Group policy to provide employees in the UK and overseas with information concerning their roles and responsibilities and the trading performance and progress of the Group.

The objective is to ensure that opportunities are available to employees, at every level, for the fulfilment of their potential in improving their own and corporate performances. Regular meetings are held of joint negotiating committees, productivity and steering groups which involve directors, managers and employee representatives. The Group newspaper, the ECCs Press, is used extensively not only as a means of communicating with all employees but also to promote a corporate awareness and identification.

Financial and economic factors affecting the performance of the Group are set out in a report which the Chairman makes each year to all employees; shareholders also receive a copy.

E.C.C. QUARRIES LIMITEDREPORT OF THE DIRECTORS
(continued)5. Employees (continued)

Profit Sharing Schemes, for both cash and shares, and a Savings Related Share Option Scheme, operate for the benefit of UK employees with the necessary qualifying service.

Group Pension and Life Assurance Schemes are in operation providing cover for all permanent full-time UK employees. Management and employee representatives sit on consultative committees to discuss and to make recommendations concerning the operation of each scheme. Member representatives have been appointed to the Boards of Directors of companies which act as trustees for the schemes. Each member is issued with an annual report, including abridged accounts, for the scheme to which he or she contributes and receives an annual statement of personal benefits. Audited accounts and actuarial valuations are made available for inspection by members. The most recent actuarial review of Group schemes carried out as at 5 April 1987 showed that each scheme is in a satisfactory financial state and recommended minimal reductions in contribution costs to the Company.

6. Employment of Disabled Persons

The Group ensures that disabled people are given opportunities for suitable employment and that they are not discriminated against on the grounds of their disability. Arrangements are also made, wherever practicable, for employees who become disabled to continue in their employment, to be trained for other more suitable positions within the Group, or to retire on favourable terms if they are near retirement age.

7. Auditors

At the Company's last Annual General Meeting, Peat, Marwick, Mitchell & Co were re-appointed as Auditors of the Company. They are now practising under the name of Peat Marwick McLintock and accordingly they have signed the audit report in their new name. A resolution concerning their re-appointment as Auditors will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Secretary

REPORT OF THE AUDITORS
TO THE MEMBERS OF E.C.C. QUARRIES LIMITED

We have audited the accounts on pages 5 to 16 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the affairs of the Company at 30 September 1987 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act, 1985.

As indicated in Note 19, the accounts do not include a statement of source and application of funds, as required by Statement of Standard Accounting Practice No 10:

16TH DECEMBER 1987

Plymouth

Leah M. Mendenhall

Chartered Accountants

E.C.C. QUARRIES LIMITED
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 1987

	<u>1987</u>		<u>1986</u>	
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Turnover (Note 2)		165,258		102,951
Changes in stocks of finished goods	5,119		(668)	
Own work capitalised	1,160		1,158	
Other operating income	1,214		1,686	
		<u>7,493</u>		<u>2,176</u>
Raw materials and consumables		172,751		105,127
Other external charges	40,808		18,627	
Staff costs (Note 5)	57,530		37,562	
Depreciation and other amounts written off tangible fixed assets (Note 8)	40,316		26,112	
	<u>7,656</u>		<u>6,242</u>	
Interest payable and similar charges (Note 6)		146,310		88,543
Interest receivable and similar income		58		125
		<u>-</u>		<u>5</u>
Profit on ordinary activities before taxation and extraordinary item (Note 3)		26,383		16,464
Taxation on profit on ordinary activities (Note 4a)		9,606		6,362
Profit on ordinary activities after taxation before extraordinary item		<u>16,777</u>		<u>10,102</u>
Extraordinary item (Note 7)		-		558
Profit for the financial year		<u>16,777</u>		<u>10,660</u>
Transfer to reserves (Note 16)		470		-
Dividend		16,307		10,660
Retained profit for the year		<u>-</u>		<u>-</u>

The notes on pages 7 to 16 form part of these accounts.

E.C.C. QUARRIES LIMITEDBALANCE SHEET AS AT 30 SEPTEMBER 1987

	<u>1987</u>		<u>1986</u>	
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>Fixed Assets</u>				
Tangible assets (Note 8)		108,508		84,549
Investments in related companies (Note 9)		17		17
		<u>108,525</u>		<u>84,566</u>
<u>Current Assets</u>				
Stocks (Note 10)	15,122		8,782	
Debtors (Note 11)	42,083		23,364	
Cash at bank and in hand	20		899	
	<u>57,225</u>		<u>33,045</u>	
<u>Creditors</u>				
Amounts falling due within one year (Note 12)	<u>93,974</u>		<u>55,420</u>	
<u>Net Current Liabilities</u>		<u>36,749</u>		<u>22,375</u>
<u>Total Assets Less Current Liabilities</u>		<u>71,776</u>		<u>62,191</u>
<u>Creditors</u>				
Amounts falling due after more than one year:				
Advances from Holding Company (Note 13)	38,250		28,750	
Hire purchase	-		33	
		<u>38,250</u>		<u>28,783</u>
<u>Provisions for Liabilities & Charges</u>				
Provision (Note 14)	301		247	
Deferred taxation (Note 4b)	<u>4,283</u>		<u>4,213</u>	
		<u>4,584</u>		<u>4,460</u>
<u>Accruals & Deferred Income</u>				
Capital grants		954		962
		<u>27,986</u>		<u>27,986</u>
<u>Capital & Reserves</u>				
Called up share capital (Note 15)		16		16
Revaluation Reserve		<u>27,970</u>		<u>27,970</u>
		<u>27,986</u>		<u>27,986</u>

Approved by the Board on 16 December 1987

..... *Alan Bell*
 *W. Stewart* Directors

The notes on pages 7 to 16
 form part of these accounts.

E.C.C. QUARRIES LIMITEDNOTES ON THE ACCOUNTS1. ACCOUNTING POLICIESi) General

The Company's accounting policies are in accordance with generally accepted accounting principles, are applied consistently with previous years and are consistent with the policies adopted by English China Clays P.L.C. of which this Company is a subsidiary.

ii) Basis of Accounts

The Company maintains its financial records on the historical cost basis modified by the revaluation of certain fixed assets.

iii) Depreciation of Tangible Fixed Assets

- a) Freehold and leasehold mineral deposits and their directly dependent industrial structures judged to have remaining lives of 20 years or less at the date of the last revaluation are depreciated on a straight line basis over their remaining lives. The Directors consider that this policy provides a realistic and adequate charge for depreciation on this class of asset.
- b) Other industrial and commercial properties both freehold and leasehold are depreciated over 50 years or over such shorter period as their useful lives or the periods of their leases make appropriate.
- c) Depreciation of plant, machinery and equipment is calculated, on original cost, from when each item was first brought into use, on the straight line basis, in accordance with the estimated ranges of useful lives of various categories of plant as detailed below.

Fixed plant, machinery and equipment	3-20 years
Office, laboratory equipment, furniture and fittings	5-15 years
Mobile plant and equipment	3-15 years

The estimated lives of categories of plant are under constant review and changes are made when appropriate.

iv) Research, Development & Exploration Costs

Expenditure on research, development and exploration is written off to Profit & 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.

v) Stocks

Stocks are valued at the lower of cost (including in the case of manufactured products an element of overhead costs) and estimated net realisable value.

E.C.C. QUARRIES LIMITEDNOTES ON THE ACCOUNTS
(continued)vi) Taxation

Provision is made for deferred taxation in respect of timing differences which in the opinion of the Directors may become payable in the future.

Any liability of the Company to corporation tax will be transferred to and paid by the Holding Company.

Election has been made under the Income & Corporation Taxes Act 1970 to pay dividends to the Holding Company without attracting advance corporation tax.

vii) Capital Grants

Capital grants shown in the Balance Sheet represent total grants received or receivable to date less amounts transferred to Profit & Loss Account. This transfer is made over a period of ten years.

viii) Related Companies

Related companies are those in which the Company owns not less than 20% nor more than 50% of the voting share capital and where the Company's investment is intended to be long-term. However, as this Company is a wholly owned subsidiary of another company incorporated in Great Britain, the related companies are not dealt with in accordance with Statement of Standard Accounting Practice No 1.

ix) Leased Assets

- a) **Finance Leases:** Where assets are acquired by leasing arrangements which give rights approximating to ownership, the amount representing the outright purchase price of such assets is included in tangible fixed assets. Depreciation is provided at rates designed to write off this net cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) or the period of the leases.

The capital element of future rentals is treated as a liability and the interest element is charged to profit and loss account over the period of the leases in proportion to the balances outstanding.

Certain assets, however, acquired upon the transfer of the business of Charcon (E.C.C.) Limited on 1 October 1986 are subject to finance lease arrangements and have not been capitalised. Rentals have been charged to profit and loss account as they accrue (Note 3).

- b) **Operating Leases:** Expenditure on operating leases is charged to profit and loss account on a basis representative of the benefit derived from the asset, normally corresponding to the basis on which rentals accrue.

x) Goodwill

Where businesses have been acquired at a premium over the fair values attributable to the underlying net tangible assets, the excess is charged in the year of acquisition against reserves.

E.C.C. QUARRIES LIMITEDNOTES ON THE ACCOUNTS
(continued)xi) Turnover

Turnover represents the amounts charged to customers and is net of value added tax or its overseas equivalents.

xii) Pensions

The English China Clays P.L.C. Group operates a number of pension and life assurance plans covering the majority of its employees. The funds of each plan are administered by trustees and are completely independent of the Group's finances. Funding rates on the projected benefit method are established in accordance with the recommendations of actuaries who carry out regular valuations. The Group's contributions are charged against profit in the year in which they are made.

2. TURNOVER

	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
Turnover consisting of quarrying and manufacture of concrete products in the United Kingdom	165,258	102,951

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities is stated

After charging:

Auditors remuneration	40	37
Plant hire	954	597
Operating lease rentals:		
Plant and machinery	660	58
Property	252	324
Finance lease rentals	305	-
Increase in unrealised stock profit provision	54	-

After crediting:

Transfer from capital grants	181	178
Profits on sale of tangible fixed assets	308	302
Reduction in unrealised stock profit provision	-	24
Rents receivable	471	425

4. TAXATIONa) Taxation on profit on ordinary activities

UK corporation tax at 35% (1986 37.5%) on taxable profit for the year	9,931	7,349
Deferred taxation	(325)	(987)
	<u>9,606</u>	<u>6,362</u>

E.C.C. QUARRIES LIMITEDNOTES ON THE ACCOUNTS
(continued)

	<u>1987</u> <u>£'000</u>
b) <u>Deferred taxation - Excess capital allowances</u>	
At 30 September 1986	4,213
Utilised in the year	(325)
Arising on the transfer of assets from Group Company	395
	<hr/>
At 30 September 1987	4,283
	<hr/>

The liability for deferred taxation, for which no provision is considered necessary in respect of the excess of capital allowances over the provision for depreciation of tangible fixed assets amounts to approximately £8,603,000 (1986 £7,218,000).

c) Other Taxation Matters

A liability to capital gains tax would arise from the surpluses which have arisen on revaluation of freehold and leasehold land, minerals and buildings since 5 April 1965. The Directors do not consider it practicable or useful to try and assess the capital gains tax liability that would arise from these revaluations in the highly improbable event that these assets would be sold. In any event, it could not exceed £9,939,000 (1986 £8,273,000).

5. EMPLOYMENT

	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
a) <u>Staff Costs</u> amounted to:		
Wages & salaries	35,638	22,837
Social security costs	2,440	1,738
Other pension costs	2,238	1,537
	<hr/>	<hr/>
	40,316	26,112
	<hr/>	<hr/>
	<u>Number</u>	<u>Number</u>
b) The average numbers of persons employed during the year was as follows:		
Weekly paid	2,154	1,577
Monthly paid	1,047	785
	<hr/>	<hr/>
	3,201	2,362
	<hr/>	<hr/>
	<u>£'000</u>	<u>£'000</u>
c) <u>Directors</u>		
Emoluments as Managers, including pension contributions	306	208
Pensions to former Executive Directors	1	11
	<hr/>	<hr/>
	307	219
	<hr/>	<hr/>

The emoluments of the Chairman were £Nil (1986 £Nil).

The emoluments of the highest paid Director were £64,862 (1986 £58,201).

NOTES ON THE ACCOUNTS
(continued)

5. EMPLOYMENT (continued)

- d) The emoluments (excluding pension contributions) of the Directors of the Company and of employees earning £30,000 or more:

			<u>Number of Directors</u>		<u>Number of Employees</u>	
			<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
Up to	-	£5,000	3	6	-	-
£10,001	-	£15,000	1	-	-	-
£30,001	-	£35,000	-	-	3	-
£35,001	-	£40,000	-	2	1	-
£40,001	-	£45,000	1	1	-	-
£45,001	-	£50,000	3	-	-	-
£55,001	-	£60,000	-	1	-	-
£60,001	-	£65,000	1	-	-	-

- e) The executive Directors of the Company, in common with all other employees of the English China Clays P.L.C. Group of Companies within the United Kingdom, are entitled to acquire shares in English China Clays P.L.C. under the Group's Profit Sharing Scheme and Savings Related Share Option Scheme.

6. INTEREST PAYABLE

	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
Finance charges on finance leases (hire purchase arrangements)	<u>58</u>	<u>125</u>

7. EXTRAORDINARY ITEM

Surplus arising on disposal of subsidiary company	-	745
Less related taxation	-	187
	<u>-</u>	<u>558</u>

NOTES ON THE ACCOUNTS
(continued)

8. TANGIBLE FIXED ASSETS & DEPRECIATION

	<u>Freehold Property & Mineral Rights</u> £'000	<u>Leasehold Property</u> £'000	<u>Plant & Machinery</u> £'000	<u>Total</u> £'000
<u>Cost & Valuation</u>				
At 30 September 1986	50,088	2,693	70,221	123,002
Additions	4,422	-	15,808	20,230
Transferred from Group Companies	4,743	331	12,501	17,575
	59,253	3,024	98,530	160,807
<u>Less disposals</u>	227	-	2,427	2,654
Transferred to Group Companies	129	5	25	159
At 30 September 1987				
Cost	23,167	368	96,078	119,613
Valuation	35,730	2,651	-	38,381
<u>Depreciation</u>				
At 30 September 1986	1,859	106	36,488	38,453
Provision for year	694	23	6,939	7,656
Transferred from Group Companies	175	50	5,389	5,614
	2,728	179	48,816	51,723
<u>Less eliminations</u>	3	-	2,192	2,195
Transferred to Group Companies	12	5	25	42
At 30 September 1987	2,713	174	46,599	49,486
<u>Net Book Value</u>				
At 30 September 1987	56,184	2,845	49,479	108,508
<u>Net Book Value</u>				
At 30 September 1986	48,229	2,587	33,733	84,549

The net book value of plant and machinery includes an amount of £433,695 in respect of assets held under finance leases (hire purchase arrangements) (1986 £1,378,000). The depreciation provision for the year includes £104,088 (1986 £368,000) in respect of plant and machinery held under finance leases.

NOTES ON THE ACCOUNTS
(continued)

8. TANGIBLE FIXED ASSETS & DEPRECIATION (continued)

Cumulative depreciation on the assets below is given by the following table:

	<u>Cost & Valuation</u> <u>£'000</u>	<u>Cumulative Depreciation</u> <u>£'000</u>
Working mineral deposits and their directly dependent industrial structures	35,939	463
Other industrial and commercial properties	18,240	2,330
Non-mineral land, mineral surface land and deposits not currently worked	7,737	94
	<u>61,916</u>	<u>2,887</u>

Included in the above cost or valuation is an amount of £7,596,000 (1986 £980,000) in respect of assets in course of construction.

The Directors are required to state under Schedule 4, paragraph 33, Companies Act 1985 certain historical cost information in respect of freehold and leasehold land, buildings and mineral rights included above at valuation. The substantial period of ownership of a large portion of the assets concerned and the subsequent numerous disposals and revaluations make the provision of such information impossible. In the opinion of the Directors, the failure to provide it does not prevent the accounts giving a true and fair view of the state of affairs of the Company or its profit for the year as ascertained in accordance with the accounting policies set out in Note 1.

Properties held under leases with fifty or more years' unexpired life account for £528,000 (1986 £247,000) of the net book value of leasehold properties of £2,845,000 (1986 £2,587,000).

9. INVESTMENTS IN RELATED COMPANIES

	<u>Shares</u> <u>£'000</u>	<u>Loans</u> <u>£'000</u>	<u>Total</u> <u>£'000</u>
At 30 September 1986 and 1987	-	17	17

Details of the related companies are given below:

	<u>Country of Incorporation</u>	<u>Holding %</u>
London Roadstone Limited (A supplier of road surfacing materials)	Great Britain	50
Mendip Basalt Co Limited (Dormant)	Great Britain	50

NOTES ON THE ACCOUNTS
(continued)

10. STOCKS

	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
Production materials	2,942	1,721
Finished goods and goods for resale	12,180	7,061
	<u>15,122</u>	<u>8,782</u>

11. DEBTORS

Trade debtors	37,920	20,493
Amounts owed by Group Companies	2,708	1,697
Amounts owed by related companies	777	686
Other debtors	5	422
Prepayments and accrued income	673	66
	<u>42,083</u>	<u>23,364</u>

12. CREDITORS

Amounts falling due within one year:

Bank overdraft	1,881	-
Trade creditors	15,784	8,237
Amounts owed to Group Companies including proposed dividend	66,168	42,307
Other creditors	6,531	1,695
Taxation and social security	3,577	2,711
Hire purchase	33	470
	<u>93,974</u>	<u>55,420</u>

13. ADVANCES FROM HOLDING COMPANY

In accordance with the policy of the Holding Company, English China Clays P.L.C., to finance its United Kingdom subsidiaries through the provision of loan capital, these advances are interest free and there is no fixed date for repayment.

14. PROVISION

For the purpose of consolidating English China Clays Group accounts, a provision of £301,000 (1986 £247,000) has been made against unrealised profit included in stock held by fellow subsidiary companies. The fellow subsidiary companies acquired these stocks from E.C.C. Quarries Limited and for this reason the provision has been charged against this Company's profits.

NOTES ON THE ACCOUNTS
(continued)

15. SHARE CAPITAL

	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
Authorised 250,000 ordinary shares of 10p each	25	25
Ordinary share capital, allotted, called up and fully paid at 30 September 1987: 165,000 (1986 165,000) shares of 10p each	16	16

16. OTHER RESERVE

Transfer from profit and loss account	470	-
Goodwill written off	(470)	-
	-	-

17. FINANCIAL COMMITMENTSa) Capital Expenditure

Authorised but not contracted	9,264	1,461
Contracted	2,503	3,020

b) Obligations Under Fixed RateFinance Leases

The Company has commitments under finance leases to make payments totalling £144,000 in the year to 30 September 1988 as follows:

	<u>Plant & Machinery</u> <u>£'000</u>
Expiring:	
Within one year	120
Between two and five years	24
More than five years	-
	144
Amounts included in creditors falling due within one year	33
Amounts in respect of assets not capitalised	111
	144

NOTES ON THE ACCOUNTS
(continued)17. FINANCIAL COMMITMENTS (continued)c) Operating Leases

The Company has commitments under operating leases to make payments totalling £1,605,000 in the year to 30 September 1988 as follows:

	<u>£'000</u>
In respect of property leases expiring:	
Within 1 year	117
Between 1 and 5 years	8
Over 5 years	127
In respect of other operating leases expiring:	
Within 1 year	819
Between 1 and 5 years	534

d) Charges on Assets

Under the terms of the trust deed securing the Holding Company's debenture stocks, the whole of this Company's undertaking, property and assets were charged in favour of the trustees, until discharged on 2 October 1987 following the redemption of the debenture stocks, plus accrued interest, on 30 September 1987.

18. HOLDING COMPANY

The ultimate Holding Company is English China Clays P.L.C. which is incorporated in Great Britain.

19. STATEMENT OF SOURCE AND APPLICATION OF FUNDS

A statement of source and application of funds has not been included as the Company, being a wholly owned subsidiary, is funded by the Holding Company and fellow subsidiaries.