

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO SC

Applied Chemicals Limited

Accounts 30 June 1996

together with directors' and auditors' reports

Registered number: 473219



Directors' report

For the year ended 30 June 1996

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 30 June 1996.

Principal activity and business review

The principal activity of the company is the manufacture and distribution of chemicals, lubricants, industrial cleaning fluids and associated equipment. The company has experienced a decline in some of its markets during the year; however, improvements are anticipated in the forthcoming year.

Results and dividends

The company made a profit on ordinary activities before tax of £306,524 (1995: profit £8,102).

The directors do not recommend the payment of a dividend.

Directors and their interests

The directors who served during the year were as follows:

I W Hicks (Australian) (Chairman)
A J Williams
K G Sansom (resigned 17 June 1996)
D Maher
F G Holt
M R Parkinson
E F Dwyer (Australian)

No director had any interest in the ordinary or preference share capital of the company or in that of the ultimate parent company during the year, with the exception of Mr I W Hicks who holds 12,970,202 fully paid shares of A\$1 in the ultimate parent company.

Charitable donations

The company made contributions to charities of £1,285 (1995 - £1,660) during the year.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Applied House
Wilsons Lane
Coventry
CV6 6JA

By order of the Board,



R D Batty

Secretary

16 September 1996

Auditors' report

Birmingham

To the Shareholders of Applied Chemicals Limited:

We have audited the accounts on pages 4 to 18 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described in the directors' report, the company's directors are responsible for the preparation of the 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 affairs of the company at 30 June 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Victoria Square
Birmingham
B1 1BD

16 September 1996

Profit and loss account

For the year ended 30 June 1996

	Notes	1996 £	1995 £
Turnover	2	13,153,566	13,586,068
Change in stocks of finished goods and goods held for resale		81,841	18,104
Raw materials and consumables		(5,675,778)	(5,754,423)
		<u>7,559,629</u>	<u>7,849,749</u>
Staff costs	3	(2,975,291)	(2,890,981)
Depreciation	10	(147,898)	(128,421)
Other operating expenses (net)		(4,160,322)	(4,859,733)
Operating profit (loss)		<u>276,118</u>	<u>(29,386)</u>
Interest receivable	5	82,807	85,595
Interest payable and similar charges	6	(52,401)	(48,107)
Profit on ordinary activities before taxation	7	<u>306,524</u>	<u>8,102</u>
Tax on profit on ordinary activities	8	11,004	14,213
Retained profit for the financial year		<u>317,528</u>	<u>22,315</u>
Retained profit, beginning of year		3,420,233	3,387,257
Transfer from revaluation reserve		21,881	10,661
Retained profit, end of year	16	<u>3,759,642</u>	<u>3,420,233</u>

There were no recognised gains or losses in either year other than the profit for the financial year.

The accompanying notes are an integral part of this profit and loss account.

Note of historical cost profits and losses

For the year ended 30 June 1996

	1996 £	1995 £
Profit on ordinary activities before taxation	306,524	8,102
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	21,881	10,661
Historical cost profit on ordinary activities before taxation	<u>328,405</u>	<u>18,763</u>
Historical cost retained profit for the financial year	<u>339,409</u>	<u>32,976</u>

The accompanying notes are an integral part of this note of historical cost profits and losses.

Balance sheet

30 June 1996

	Notes	1996 £	1995 £
Fixed assets			
Intangible assets	9	280,879	93,386
Tangible assets	10	810,068	911,140
		<u>1,090,947</u>	<u>1,004,526</u>
Current assets			
Stocks	11	1,041,117	951,795
Debtors - due within one year	12	3,644,007	3,051,668
- due after one year	12	1,533,302	2,046,336
Cash at bank and in hand		12,968	264,452
		<u>6,231,394</u>	<u>6,314,251</u>
Creditors: Amounts falling due within one year	13	(2,924,386)	(3,209,594)
Net current assets		<u>3,307,008</u>	<u>3,104,657</u>
Total assets less current liabilities		<u>4,397,955</u>	<u>4,109,183</u>
Provisions for liabilities and charges	14	(124,871)	(153,627)
Net assets		<u>4,273,084</u>	<u>3,955,556</u>
Capital and reserves			
Called-up share capital	15	10,004	10,004
Revaluation reserve	16	503,438	525,319
Profit and loss account	16	3,759,642	3,420,233
Total shareholders' funds	17	<u>4,273,084</u>	<u>3,955,556</u>
Analysis of shareholders' funds			
Equity interests		4,273,080	3,955,552
Non-equity interests	15	4	4
		<u>4,273,084</u>	<u>3,955,556</u>

Signed on behalf of the Board

A J Williams

Director

16 September 1996

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

30 June 1996

1 Accounting policies

The accounts have been prepared under the historical cost convention, modified to include the revaluation of plant and machinery, and are in accordance with applicable accounting standards. The following accounting policies have been applied consistently throughout the year and the preceding year.

Under the provisions of Financial Reporting Standard Number 1, the company has not prepared a cash flow statement because its immediate parent company, Lorikeet Limited, which is registered in England and Wales, has prepared consolidated accounts which include the accounts of the company for the year ended 30 June 1996 and which contain a cash flow statement.

a) *Turnover*

Turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services in the normal course of business.

b) *Tangible fixed assets*

Tangible fixed assets are shown at original historical cost or valuation. Depreciation is provided to write off the cost or valuation of all fixed assets over their expected useful lives after taking account of estimated residual values. It is calculated on the original cost or valuation of the assets on a straight-line basis at the following rates:

Motor vehicles	33 $\frac{1}{3}$ % per annum
Plant and equipment	10 - 33 $\frac{1}{3}$ % per annum

Surpluses arising on the revaluation of tangible fixed assets are credited to a non-distributable revaluation reserve. Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On disposal of a revalued fixed asset, any related balance in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

c) *Stocks*

Stocks are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are based on:

Raw materials	- purchase cost on a first-in first-out basis
Finished goods	- cost of direct materials plus a reasonable proportion of production overheads based on normal levels of activity.

d) *Foreign currency*

Foreign currency transactions are recorded in sterling at the rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the prevailing rates of exchange at the balance sheet date. Any gains or losses relating to subsequent changes in exchange rates are taken to the profit and loss account.

Notes to accounts (continued)

1 Accounting policies (continued)

e) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate. The company is part of a UK group and accordingly may make use of the group relief provisions whereby current taxable profits can be offset by current taxable losses arising in other companies in the group. The group's policy is that there shall be no payments made for taxable losses surrendered under the group relief provisions.

Advance corporation tax on dividends paid or proposed is written off, except where recoverability against corporation tax payable is considered to be reasonably assured.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal.

Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

f) *Goodwill*

Goodwill, which represents the difference between the fair value of the purchase consideration and the fair value of assets acquired, is capitalised and amortised over its estimated useful life.

g) *Pension costs*

The company operates a defined contribution scheme for its directors, providing benefits based upon the contributions paid and a defined benefit scheme, providing benefits based on final pensionable pay, for other employees. The amount charged to the profit and loss account for the defined contribution scheme is the contributions payable in the year. For the defined benefit scheme the charge is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of future pensionable payroll. Variations from regular cost are charged to the profit and loss account over the estimated average remaining service life of scheme members.

h) *Leases*

The company enters into operating and finance leases. Assets held under finance leases are initially reported at the fair value of the assets, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Notes to accounts (continued)

2 Turnover

All turnover was derived from the company's principal activity.

The analysis of turnover by geographical destination is as follows:

	1996 £	1995 £
United Kingdom	12,299,698	12,697,757
Rest of Europe	721,272	753,299
Middle East and other regions	132,596	135,012
	<u>13,153,566</u>	<u>13,586,068</u>

3 Staff costs

The average monthly number of employees of the company during the year, including executive directors, was as follows:

	1996 Number	1995 Number
Manufacturing and distribution	19	19
Marketing and sales	97	101
Supporting functions	29	36
	<u>145</u>	<u>156</u>

Staff costs for all employees, including executive directors, consist of:

	1996 £	1995 £
Wages and salaries	2,573,548	2,453,181
Social security costs	254,226	239,059
Other pension costs	99,599	102,332
Redundancy costs	47,918	96,409
	<u>2,975,291</u>	<u>2,890,981</u>

Notes to accounts (continued)

4 Directors' remuneration

Emoluments of the directors of the company were:

	1996 £	1995 £
Remuneration for management services	323,222	234,645
Pension contributions	19,631	22,350
Compensation for loss of office	-	58,000
	<u>342,853</u>	<u>314,995</u>

Emoluments (excluding pension contributions) of the Chairman and highest paid director were:

	1996 £	1995 £
Chairman	<u>30,000</u>	<u>30,000</u>
Highest paid director	<u>91,341</u>	<u>66,088</u>

The emoluments (excluding pension contributions) of all directors fell into the following ranges:

	1996 Number	1995 Number
Up to £ 5,000	2	4
£ 15,001 - £ 20,000	-	1
£ 20,001 - £ 25,000	-	1
£ 25,001 - £ 30,000	1	1
£ 40,001 - £ 45,000	-	1
£ 45,001 - £ 50,000	-	1
£ 50,001 - £ 55,000	1	-
£ 60,001 - £ 65,000	1	-
£ 65,001 - £ 70,000	-	1
£ 80,001 - £ 85,000	1	-
£ 90,001 - £ 95,000	1	-

Notes to accounts (continued)

5 Interest receivable

	1996 £	1995 £
Interest from short term bank deposits and other loans	4,507	435
Interest on loans to other group undertakings	78,300	85,160
	<u>82,807</u>	<u>85,595</u>

6 Interest payable and similar charges

	1996 £	1995 £
Interest element of charges payable under finance leases	436	3,113
On bank overdrafts and other loans	51,965	44,994
	<u>52,401</u>	<u>48,107</u>

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1996 £	1995 £
Depreciation		
- on assets held under finance leases	17,625	17,625
- on other assets	130,273	110,796
Amortisation of goodwill	44,342	36,741
Hire of assets under operating leases	731,966	739,742
Auditors' remuneration		
- audit services	16,400	15,750
- other services	<u>10,700</u>	<u>4,600</u>

Notes to accounts (continued)

8 Tax on profit on ordinary activities

The tax credit is based on the profit for the year and comprises:

	1996 £	1995 £
Tax on ordinary activities for the current year	(17,752)	-
Deferred taxation arising from:		
- capital allowances	24,183	11,402
- other timing differences	4,573	2,811
	<u>11,004</u>	<u>14,213</u>

The effective tax rate is substantially below the appropriate standard tax rate as a result of the availability of group relief provisions.

9 Intangible fixed assets

	£
Cost	
Beginning of year	187,237
Additions	231,835
End of year	<u>419,072</u>
Amortisation	
Beginning of year	93,851
Charge in the year	44,342
End of year	<u>138,193</u>
Net book value	
End of year	<u>280,879</u>
Beginning of year	<u>93,386</u>

Purchased goodwill of £187,237 which arose in 1993 is being amortised over its useful economic life of five years.

Purchased goodwill of £231,835 which arose in 1996 is being amortised over its useful economic life of ten years.

Notes to accounts (continued)

10 Tangible fixed assets

	Motor vehicles £	Plant and equipment £	Total £
Cost or valuation			
Beginning of year	23,522	1,027,437	1,050,959
Additions	-	46,826	46,826
End of year	23,522	1,074,263	1,097,785
Accumulated depreciation			
Beginning of year	23,522	116,297	139,819
Charge in the year	-	147,898	147,898
End of year	23,522	264,195	287,717
Net book value			
End of year	-	810,068	810,068
Beginning of year	-	911,140	911,140

The net book value of tangible fixed assets includes an amount of £105,750 (1995 - £123,375) in respect of assets held under finance leases.

Plant and equipment were revalued on the basis of value to the business in continuing use (net current replacement cost) at 30 June 1994 by Edward Rushton Son and Kenyan, International Valuers and Surveyors. The surplus arising on the revaluation of £535,980 was credited to the revaluation reserve.

The original cost of plant and equipment included at valuation was £2,676,128. At the balance sheet date, accumulated depreciation, based on cost, was £2,457,235.

11 Stocks

	1996 £	1995 £
Raw materials and consumables	379,586	372,105
Finished goods and goods held for resale	661,531	579,690
	<u>1,041,117</u>	<u>951,795</u>

In the opinion of the directors, there is no material difference between the replacement cost of stocks and their net book value.

Notes to accounts (continued)

12 Debtors

a) Amounts falling due within one year

	1996 £	1995 £
Trade debtors	2,579,528	2,710,396
Amounts owed by group undertakings	923,585	163,766
Other debtors	32,906	108,902
ACT recoverable	-	22,500
Withholding tax	31,096	16,076
Prepayments and accrued income	76,892	30,028
	<u>3,644,007</u>	<u>3,051,668</u>

b) Amounts falling due after more than one year

	1996 £	1995 £
Amounts owed by group undertakings	<u>1,533,302</u>	<u>2,046,336</u>
Total debtors	<u>5,177,309</u>	<u>5,098,004</u>

At 30 June 1996 the company had a loan of £850,000 (1995: £870,000) to Applied Chemicals International Pty Limited, a company incorporated in Australia in which Mr I W Hicks has a material interest. The maximum amount of the loan during the year was £870,000. The loan is unsecured and becomes repayable on 30 June 1997. The rate of interest on this loan is 9% per annum, with annual reviews.

13 Creditors: Amounts falling due within one year

	1996 £	1995 £
Obligations under finance leases	-	4,870
Bank overdraft	600,245	910,180
Trade creditors	1,621,090	1,807,809
Amounts owed to group undertakings	-	1,432
Other tax and social security	82,125	76,755
VAT	197,383	194,039
Accruals and deferred income	405,791	214,509
Corporation tax	17,752	-
	<u>2,924,386</u>	<u>3,209,594</u>

The bank overdraft is secured by a fixed and floating charge on the company's assets.

Notes to accounts (continued)

14 Provisions for liabilities and charges

Provisions for liabilities and charges comprise deferred taxation as follows:

	1996 £	1995 £
Accelerated capital allowances	42,275	66,458
Capital gains rolled over	75,900	75,900
Other timing differences	6,696	11,269
	<u>124,871</u>	<u>153,627</u>

The movement on deferred taxation comprises:

	1996 £	1995 £
Beginning of year	153,627	167,840
Credited to profit and loss, in respect of		
- capital allowances	(24,183)	(11,402)
- other timing differences	(4,573)	(2,811)
End of year	<u>124,871</u>	<u>153,627</u>

No deferred tax has been provided in respect of the revaluation reserve since the directors consider that no liability to tax will arise in the foreseeable future. The value of unprovided deferred tax in respect of the revaluation reserve is £166,000 (1995: £173,000). There is no other unprovided deferred tax at either year end.

Notes to accounts (continued)

15 Called-up share capital

	1996 £	1995 £
<i>Authorised</i>		
10,000 ordinary shares of £1 each	10,000	10,000
1,000 redeemable preference shares of £1 each	1,000	1,000
<i>Allotted, called-up and fully-paid</i>		
10,000 ordinary shares of £1 each	10,000	10,000
4 redeemable preference shares of £1 each	4	4
	10,004	10,004

The preference shares, which carry an entitlement to a dividend of 7% per annum, are non-cumulative and are redeemable at any time at the option of the company.

16 Reserves

	Revaluation reserve £	Profit and loss account £	Total £
Beginning of year	525,319	3,420,233	3,945,552
Amortisation of revaluation surplus	(21,881)	21,881	-
Retained profit for the year	-	317,528	317,528
End of year	503,438	3,759,642	4,263,080

The revaluation reserve is non-distributable.

Notes to accounts (continued)

17 Reconciliation of movement in shareholders' funds

	1996 £	1995 £
Retained profit for the year	317,528	22,315
Net addition to shareholders' funds	317,528	22,315
Opening shareholders' funds	3,955,556	3,933,241
Closing shareholders' funds	4,273,084	3,955,556

18 Guarantees and other financial commitments

At the end of the year, the company had minimum annual commitments under non-cancellable operating leases as follows:

	1996			1995		
	Land and buildings £	Motor vehicles £	Other £	Land and buildings £	Motor vehicles £	Other £
Operating leases which expire:						
- Within one year	-	78,467	10,565	-	109,379	29,429
- Within two and five years	-	183,157	13,635	-	261,196	49,559
- After more than five years	305,000	-	1,672	305,000	-	-
	<u>305,000</u>	<u>261,624</u>	<u>25,872</u>	<u>305,000</u>	<u>370,575</u>	<u>78,988</u>

The lessor of the land and buildings occupied by the company is a fellow subsidiary undertaking in which Mr I W Hicks has a material interest.

19 Transactions involving directors

Rentals on a property amounting to £40,000 (1995 - £40,000) were paid to Mr I W Hicks during the year.

Notes to accounts (continued)

20 Contingent liabilities

- a) The company has given a guarantee of up to IR £36,000 (1995 - IR £36,000) in respect of a bank overdraft of another group company. The balance on that company's overdraft at 30 June 1996 was IR £20,711 (1995 - IR £32,278).
- b) At 30 June 1996 there was a guarantee in favour of Her Majesty's Customs and Excise given by the company's bankers on behalf of the company. The maximum liability of the company under this guarantee is £20,000 (1995 - £200,000).

21 Pensions

The company operates a defined contribution scheme for its directors, providing benefits based upon the contributions paid, and a defined benefit pension scheme for other employees, providing benefits based on final pensionable pay. The assets of both schemes are held separately from those of the company and are managed by independent fund managers.

Contributions to the defined contribution scheme during the year amounted to £13,491 (1995 - £22,350).

Contributions to the defined benefit scheme amounted to £79,968 (1995 - £79,982).

The pension costs for the defined benefit scheme are assessed in accordance with the advice of a professionally qualified actuary. The latest actuarial valuation was at 6 April 1993 and used the defined accrued benefits method. The main actuarial assumptions were that salaries would increase by 8.0% per annum; pensions in payment would increase by 3.0% per annum; and the return on scheme investments would be 10.0% per annum.

At the date of the last actuarial valuation, the market value of the assets of the scheme was £798,364 and the actuarial value of the assets was sufficient to cover 100% of the benefits that had accrued to the members after allowing for future increases in earnings.

22 Ultimate parent company

Chemiks Pty Limited, a company incorporated in Australia, is regarded by the directors as being the ultimate parent company. The largest group into which the results of Applied Chemicals Limited are consolidated is that headed by Applied Chemicals International Pty Limited. The smallest group into which the results of Applied Chemicals Limited are consolidated is that headed by Lorikeet Limited, a company registered in England and Wales.