ARTHUR ANDERSEN

Applied Chemicals Limited

Accounts 30 June 1998
together with directors' and auditors' reports

Registered number: 473219

Directors' report

For the year ended 30 June 1998

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 1998.

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 general level of activity is expected to continue.

Results and dividends

The company made a profit on ordinary activities before taxation of £53,569 (1997 - £204,555).

The directors do not recommend the payment of a dividend (1997 - £Nil).

Directors and their interests

The directors who served during the year and subsequently were as follows:

I W Hicks (Australian) (Chairman)
A J Williams (resigned 15 September 1997)
D Maher
F G Holt
E F Dwyer (Australian)
D C Dean (Australian)
M R Lloyd (appointed 20 July 1998)

No director had any interest in the ordinary or preference share capital of the company or in that of the ultimate parent undertaking 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 undertaking.

Charitable donations

The company made contributions to charities of £1,652 (1997 - £875) 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.

Applied House
Wilsons Lane
Coventry
CV6 6JA

By order of the Board,

R D Batty

Secretary

17 September 1998

ARTHUR ANDERSEN

Auditors' report

Birmingham

To the Shareholders of Applied Chemicals Limited:

We have audited the accounts on pages 4 to 19 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 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Victoria Square
Birmingham
B1 1BD

17 September 1998

Profit and loss account

For the year ended 30 June 1998

	Notes	1998 £	1997 £
Turnover	2	12,951,777	13,072,014
Change in stocks of finished goods and goods held for resale		(5,207)	(74,532)
Raw materials and consumables		(5,336,156)	(5,365,260)
		7,610,414	7,632,222
Staff costs	3	(3,262,733)	(3,126,880)
Depreciation	10	(161,800)	(146,577)
Other operating expenses (net)		(4,122,024)	(4,177,055)
Operating profit		63,857	181,710
Interest receivable	5	72,072	71,910
Interest payable and similar charges	6	(82,360)	(49,065)
Profit on ordinary activities before taxation	7	53,569	204,555
Tax on profit on ordinary activities	8	9,039	76,641
Retained profit for the year	18	62,608	281,196

All turnover and operating profit was derived from continuing operations in both years.

There are no recognised gains or losses in either year other than the retained profit for the year.

A statement of movements on reserves is given in note 17 to the accounts.

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 1998

	1998 £	1997 £
Reported profit on ordinary activities before taxation	53,569	204,555
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	76,129	47,984
Historical cost profit on ordinary activities before taxation	129,698	252,539
Historical cost profit for the year retained after taxation	138,737	329,180

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

Balance sheet

30 June 1998

	Notes	1998 £	1997 £
Fixed assets			
Intangible assets	9	178,635	221,337
Tangible assets	10	601,493	721,979
		780,128	943,316
Current assets			
Stocks	11	915,541	963,051
Debtors - due within one year	12	3,073,636	2,918,674
- due after more than one year	12	2,711,795	2,960,860
Cash at bank and in hand		11,159	16,176
		6,712,131	6,858,761
Creditors: Amounts falling due within one year	13	(2,875,371)	(3,188,632)
Net current assets		3,836,760	3,670,129
Total assets less current liabilities		4,616,888	4,613,445
Creditors: Amounts falling due after more than one year	14	-	(11,838)
Provisions for liabilities and charges	15	-	(47,327)
Net assets		4,616,888	4,554,280
Capital and reserves			
Called-up share capital	16	10,004	10,004
Revaluation reserve	17	379,325	455,454
Profit and loss account	17	4,227,559	4,088,822
Shareholders' funds	18	4,616,888	4,554,280
Analysis of shareholders' funds			
Equity interests		4,616,884	4,554,276
Non-equity interests	16	4	4
		4,616,888	4,554,280

Signed on behalf of the Board

M R Lloyd Director

17 September 1998

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

Notes to accounts

30 June 1998

1 Accounting policies

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

a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of plant and machinery, and in accordance with applicable accounting standards.

b) Goodwill

Purchased 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.

c) 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	$33^1/3$% per annum
Plant and equipment	10 - $33^1/3$ % 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.

d) 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.

e) 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.

1 Accounting policies (continued)

f) 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 tax losses surrendered under the group relief provisions.

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

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 asset, 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.

i) 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.

j) Cash flow statement

Under the provisions of Financal Reporting Standard Number 1 (Revised), the company has not prepared a cash flow statement as the results of the company are included in the consolidated accounts of Applied Chemicals International Pty Limited.

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:

	1998 £	1997 £
United Kingdom	12,073,360	12,135,975
Rest of Europe	766,500	822,396
Middle East and other regions	111,917	113,643
	12,951,777	13,072,014

3 Staff costs

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

	1998 Number	1997 Number
Manufacturing and distribution	24	19
Marketing and sales	94	97
Supporting functions	23	25
	141	141

Their aggregate remuneration comprised:

	1998 £	1997 £
Wages and salaries	2,891,723	2,762,384
Social security costs	253,849	260,395
Other pension costs	108,762	103,261
Redundancy costs	8,399	840
	3,262,733	3,126,880

Notes to accounts (continued)

4 Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	1998 £	1997 £
Emoluments	287,070	339,681
Compensation for loss of office	34,000	-
Company contributions to money purchase pension schemes	18,170	26,529
	339,240	366,210
Fees paid to third parties in respect of directors' services	-	26,237

Pensions

The number of directors who were members of pension schemes was as follows:

	1998 Number	1997 Number
Money purchase schemes	2	3

Highest-paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	1998 £	1997 £
Emoluments	117,519	109,095

5 Interest receivable

	1998 £	1997 £
Short term bank deposits and other loans	162	-
Loans to group undertakings	71,910	71,910
	72,072	71,910

Notes to accounts (continued)

6 Interest payable and similar charges

	1998	1997
	£	£
Bank loans and overdrafts	37,910	47,299
Loans from group undertakings	43,044	-
Finance leases	1,406	1,766
	82,360	49,065

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998	1997
	£	£
Depreciation		
- on assets held under finance leases	11,117	9,264
- on other assets	150,683	137,313
Amortisation of goodwill	42,702	59,542
Hire of assets under operating leases		
- plant and machinery	357,681	348,643
- other	305,000	305,000
Auditors' remuneration		
- audit services	17,500	16,800
- other services	2,900	21,000

8 Tax on profit on ordinary activities

The tax charge (credit) comprises:

	1998	1997
	£	£
Corporation tax on ordinary activities	7,191	-
Underprovision in respect of prior years	31,097	903
Deferred taxation arising from:		
- capital allowances	(42,275)	-
- capital gains rolled over	-	(75,900)
- other timing differences	(5,052)	(1,644)
	(9,039)	(76,641)

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

Notes to accounts (continued)

9 Intangible fixed assets

	Purchased goodwill £
Cost	
Beginning and end of year	419,072
Amortisation	
Beginning of year	197,735
Charge for the year	42,702
End of year	240,437
Net book value	
End of year	178,635
Beginning of year	221,337

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.

10 Tangible fixed assets

	Motor vehicles £	Plant and equipment £	Total £
Cost or valuation			
Beginning of year	27,547	1,115,230	1,142,777
Additions	-	41,314	41,314
End of year	27,547	1,156,544	1,184,091
Depreciation			
Beginning of year	24,025	396,773	420,798
Charge for the year	2,012	159,788	161,800
End of year	26,037	556,561	582,598
Net book value			
End of year	1,510	599,983	601,493
Beginning of year	3,522	718,457	721,979

Notes to accounts (continued)

10 Tangible fixed assets (continued)

The net book value of plant and equipment includes an amount of £12,970 (1997 - £24,086) 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 £2,579,796.

11 Stocks

	1998 £	1997 £
Raw materials and consumables	333,749	376,052
Finished goods and goods held for resale	581,792	586,999
	915,541	963,051

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

12 Debtors

a) Amounts falling due within one year

	1998 £	1997 £
Trade debtors	2,496,168	2,475,998
Amounts owed by group undertakings	85,595	214,382
Other debtors	18,413	24,803
Withholding tax	-	38,288
Prepayments and accrued income	473,460	165,203
	3,073,636	2,918,674

Notes to accounts (continued)

12 Debtors (continued)

b) Amounts falling due after more than one year

	1998 £	1997 £
Amounts owed by group undertakings	2,711,795	2,960,860

At 30 June 1998 the company had a loan of £14,195 (1997 - £850,000) to Applied Chemicals International Pty Limited. The loan is unsecured and becomes repayable on 30 June 2000. The rate of interest on this loan is 9% per annum and is subject to annual reviews.

13 Creditors: Amounts falling due within one year

	1998 £	1997 £
Obligations under finance leases and hire purchase contracts	11,738	10,886
Bank overdraft	339,919	425,599
Trade creditors	1,363,156	1,591,844
Amounts owed to group undertakings	614,859	540,897
Other tax and social security	91,829	101,036
VAT	210,708	206,370
Accruals and deferred income	243,162	312,000
	2,875,371	3,188,632

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

Notes to accounts (continued)

14 Creditors: Amounts falling due after more than one year

	1998 £	1997 £
Obligations under finance leases	-	11,838

Total obligations under finance leases are analysed as follows:

	1998 £	1997 £
Amounts payable:		
- within one year	12,392	12,392
- within two to five years	-	12,392
	12,392	24,784
Finance charges allocated to future periods	(654)	(2,060)
	11,738	22,724

15 Provisions for liabilities and charges

	Deferred taxation	
	1998 £	1997 £
Accelerated capital allowances	-	42,275
Other timing differences	-	5,052
	-	47,327

Notes to accounts (continued)

15 Provisions for liabilities and charges (continued)

The movement on deferred taxation comprises:

	1998 £	1997 £
Beginning of year	47,327	124,871
Credited to profit and loss account in respect of:		
- capital allowances	(42,275)	-
- capital gains rolled over	-	(75,900)
- other timing differences	(5,052)	(1,644)
End of year	-	47,327

No deferred taxation 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 taxation in respect of the revaluation reserve is £114,000 (1997 - £150,000). There is no other unprovided deferred taxation liability at either year end.

16 Called-up share capital

	1998 £	1997 £
Authorised		
10,000 ordinary shares of £1 each	10,000	10,000
1,000 redeemable preference shares of £1 each	1,000	1,000
Allotted, called-up and fully-paid		
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.

Notes to accounts (continued)

17 Reserves

	Revaluation reserve £	Profit and loss account £	Total £
Beginning of year	455,454	4,088,822	4,544,276
Amortisation of revaluation surplus	(76,129)	76,129	-
Retained profit for the year	-	62,608	62,608
End of year	379,325	4,227,559	4,606,884

The revaluation reserve is non-distributable.

18 Reconciliation of movement in shareholders' funds

	1998 £	1997 £
Retained profit for the year	62,608	281,196
Net addition to shareholders' funds	62,608	281,196
Opening shareholders' funds	4,554,280	4,273,084
Closing shareholders' funds	4,616,888	4,554,280

19 Guarantees and other financial commitments

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

	1998			1997		
	Land and Buildings	Motor vehicles	Other	Land and buildings	Motor Vehicles	Other
Operating leases which expire:						
- Within one year	-	49,877	-	-	47,218	3,155
- Within two to five years	-	237,777	132,071	-	242,085	114,831
- After five years	305,000	-	-	305,000	-	-
	305,000	287,654	132,071	305,000	289,303	117,986

Notes to accounts (continued)

20 Transactions involving directors

Rentals on a property amounting to £40,000 (1997 - £40,000) were paid to Mr I W Hicks during the year.

21 Contingent liabilities

a) The company has given a guarantee of up to IR £36,000 (1997 - IR £36,000) in respect of a bank overdraft of another group company. The balance on that company's overdraft at 30 June 1998 was IR £32,468 (1997 -IR £18,108).

b) At 30 June 1998 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 (1997 - £20,000).

22 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 £18,170 (1997 - £26,529). Contributions to the defined benefit scheme amounted to £90,593 (1997 - £76,732).

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 1996 and used the defined accrued benefits method. The main actuarial assumptions were that salaries would increase by 7.0% per annum; pensions in payment would increase by 3.0% per annum; and the return on scheme investments would be 9.0% per annum.

At the date of the last actuarial valuation, the market value of the assets of the scheme was £1,324,305 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.

23 Ultimate parent undertaking and controlling party

Chemicks Pty Limited, a company incorporated in Australia, is regarded by the directors as being the ultimate parent undertaking and controlling party. The largest group into which the results of Applied Chemicals Limited are consolidated is that headed by Applied Chemicals International Pty Limited, a company incorporated in Australia. The smallest group into which the results of Applied Chemicals Limited are consolidated is that headed by Lorikeet Limited, the immediate parent undertaking, a company registered in England and Wales. The accounts are available to the public.

24 Related party transactions

Transactions involving directors are disclosed in note 20 to the accounts.