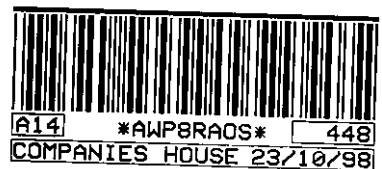


Microfine Minerals Limited

Directors' report and financial statements

31 December 1997

Registered number 1151578



Directors' report and financial statements

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Directors and advisors

Directors	HH Schramm (Chairman)
	RA Kenworthy (Managing)
	CC Briggs
	RJ Bush
	G Dorricott
	CV Phillips

Secretary	G Dorricott
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Registered office	Mica Works
	Raynesway
	Derby
	DE21 7BE

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The principal activities of the company are the manufacturing and marketing a range of specialist fillers, principally minerals.

Results and dividends

Results and dividends for the year are set out in the profit and loss account on page 5.

Research and development

Research and development is undertaken in order to develop new products and improve existing products.

Directors and directors' interests

The directors who held office during the year, none of whom had any interest in the share capital of the company, were as follows:

HH Schramm
RA Kenworthy
CC Briggs
RJ Bush
G Dorricott
CV Phillips

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


G Dorricott
Secretary

Mica Works
Raynesway
Derby
DE21 7BE

2 February 1998

Statement of directors' responsibilities

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 of the company and of the profit or loss for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



5 Stuart Street
Derby
DE1 2EQ

Report of the auditors to the members of Microfine Minerals Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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 the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

3 February 1998

Profit and loss account
for the year ended 31 December 1997

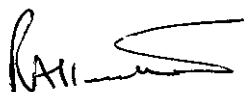
	Note	1997 £	1996 £
Turnover			
Cost of sales	2	13,689,177 (9,081,123)	13,156,378 (8,520,251)
Gross profit			
Distribution costs		4,608,054	4,636,127
Administrative expenses		(1,066,727) (1,493,946)	(1,155,671) (1,608,837)
Operating profit			
Income from other fixed asset investments		2,047,381	1,871,619
Other interest receivable and similar income		29,636	24,556
Amounts written off investments	5	35,369	50,182
Interest payable and similar charges	9	(175,128) (29,830)	(90,595) (4,052)
Profit on ordinary activities before taxation			
Tax on profit on ordinary activities	6 7	1,907,428 (664,723)	1,851,710 (654,504)
Profit on ordinary activities after taxation			
Ordinary dividend paid		1,242,705 (1,197,206)	1,197,206 (931,787)
Retained profit for the financial year		45,499	265,419
Retained profit brought forward		2,291,279	2,025,860
Retained profit carried forward		2,336,778	2,291,279

The company has no recognised gains or losses other than those reflected in the profit and loss account.
All results have been derived from continuing activities.

Balance sheet
at 31 December 1997

	Note	£	1997 £	£	1996 £
Fixed assets					
Tangible assets	8		3,082,786		2,914,713
Investments	9		1,369,543		298,271
Current assets			4,452,329		3,212,984
Stocks	10	2,830,819		2,456,539	
Debtors	11	2,545,840		3,065,262	
Cash at bank and in hand		160,646		4,106	
		5,537,305		5,525,907	
Creditors: amounts falling due within one year	12	(3,872,701)		(2,662,102)	
Net current assets			1,664,604		2,863,805
Total assets less current liabilities			6,116,933		6,076,789
Creditors: amounts falling due after more than one year	13		(3,168,172)		(3,168,172)
Provisions for liabilities and charges	14		(97,917)		(103,272)
Net assets			2,850,844		2,805,345
Capital and reserves					
Called up share capital	15		10,505		10,505
Revaluation reserve			43,497		43,497
Capital reserve			460,064		460,064
Profit and loss account			2,336,778		2,291,279
Shareholders' funds					
Equity			2,840,844		2,795,345
Non-equity preference shares			10,000		10,000
	19		2,850,844		2,805,345

These financial statements were approved by the board of directors on 2 February 1998 and were signed on its behalf by:



RA Kenworthy
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies are used consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost accounting rules, modified to include the revaluation of certain land and buildings.

The company has not produced consolidated accounts as it is exempt from the requirement on the grounds that it is a wholly owned subsidiary undertaking. Details of the parent undertaking producing consolidated accounts is given in note 20.

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years
Plant and equipment	-	4 - 10 years
Motor vehicles	-	4 - 7 years
Investments	-	investments in subsidiary undertakings are stated at historic cost less provisions made

No depreciation is provided on freehold land.

Stocks

Stocks are stated at the lower of cost and net realisable value. Raw materials cost is stated at the average purchase price, while finished goods cost represents the cost of raw materials and direct labour with an addition for production overheads. Net realisable value is the estimated selling price after allowing for the cost of realisation.

Deferred taxation

Deferred taxation is provided where it is considered probable that a liability will become payable in the foreseeable future. Provision is made at the anticipated rate of corporation tax at the time of payment.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Leases

Operating lease rentals are charged directly to the profit and loss account on a straight line basis over the life of the lease.

Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred.

Pensions

Contributions to the scheme are charged to the profit and loss account in the year in which they become payable.

Turnover

Turnover represents the amounts derived from the provision of goods (excluding value added tax, but including transportation costs) to customers during the year.

2 Analysis of turnover

The turnover and operating profit are wholly attributable to the company's main activity.

The turnover arises in the following geographical areas:

	1997 £	1996 £
United Kingdom	7,695,414	7,184,405
Rest of Europe	3,866,435	3,838,966
Other	2,127,328	2,133,007
	<hr/>	<hr/>
	13,689,177	13,156,378
	<hr/>	<hr/>

Notes (continued)

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1997	1996
Management and administration	12	12
Production	58	60
Development and quality assurance	6	5
Selling and distribution	12	15
	<hr/>	<hr/>
	88	92
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1997 £	1996 £
Wages and salaries	1,902,707	1,947,511
Social security costs	162,674	168,648
Other pension costs	190,208	130,104
	<hr/>	<hr/>
	2,255,589	2,246,263
	<hr/>	<hr/>

4 Directors' emoluments

	1997 £	1996 £
Directors' emoluments	319,794	322,093
Pension contributions	83,070	36,450
	<hr/>	<hr/>
	402,864	358,543
	<hr/>	<hr/>

The emoluments of the highest paid director were £107,154 (1996: £92,757) including pensions contributions of £30,379 (1996: £8,867). He is a member of a defined benefit scheme under which his accrued pension at the year end was £16,973, and his accrued lump sum at the year end was £nil.

Retirement benefits are accruing to the following number of directors under:

	Number of directors 1997
Money purchase schemes	4
Defined benefit schemes	5
	<hr/>

Notes (continued)

5 Other interest receivable and similar income

	1997 £	1996 £
Bank interest	7,186	7,265
Other interest	608	36,056
Group interest	27,575	6,861
	<u>35,369</u>	<u>50,182</u>

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	1997 £	1996 £
Amounts written off investments	175,128	-
Depreciation	433,671	430,727
Profit on sale of fixed assets	(18,708)	(1,946)
Hire of plant and machinery - rentals payable under operating leases	45,919	44,198
Other operating leases	22,408	22,408
Auditors' remuneration	15,450	14,900
Remuneration of auditors for other services	4,750	5,975
	<u>665,000</u>	<u>(700,000)</u>

7 Taxation

	1997 £	1996 £
UK corporation tax at 31% (1996: 33%)	(665,000)	(700,000)
Deferred taxation	5,355	35,378
	<u>(659,645)</u>	<u>(664,622)</u>
Overseas taxation - relieved and unrelieved	(10,372)	(8,595)
Overprovision in prior year	5,294	18,713
	<u>(664,723)</u>	<u>(654,504)</u>

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings £	Plant and equipment £	Vehicles £	Total £
<i>Cost or valuation</i>				
At beginning of year	1,841,708	3,644,888	329,656	5,816,252
Disposals	-	(9,910)	(141,823)	(151,733)
Additions	-	474,812	135,995	610,807
At end of year	1,841,708	4,109,790	323,828	6,275,326
<i>Depreciation</i>				
At beginning of year	393,558	2,300,767	207,214	2,901,539
Charge for year	41,556	322,588	69,527	433,671
On disposals	-	(8,103)	(134,567)	(142,670)
At end of year	435,114	2,615,252	142,174	3,192,540
<i>Net book value</i>				
At 31 December 1997	1,406,594	1,494,538	181,654	3,082,786
At 31 December 1996	1,448,150	1,344,121	122,442	2,914,713

The gross book value of land and buildings includes £25,000 (1996: £25,000) of non depreciable land.

Particulars relating to revalued land and buildings are given below:

	1997 £	1996 £
At 1978 open market value	101,000	101,000
Aggregate depreciation thereon	(42,339)	(40,319)
Net book value	58,661	60,681
	1997 £	1996 £
Historical cost of revalued assets	24,000	24,000
Aggregate depreciation based on historic cost	(10,061)	(9,581)
Historical cost net book value	13,939	14,419

Notes (continued)

9 Investments

	1997 £
Cost	
At beginning of year	675,126
Addition in year	1,246,400
	<hr/>
At end of year	1,921,526
	<hr/>
Provisions	
At beginning of year	376,855
Provided in year	175,128
	<hr/>
At end of year	551,983
	<hr/>
Net book value	
At 31 December 1997	1,369,543
	<hr/>
At 31 December 1996	298,271
	<hr/>

During the year the company purchased an additional 49% of the shares in Microfine Hellas AME (formerly Microfine Pavlides SA) a company incorporated in Greece bringing the holding up to 99%.

10 Stocks

	1997 £	1996 £
Raw materials and consumables	1,993,264	1,714,592
Finished goods and goods for resale	837,555	741,947
	<hr/>	<hr/>
	2,830,819	2,456,539
	<hr/>	<hr/>

11 Debtors

	1997 £	1996 £
Trade debtors	2,111,844	2,169,630
Amounts owed by parent and fellow subsidiary undertakings	345,609	752,284
Other debtors	-	23,371
Prepayments and accrued income	88,387	119,977
	<hr/>	<hr/>
	2,545,840	3,065,262
	<hr/>	<hr/>

Notes (continued)

12 Creditors: amounts falling due within one year

	1997 £	1996 £
Trade creditors	1,087,352	707,487
Amounts owed to parent and fellow subsidiary undertakings	737,380	379,984
Corporation tax	491,735	402,084
Other taxes and social security	84,297	122,936
Accruals and deferred income	1,471,937	1,049,611
	<u>3,872,701</u>	<u>2,662,102</u>

13 Creditors: amounts falling due after more than one year

	1997 £	1996 £
Amounts owed to parent undertaking	3,168,172	3,168,172
	<u>3,168,172</u>	<u>3,168,172</u>

The loan is interest free and is repayable after more than five years.

14 Provisions for liabilities and charges

Deferred taxation

	£
At beginning of year	103,272
Transfer from profit and loss account	(5,355)
	<u>97,917</u>
At end of year	<u>97,917</u>

Notes (continued)

Provisions for liabilities and charges (continued)

The amounts provided and the maximum potential liability at 31 December 1997 are set out below:

	Provided	1997 Maximum potential liability	Provided	1996 Maximum potential liability
	1997	1997	1996	1996
	£	£	£	£
Accelerated capital allowances	148,052	148,052	154,465	154,465
Other timing differences	(50,135)	(50,135)	(51,193)	(51,193)
Capital gain on disposal of properties at net book value	-	8,000	-	8,000
	<u>97,917</u>	<u>105,917</u>	<u>103,272</u>	<u>111,272</u>

15 Called up share capital

	1997 £	1996 £
<i>Authorised</i>		
200,000 ordinary shares of 5 pence each	10,000	10,000
10,000 5% preference shares of £1 each	10,000	10,000
	<u>20,000</u>	<u>20,000</u>
<i>Allotted, called up and fully paid</i>		
10,100 ordinary shares of 5 pence each	505	505
10,000 5% preference shares of £1 each	10,000	10,000
	<u>10,505</u>	<u>10,505</u>

The company has 10,000 5% non-redeemable preference shares of £1 each. The holder of these shares has waived all dividend rights. Preference shareholders have no voting rights and have no rights in the event of the company winding up.

Given the above rights the preference shares are classified as non-equity and ordinary shares as equity shares.

Notes (continued)

16 Contingent liabilities

The company has the following unsecured contingencies which are not provided for in these accounts:

	1997 £	1996 £
Bank and Trade Guarantees	112,911	112,911
Documentary credits	111,779	-
	<u> </u>	<u> </u>

17 Commitments

Capital commitments at the end of the year for which no provision has been made:

	1997 £	1996 £
Contracted for	88,685	170,748
	<u> </u>	<u> </u>

Annual commitments under non-cancellable operating leases 1997 are as follows:

	1997		1996	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	-	876	22,408	276
In two to five years	-	35,659	-	12,570
Over 5 years	-	399	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

18 Pension scheme

Fergusson Wild & Co Limited, of which Microfine Minerals Limited is a subsidiary undertaking, operates a contributory defined benefit pension scheme covering the majority of permanent employees. The scheme fund is administered by trustees and is independent of Fergusson Wild & Co Limited's finances. The scheme is fully funded and contributions are paid to the scheme in accordance with the recommendation of independent actuaries whose latest actuarial valuation was carried out on 6 April 1997. Full details of the last actuarial valuation of the pension scheme are disclosed in the accounts of Fergusson Wild & Co Limited.

The pension charge for the year was £149,783 (1996: £130,104). Outstanding contributions amounting to £10,607 (1996: £35,008) payable to the fund are included in creditors.

19 Reconciliation of movements in shareholders' funds

	1997 £	1996 £
Opening shareholders' funds	2,805,345	2,539,926
Profit for the financial year	1,242,705	1,197,206
Dividends	(1,197,206)	(931,787)
 Closing shareholders' funds	 <u>2,850,844</u>	 <u>2,805,345</u>

20 Parent undertakings

The company's ultimate parent undertaking is VEBA AG, a company incorporated in Germany.

The largest group in which the results of the company are consolidated is that headed by VEBA AG. These consolidated accounts may be obtained from VEBA AG, Benningsenplatz 1, 40474 Düsseldorf, Germany.

The smallest group in which the results of the company are consolidated is that headed by Stinnes AG incorporated in Germany. These consolidated accounts may be obtained from Stinnes AG, Humboldttring 15, 45472 Mülheim an der Ruhr, Germany.