

KALON LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1997



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 1997.

Principal activities

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 during the year were:

L J Campbell

M J W Hennessy

S J Webb (resigned 2 January 1997)

R A Burgin (appointed 2 January 1997)

The directors, with the exception of R A Burgin and S J Webb, are also directors of the holding company and their beneficial interest in the shares of the holding company are shown in those accounts.

According to the Register of Directors' interests maintained under the Companies Act, R A Burgin has the following options to subscribe for 15p ordinary shares in the parent company:

	1.01.97	Granted	31.12.97	Exercise Price (Pence)	First Date Exercisable	Last Date Exercisable
R A Burgin	-	50,000	50,000	173.5	28.07.2000	28.08.2007

R A Burgin has no beneficial interest in the shares of Kalon Group PLC.

Results and dividends

The result for the year was £7,148,000 (1996: £630,000).

A dividend of £4,200,000 was paid in the year (1996: Nil).

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

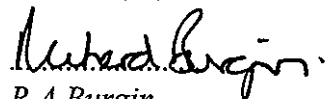
Employees or their representatives are provided with information and consulted on matters which are, in the opinion of the directors, of concern to them as employees and likely to affect their interests. To enhance the involvement of its employees the company operates bonus and savings related share 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 37 days of purchases (1996: 45).

On behalf of the Board



R A Burgin

Secretary

14 Aug 1998

KALON LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997**

	Note	1997 £000	1996 £000
Turnover; continuing operations		193,074	203,135
Cost of sales		(120,340)	(133,811)
Gross profit		72,734	69,324
Net operating expenses	3	(55,595)	(55,191)
Other operating income		890	264
Operating profit; continuing operations	5	18,029	14,397
Fundamental reorganisation cost	6	3,500	(5,755)
Interest receivable		1,827	49
Interest payable	7	(5,799)	(4,092)
Profit on ordinary activities before taxation		17,557	4,599
Taxation	8	(6,209)	(3,969)
Profit on ordinary activities after taxation		11,348	630
Dividend (£12 per share, 1996: Nil)		(4,200)	-
Retained profit for the year	19	7,148	630

There were no recognised gains or losses other than those reported above.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

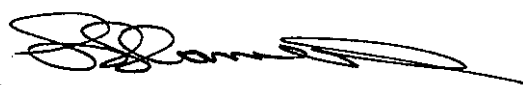
	1997 £000	1996 £000
Profit for the year	11,348	630
Dividends	(4,200)	-
Opening shareholders' funds	2,659	2,029
Closing shareholders' funds	9,807	2,659

KALON LIMITED
BALANCE SHEET
31 DECEMBER 1997

	Note	1997 £000	1996 £000
Fixed assets			
Intangible assets	9	56,370	59,502
Tangible assets	10	13,974	15,661
Investments	11	-	5,871
		<u>70,344</u>	<u>81,034</u>
Current assets			
Stocks	12	27,634	32,177
Debtors	13	49,537	47,354
Cash at bank and in hand		5,564	37
		<u>82,735</u>	<u>79,568</u>
Creditors amounts falling due within one year	14	(58,400)	(57,345)
Net current assets		<u>24,335</u>	<u>22,223</u>
Total assets less current liabilities		94,679	103,257
Creditors amounts falling due after more than one year	15	(78,079)	(85,056)
Provisions for liabilities and charges	16	(6,793)	(15,542)
		<u>9,807</u>	<u>2,659</u>
Capital and reserves			
Called-up share capital	18	350	350
Profit and loss account	19	9,457	2,309
Equity shareholders' funds		<u>9,807</u>	<u>2,659</u>

Approved by the Board of Directors

L J Campbell



14 August 1998

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997

1 Accounting policies

a) Convention

The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention. The principal accounting policies which the directors have adopted are set out below.

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 31 DECEMBER 1997

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 profit and loss account in equal amounts over the period of the lease.

j) Cash flow statement

Under the provisions of FRS1, the company has not prepared a cash flow statement because its parent company, 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

31 DECEMBER 1997

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

	1997 £'000	1996 £'000
Employment cost of employees:		
Wages and salaries	30,531	32,160
Social security costs	2,447	2,582
Pension and retirement indemnity costs	541	1,105
	<u>33,519</u>	<u>35,847</u>
	1997 Number	1996 Number
Average number of people employed by the company during the year:		
Production	569	665
Selling and distribution	1,271	1,291
Administration	167	150
	<u>2,007</u>	<u>2,106</u>

Directors Emoluments

The directors, with the exception of R A Burgin, are also directors of the holding company. Due to the complex nature of their role 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 31 DECEMBER 1997

3 Net operating expenses

	1997 £000	1996 £000
Distribution costs	38,482	43,985
Administration expenses	17,113	11,206
	<u>55,595</u>	<u>55,191</u>

4 Pensions and retirement indemnities

The company operates three contributory defined benefits pension schemes (two of which are relatively small) 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. They 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' pension, 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%. The surplus is being amortised over 13 years, the current year credit in the accounts amounts to £1,741,000 (1996: £1,034,000).

A pension equalisation account of £5,873,000 (1996: £5,332,000) is included in provisions for liabilities and charges, being the excess of the accumulated pension cost over the amount funded.

5 Operating profit

	1997 £000	1996 £000
Operating profit is arrived at after charging:		
Depreciation of tangible fixed assets	3,586	3,469
Amortisation of intangible fixed assets	3,132	3,132
Auditors' remuneration	120	110
Non-audit fee	104	118
Rentals for plant hire/operating leases	3,543	2,500
Research and development costs	<u>494</u>	<u>374</u>

KALON LIMITED

NOTES TO THE ACCOUNTS 31 DECEMBER 1997

6 Fundamental reorganisation cost

The provision release in 1997 and the charge in 1996 relate 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

	1997 £000	1996 £000
Bank loans and overdrafts	1,187	3,987
On finance leases	85	105
Loans from group undertakings	4,527	-
	<u>5,799</u>	<u>4,092</u>

8 Tax on profit on ordinary activities

	1997 £000	1996 £000
United Kingdom corporation tax:		
Corporation tax at 31.5% (1996: 33%)	4,863	4,623
Adjustment to prior year corporation tax	466	(265)
Deferred tax	522	1,273
Adjustment to prior year deferred tax	(727)	(447)
	<u>5,124</u>	<u>5,184</u>
Exceptional items:		
Corporation tax	-	(607)
Deferred tax	1,085	(608)
	<u>6,209</u>	<u>3,969</u>

9 Intangible fixed assets

	1997 £000
Cost	
Cost at 1 January 1997 and 31 December 1997	<u>62,634</u>
Amortisation	
January 1997	3,132
Charged in the year	3,132
31 December 1997	<u>6,264</u>
Net book value at 31 December 1997	<u>56,370</u>
Net book value at 1 January 1997	<u>59,502</u>

KALON LIMITED

NOTES TO THE ACCOUNTS 31 DECEMBER 1997

10 Tangible fixed assets

Cost	Short leasehold property £000	Plant and motor vehicle £000	Total £000
1 January 1997	901	36,326	37,227
Additions	25	3,142	3,167
Disposals	-	(5,118)	(5,118)
31 December 1997	<u>926</u>	<u>34,350</u>	<u>35,276</u>
Depreciation			
1 January 1997	150	21,416	21,566
Disposals	-	(3,850)	(3,850)
Charge for the year	57	3,529	3,586
31 December 1997	<u>207</u>	<u>21,095</u>	<u>21,302</u>
Net book value			
31 December 1997	<u>719</u>	<u>13,255</u>	<u>13,974</u>
1 January 1997	<u>751</u>	<u>14,910</u>	<u>15,661</u>

The net book value of tangible fixed assets includes £1,936,000 (1996: £1,472,000) in respect of finance leases and hire purchase agreements. Depreciation charged in the year on these assets amounted to £677,000 (1996: £430,000).

11 Investments

	Loans receivable £000	Loans payable £000	Total £000
1 January 1997	7,319	(1,448)	5,871
Movement in year	(7,319)	1,448	(5,871)
31 December 1997	<u>0</u>	<u>0</u>	<u>0</u>

12 Stocks

	1997 £000	1996 £000
Raw materials and consumables	6,995	7,931
Work in progress	885	927
Finished goods	19,754	23,319
	<u>27,634</u>	<u>32,177</u>

KALON LIMITED

NOTES TO THE ACCOUNTS 31 DECEMBER 1997

13 Debtors

	1997	1996
	£000	£000
Amounts owed by group undertakings	10,458	7,457
Properties held for resale	150	400
Trade debtors	25,002	24,653
Other debtors	8,096	8,474
Prepayments	2,033	2,257
Deferred tax asset	596	1,476
Recoverable advance corporation tax	3,202	2,637
	<u>49,537</u>	<u>47,354</u>

14 Creditors: amounts falling due within one year

	1997	1996
	£000	£000
Bank loans and overdrafts	10,600	5,574
Amounts owed to group undertakings	6,624	14,365
Trade creditors	21,353	23,149
Finance leases and hire purchase	771	713
Corporation tax	5,444	1,472
Other taxes and social security	1,429	1,999
Other creditors	6,214	2,842
Accruals	5,965	7,231
	<u>58,400</u>	<u>57,345</u>

15 Creditors due after more than one year

	1997	1996
	£000	£000
Finance leases and hire purchase due within 2 to 5 years	431	683
Amounts due to group undertakings	77,648	84,373
	<u>78,079</u>	<u>85,056</u>

16 Provisions for liabilities and charges

	Restructuring	Pensions	Total
	£000	£000	£000
Balance as at 1 January 1997	10,210	5,332	15,542
Profit and Loss account (credit)/charge	(3,500)	541	(2,959)
Utilisation	(5,790)	-	(5,862)
Balance at 31 December 1997	<u>920</u>	<u>5,873</u>	<u>6,793</u>

KALON LIMITED

NOTES TO THE ACCOUNTS 31 DECEMBER 1997

Provisions for liabilities and charges (cont'd)

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

Deferred taxation provided comprises:

	1997 £000	1996 £000
Other timing differences	596	1,476

Deferred taxation not provided comprises:

	1997 £000	1996 £000
Accelerated capital allowances	(104)	(853)
Other timing differences	(2,391)	(2,896)
	<u>(2,495)</u>	<u>(3,749)</u>

17 Deferred taxation

	£000
Balance at 1 January 1997	1,476
Charge for the year	(880)
Balance at 31 December 1997	<u>596</u>

18 Called up share capital

	1997 £000	1996 £000
Authorised: 65,000,000 (1996: 65,000,000) ordinary shares of £1	65,000	65,000
Allotted, issued and fully paid: 350,000 ordinary shares of £1 each	350	350

19 Reserves

	Profit and loss account £000
At 1 January 1997	2,309
Profit for the year	7,148
31 December 1997	<u>9,457</u>

KALON LIMITED

NOTES TO THE ACCOUNTS 31 DECEMBER 1997

20 Commitments

	1997 £000	1996 £000
a) Future capital expenditure		
Contracted for, but not provided in the accounts	759	747
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	64	94
between 1 and 2 years	109	100
between 2 and 5 years	641	490
beyond 5 years	1,969	2,162
	<u>2,783</u>	<u>2,846</u>
ii) Plant and motor vehicles leases expiring:		
within 1 year	163	159
between 1 and 2 years	372	263
between 2 and 5 years	160	317
beyond 5 years	-	5
	<u>695</u>	<u>744</u>

21 Parent undertaking

The parent undertaking is Kalon Group PLC, incorporated in England and Wales. The group financial statements may be obtained from Ploughland House, 62 George Street, Wakefield WF1 1DL.

The ultimate parent undertaking is TOTAL SA. Their accounts can be obtained from Tour TOTAL, 24 Cours Michelet, 92800 Puteaux, Paris.

22 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 13, which have been prepared under the historical cost convention, as set out on pages 5 and 6.

Respective responsibilities of directors and auditors

As described above the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

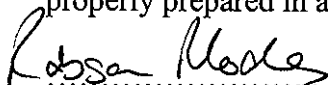
Basis of opinion

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 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.

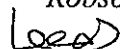
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 1997 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Robson Rhodes, Chartered Accountants and Registered Auditors



14 August 1998