

KALON LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1998



COMPANY NO: 436135

KALON LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 1998.

Principal activities and business review

The principal activities are the manufacture, processing and marketing of decorative paints, decorative sundries and building products.

A detailed review of the business is enclosed in Kalon Group PLC accounts.

Directors and their interests

The directors of the company who served during the year are as follows:

L J Campbell
M J W Hennessy
R A Burgin

Mr M J W Hennessy resigned as a director on 13 April 1999.

Mr M D S Coverley was appointed a director on 7 June 1999.

As at 31 December 1998 Mr M J W Hennessy and Mr L J Campbell were also directors of the parent undertaking, Kalon Group PLC, and their beneficial interest in the shares of Kalon Group PLC are shown in those accounts.

Mr R A Burgin had the following interest in the ordinary shares of the parent undertaking, Kalon Group PLC:

	31 December 1998	31 December 1997
	Beneficial	Beneficial
R A Burgin	11,000	-

Mr R A Burgin's interests in the executive share options of Kalon Group PLC are as follows:

Number of Options				31.12.98	Exercise Price	First date exercisable	Last date exercisable
1.01.98	Granted	Exercised	Lapsed				
50,000	-	-	-	50,000	173.5p	28.08.00	28.08.07
-	25,000	-	-	25,000	185.0p	14.04.01	14.04.08
-	30,000	-	-	30,000	91.5p	27.08.01	27.08.08
50,000	55,000	-	-	105,000			

Results and dividends

The company's profit for the financial year is £6,780,000 (1997: £7,148,000).

No dividend was declared or paid during the year (1997: £4,200,000).

KALON LIMITED

DIRECTORS' REPORT (Cont'd)

Research and development

The board places a high priority on research and technological innovation, which serves the needs of customers. The cost of such work is disclosed in note 5 to the accounts.

Employment policies

Employees or their representatives are provided with information and consulted on matters which are, in the opinion of the directors, of concern to them as employees and likely to affect their interests. To enhance the involvement of its employees the company operates bonus and savings related share option schemes. It is the policy of the company to support the employment of disabled people wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the company, as well as generally through training and career development.

Health and safety at work has always been of prime concern. Continuous efforts are made to improve existing measures and to stimulate interest in safety in each employee.

Payment policy

The company agrees terms and conditions which include payment details with its suppliers. Payment is made in accordance with those terms and conditions, provided the supplier has also complied with them. The company had trade creditors outstanding at the year end representing 50 days of purchases (1997: 37).

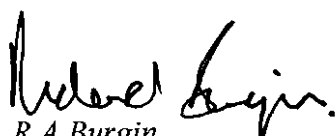
Year 2000 compliance

With regard to Year 2000 compliance, disclosure has been provided on a group basis and is included in the consolidated financial statements of Kalon Group PLC.

Auditors

The auditors changed their name to RSM Robson Rhodes on 18 October 1999 and accordingly have signed the audit report using their new name.

On behalf of the Board



R A Burgin
Secretary

26 October 1999

KALON LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Turnover- continuing operations		196,493	193,074
Cost of sales		(121,286)	(120,340)
Gross profit		75,207	72,734
Net operating expenses	3	(59,999)	(55,595)
Other operating income		1,489	890
Operating profit- continuing operations	5	16,697	18,029
Fundamental reorganisation cost	6	-	3,500
Interest receivable		842	1,827
Interest payable and similar charges	7	(5,870)	(5,799)
Profit on ordinary activities before taxation		11,669	17,557
Taxation	8	(4,889)	(6,209)
Profit on ordinary activities after taxation		6,780	11,348
Dividend (Nil, 1997: £12 per share)		-	(4,200)
Retained profit for the financial year	18	6,780	7,148

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year and their historical cost equivalents.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS


	1998 £000	1997 £000
Profit for the year	6,780	11,348
Dividends	-	(4,200)
Opening shareholders' funds	9,807	2,659
Closing shareholders' funds	16,587	9,807

KALON LIMITED

BALANCE SHEET AT 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Intangible assets	9	53,238	56,370
Tangible assets	10	<u>14,181</u>	<u>13,974</u>
		67,419	70,344
Current assets			
Stocks	11	29,345	27,634
Debtors	12	74,937	49,537
Cash at bank and in hand		<u>15</u>	<u>5,564</u>
		104,297	82,735
Creditors: amounts falling due within one year	13	<u>(81,585)</u>	<u>(58,400)</u>
Net current assets		<u>22,712</u>	<u>24,335</u>
Total assets less current liabilities		90,131	94,679
Creditors: amounts falling due after more than one year	14	(67,020)	(78,079)
Provisions for liabilities and charges	15	<u>(6,524)</u>	<u>(6,793)</u>
Net assets		<u>16,587</u>	<u>9,807</u>
Capital and reserves			
Called-up share capital	17	350	350
Profit and loss account	18	<u>16,237</u>	<u>9,457</u>
Equity shareholders' funds		<u>16,587</u>	<u>9,807</u>

Approved by the Board of Directors



L J Campbell

26 October 1999

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1998

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Convention

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

b) Turnover

Turnover represents the net invoiced value of deliveries excluding Value Added Tax.

c) Depreciation

Depreciation is provided in equal amounts each year in order to write off the cost of fixed assets over their anticipated useful lives.

Estimated useful lives are:

Short leasehold properties	-	By reference to the unexpired portion of the lease
Plant and motor vehicles	-	3 to 10 years

d) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In establishing cost, stocks and work in progress at the end of the year are taken to represent latest purchases or production.

On this basis, cost comprised:

Raw materials	-	Purchase price
Work in progress and finished goods	-	Raw materials, direct labour and attributable production overheads

Net realisable value is based on estimated selling price after taking into account all further costs expected to be incurred on completion and disposal.

KALON LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 31 DECEMBER 1998

e) Taxation

The taxation charge is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for accounting and taxation purposes.

Provision is made for deferred tax to the extent that there is a reasonable probability that a liability will arise in the foreseeable future at the rate likely to be in force when the liability crystallises.

f) Research and development

Research and development expenditure is written off in the year in which it is incurred.

g) Pensions and retirement indemnities

The expected cost of providing pensions and retirement indemnities is charged to the profit and loss account to spread the cost over employees' working lives with the group.

h) Purchased goodwill

Purchased goodwill is being amortised over a life of 20 years.

i) Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The assets are depreciated in accordance with the group's normal accounting policy. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term on a straight line basis.

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the lease.

j) Cash flow statement

Under the provisions of FRS1 (Revised), the company has not prepared a cash flow statement because its parent undertaking, Kalon Group PLC, which is incorporated in England and Wales has prepared consolidated accounts which include the accounts of the company for the year and which contain a consolidated cash flow statement.

KALON LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 31 DECEMBER 1998

k) Related parties

The company has taken advantage of the exemptions allowed under FRS8 relating to subsidiaries where 90% of the voting rights are controlled within the group. Details of transactions with entities that are part of the group or investors of the group are provided in the consolidated accounts of Kalon Group PLC.

l) Foreign currencies

Assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at 31 December. Exchange differences are taken to the profit and loss account.

2 Employees

	1998 £'000	1997 £'000
Employment cost of employees:		
Wages and salaries	35,110	30,531
Social security costs	2,719	2,447
Pension and retirement indemnity costs	651	541
	<u>38,480</u>	<u>33,519</u>

	1998 Number	1997 Number
The average monthly number of people employed by the company during the year:		
Production	584	569
Selling and distribution	1,281	1,271
Administration	160	167
	<u>2,025</u>	<u>2,007</u>

Directors Emoluments:

The directors, with the exception of R A Burgin, are also directors of the parent undertaking, Kalon Group PLC. Due to the complex nature of their roles, costs are not apportioned. Their remuneration is disclosed in full in the Kalon Group PLC accounts.

R A Burgin receives no remuneration in respect of his directorship of Kalon Limited.

KALON LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 31 DECEMBER 1998

3 Net operating expenses

	1998 £000	1997 £000
Distribution costs	43,166	38,482
Administration expenses	16,833	17,113
	<u>59,999</u>	<u>55,595</u>

4 Pensions and retirement indemnities

The company operates several contributory defined benefit pension schemes, whose assets are held separately from those of the company. The contributions are determined on the basis of advice from a qualified actuary every three years using the projected unit method. The last valuation of the principal pension scheme was carried out during 1997. This assumed that the growth of investments would outstrip salary growth by 1% per annum and pensions would increase by up to 5% per annum. The market value of the assets was £53.4 million and based on the above method and assumptions the actuarial value represented 119% of the fund liabilities. The other two schemes are also well funded.

For the purpose of ascertaining the cost to the company of funding the employees' pensions, the actuary has undertaken valuations of all three schemes using broadly the same method and assumptions stated above, except that investment growth was assumed to exceed salary growth by 2.5%. The surplus is being amortised over 13 years, the current year credit in the accounts amounts to £1,990,000 (1997: £1,741,000).

A pension equalisation account of £6,524,000 (1997: £5,873,000) is included in provisions for liabilities and charges, being the excess of the accumulated pension cost over the amount funded.

5 Operating profit

	1998 £000	1997 £000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets	3,681	3,586
Amortisation of intangible fixed assets	3,132	3,132
Auditors' remuneration: Audit services	120	120
Non-audit services	180	104
Rentals for plant hire/operating leases	3,882	3,543
Research and development costs	<u>713</u>	<u>494</u>

KALON LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 31 DECEMBER 1998

6 Fundamental reorganisation cost

The provision release in 1997 relates to the fundamental reorganisation of the company following the acquisition of Euridep SA and its subsidiaries by Kalon Group PLC.

7 Interest payable and similar charges

	1998	1997
	£000	£000
Bank loans and overdrafts	1,390	1,187
On finance leases	107	85
Loans from group undertakings	4,373	4,527
	<u>5,870</u>	<u>5,799</u>

8 Tax on profit on ordinary activities

	1998	1997
	£000	£000
United Kingdom corporation tax:		
Corporation tax at 30.25% (1997: 31.5%)	3955	4,863
Adjustment to prior year corporation tax	(395)	466
Deferred tax	934	522
Adjustment to prior year deferred tax	395	(727)
	<u>4,889</u>	<u>5,124</u>
Exceptional items:		
Deferred tax	-	1,085
	<u>4,889</u>	<u>6,209</u>

9 Intangible fixed assets

	£000
Cost	
At 1 January and 31 December 1998	<u>62,634</u>
Amortisation	
At 1 January 1998	6,264
Charged for the year	3,132
At 31 December 1998	<u>9,396</u>
Net book value at 31 December 1998	<u>53,238</u>
Net book value at 1 January 1998	<u>56,370</u>

KALON LIMITED**NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 1998****10 Tangible fixed assets**

	Short leasehold property £000	Plant and motor vehicles £000	Total £000
Cost			
At 1 January 1998	926	34,350	35,276
Additions	172	3,875	4,047
Disposals	-	(1,507)	(1,507)
At 31 December 1998	<u>1,098</u>	<u>36,718</u>	<u>37,816</u>
Depreciation			
At 1 January 1998	207	21,095	21,302
Disposals	-	(1,348)	(1,348)
Charge for the year	33	3,648	3,681
At 31 December 1998	<u>240</u>	<u>23,395</u>	<u>23,635</u>
Net book value			
At 31 December 1998	<u>858</u>	<u>13,323</u>	<u>14,181</u>
At 1 January 1998	<u>719</u>	<u>13,255</u>	<u>13,974</u>

The net book value of tangible fixed assets includes £1,605,000 (1997: £1,936,000) in respect of finance leases and hire purchase agreements. Depreciation charged in the year on these assets amounted to £496,000 (1997: £677,000).

11 Stocks

	1998 £000	1997 £000
Raw materials and consumables	6,540	6,995
Work in progress	835	885
Finished goods	21,970	19,754
	<u>29,345</u>	<u>27,634</u>

KALON LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 31 DECEMBER 1998

12 Debtors

	1998	1997
	£000	£000
Amounts owed by group undertakings	35,665	10,458
Properties held for resale	150	150
Trade debtors	30,706	25,002
Other debtors	5,110	8,096
Prepayments	3,306	2,033
Deferred tax asset	-	596
Recoverable advance corporation tax	-	3,202
	<u>74,937</u>	<u>49,537</u>

13 Creditors: amounts falling due within one year

	1998	1997
	£000	£000
Bank loans and overdrafts	15,828	10,600
Amounts owed to group undertakings	23,334	6,624
Trade creditors	24,237	21,353
Finance leases and hire purchase	348	771
Corporation tax	5,147	5,444
Deferred tax liability	733	-
Other taxes and social security	817	1,429
Other creditors	5,079	6,214
Accruals	6,062	5,965
	<u>81,585</u>	<u>58,400</u>

14 Creditors: amounts falling due after more than one year

	1998	1997
	£000	£000
Finance leases and hire purchase due within 2 to 5 years	188	431
Amounts due to group undertakings	66,832	77,648
	<u>67,020</u>	<u>78,079</u>

15 Provisions for liabilities and charges

	Restructuring	Pensions	Total
	£000	£000	£000
At 1 January 1998	920	5,873	6,793
Profit and Loss account charge	-	651	651
Utilisation	(920)	-	(920)
At 31 December 1998	<u>-</u>	<u>6,524</u>	<u>6,524</u>

KALON LIMITED**NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 1998****15 Provisions for liabilities and charges (cont'd)**

Deferred taxation provided in the accounts and the amounts not provided are as follows:

Deferred taxation (liability) / asset provided comprises:

	1998	1997
	£000	£000
Other timing differences	<u>(733)</u>	<u>596</u>

Deferred taxation (liability) / asset not provided comprises:

	1998	1997
	£000	£000
Accelerated capital allowances	-	(104)
Other timing differences	<u>-</u>	<u>(2,391)</u>
	<u>-</u>	<u>(2,495)</u>

16 Deferred taxation

£000

At 1 January 1998	596
Charge for the year	<u>(1,329)</u>
At 31 December 1998	<u>(733)</u>

17 Called up share capital

	1998	1997
	£000	£000
Authorised:		
65,000,000 ordinary shares of £1 each (1997: 65,000,000)	<u>65,000</u>	<u>65,000</u>
Allotted, issued and fully paid:		
350,000 ordinary shares of £1 each	<u>350</u>	<u>350</u>

18 Reserves

**Profit and loss
account
£000**

At 1 January 1998	9,457
Profit for the year	<u>6,780</u>
At December 1998	<u>16,237</u>

KALON LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 31 DECEMBER 1998

19 Commitments

	1998 £000	1997 £000
a) Future capital expenditure		
Contracted for, but not provided in the accounts	<u>1,246</u>	<u>759</u>
b) Leasing commitments		
The annual commitment under operating leases are analysed according to the period in which each lease expired, as follows:		
i) Land and building leases expiring:		
within 1 year	52	64
between 1 and 2 years	449	109
between 2 and 5 years	421	641
beyond 5 years	<u>1,784</u>	<u>1,969</u>
	<u>2,706</u>	<u>2,783</u>
ii) Plant and motor vehicles leases expiring:		
within 1 year	191	163
between 1 and 2 years	285	372
between 2 and 5 years	237	160
beyond 5 years	<u>-</u>	<u>-</u>
	<u>713</u>	<u>695</u>

KALON LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 31 DECEMBER 1998

20 Parent undertaking

The company is a wholly owned subsidiary undertaking of Kalon Investment Company Limited, incorporated in the United Kingdom.

The smallest group of which Kalon Limited is a member and for which group accounts are drawn up is that headed by Kalon Group PLC, incorporated in the United Kingdom. The consolidated accounts of this group are available to the public and may be obtained from Ploughland House, 62 George Street, Wakefield WF1 1DL.

The largest such group is that headed by TOTAL SA, incorporated in France. The consolidated accounts of this group are available to the public and may be obtained from Tour TOTAL, 24 Cours Michelet, La Défense 10, Puteaux, 92800 Paris La Défense Cedex.

21 Change of ownership

On 12 March 1998, Kalon Group PLC sold its interest in the company's issued share capital to Kalon Investment Company Limited, a wholly owned subsidiary of Kalon Group PLC.

KALON LIMITED

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs and of the profit or loss of the company for that period. In preparing these financial statements, the directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are reasonable and prudent; followed applicable accounting standards; and prepared the financial statements on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE SHAREHOLDERS OF KALON LIMITED

We have audited the financial statements on pages 3 to 14, which have been prepared under the historical cost convention and the accounting policies set out on pages 5 to 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above the financial statements. Our responsibilities, as independent auditors, are established by statute, the auditing practices board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 director's remuneration and transactions with the company is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

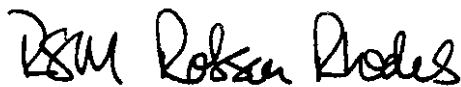
KALON LIMITED

Basis of opinion (continued)

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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1998 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



RSM Robson Rhodes
Chartered Accountants and Registered Auditor
Leeds

28 October 1999.