

WBB DEVON CLAYS LIMITED
REPORT OF THE DIRECTORS

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The Directors present their report together with the Financial Statements for the year ended 31st December 1998

Principal Activities

The principal activity of the company is the extraction, processing and marketing of Ball and China Clays.

Review of Operations

The Profit for the year after taxation and Management Charges amounted to £4.84 million.

The dividend paid amounted to £2.50 million and £2.34 million have been transferred to reserves.

The policy of replacement of Plant & Machinery continued.

Directors

The changes in the Directors and those Directors presently in office are listed below, all served on the board throughout the year unless otherwise indicated.

J.G.Addy
H.B.Evans
K.Foley (Appointed 1st January 1999)
D.L.A.Holyoak (Resigned 31st December 1998)
M.C.James
Dr G.B.Lawson
A.B.Luscombe (Appointed 1st January 1999)
J.D.Pike (Retired 31st January 1998)
R.Shuttleworth
M.J.Stentiford
Dr J.M.Woodfine (Re-appointed 31st January 1998)

The directors have no beneficial interest in the shares of this company.

The directors' interests in shares of the parent company are as stated in Note 16 to the financial statements.

Year 2000 Compliance

Many computer systems which express dates using only the last two digits of the year may malfunction due to the date change to the Year 2000. This risk to the business relates not only to the company's computer systems, but also to some degree on those of the company's customers and suppliers.

The company has reviewed its computer systems for the impact of the Year 2000 date change. An impact analysis has been prepared to identify the major risks, and action plans have been developed to address these in advance of critical dates. The plans give priority to the systems which could have a significant financial or legal impact if they were to fail.

Accounting and management information systems are the main ones to be affected recognising, also, that a proportion of operating plant is controlled by micro-processors. Relative to many other industries, however, both data processing and plant control within the company is not highly date-sensitive, enabling a closer focus on the key areas affected.

The company's accounting systems are run on software which is being upgraded, where necessary, to full Y2K compliance. This task will be completed by August 1999.

In the case of micro-processor plant controllers, plant manufacturers have been contacted and a phased replacement of the embedded chips is underway and will be completed by August 1999.

The company has requested from major customers, suppliers and other trading partners confirmation that their relevant systems are Year 2000 compliant.

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. However, the Board believes that its plans and the resources allocated are appropriate and adequate to address the issue.

External costs to address the issue are not expected to be significant. The amounts have already been committed and are disclosed within the Parent Company Accounts.

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 of the company and of the profit or loss of the company 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with S385 of the Companies Act 1985.

By order of the Board

W.J.C.Watts Company Secretary
31st March 1999



ACCOUNTING POLICIES - year ended 31st December 1998

The Financial Statements have been prepared on an historical cost basis and in accordance with applicable Accounting Standards

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

Depreciation**1 - Plant, Machinery, Fixtures Fittings & Vehicles**

The cost of these assets is depreciated on a straight-line basis over varying periods between 3 and 15 years, or up to 30 years in the case of certain structures.

2 - Projects in Progress

Projects in progress are not depreciated before being brought into operation.

Research and Development

Laboratory equipment used for research and development is included as fixed assets and written off in accordance with the Company's depreciation policy. Other research expenditure is written off in the year in which it is incurred.

In accordance with SSAP 13, development expenditure is either written off in the period incurred or capitalised.

Stocks

Stocks are stated at the lower of cost or estimated net realisable value.

In accordance with SSAP 9 costs include direct costs, and production overheads inclusive of mineral depletion and production depreciation.

Net realisable value is the actual or estimated selling price (net of trade but before settlement discounts) less:

- a) all further cost to completion, and
- b) all costs to be incurred in marketing, selling and distribution.

Employment Costs

All employees of the WBB Group working on WBB Devon Clays Limited activities, are under contracts of employment to the parent company. Information concerning their employment is disclosed within the annual report of Watts Blake Bearne & Company Plc.

Deferred Taxation

Deferred tax is provided for under the liability method using the tax rates estimated to arrive when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

AUDITORS REPORT

REPORT OF THE AUDITORS TO THE MEMBERS OF WBB DEVON CLAYS LIMITED

We have audited the financial statements on pages 2 and 4 to 10 which have been prepared under the accounting policies set out on page 2.

Respective Responsibilities of Directors and Auditors

As described on page 1 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 an 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 at 31st December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Plymouth
31st March 1999

Profit and Loss Account for the Year Ended 31st December 1998

		1998	1997
	Note	£'000	£'000
Turnover	1	<u>45,076</u>	<u>46,901</u>
Operating profit	2	7,133	7,076
Interest		-	-
Profit on ordinary activities before taxation		<u>7,133</u>	<u>7,076</u>
Exceptional Item	3	(768)	0
Tax on profit on ordinary activities	4	<u>(1,527)</u>	<u>(2,088)</u>
Profit on ordinary activities after taxation		4,838	4,988
Dividends	5	(2,500)	(2,500)
Transfer to reserves	12	<u>2,338</u>	<u>2,488</u>

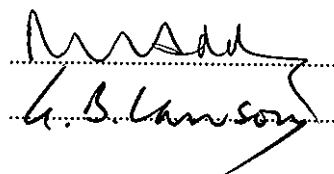
There were no recognised gains or losses other than the profit for the financial year.

The accounting policies and notes on pages 2 and 6 to 10 form part of these financial statements.

Balance Sheet at 31st December 1998

		1998	1997
	Note	£'000	£'000
Fixed Assets			
Tangible Assets	6	15,755	15,988
Current Assets			
Stocks	7	3,665	3,410
Debtors	8	11,188	11,179
Cash at Bank & in Hand		2	2
		14,855	14,591
Creditors: amounts falling due within one year	9	(5,079)	(6,420)
Net Current Assets		9,776	8,171
Total Assets less Current Liabilities		25,531	24,159
Creditors: amounts falling due after one year	10	(8,951)	(9,630)
Provisions for Liabilities and charges	11	0	(287)
		16,580	14,242
Capital and Reserves			
Called Up Share Capital	12	0	0
Profit and Loss Account	12	16,580	14,242
Shareholders' Funds		16,580	14,242

The Financial Statements were approved by the board of directors on the 31st March 1999


G. B. Lamson

Directors

The accounting policies and notes on pages 2 and 6 to 10 form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31st December 1998

1. Turnover

Turnover represents the invoiced value of goods and services, excluding VAT and trade discounts, analysed over the following geographical markets:-

		1998		1997
	%	£'000	%	£'000
United Kingdom	22	9,776	21	9,777
Other EEC Countries	51	23,309	45	21,362
Rest of Europe	8	3,492	8	3,687
Rest of the World	19	8,499	26	12,075
		<u>45,076</u>		<u>46,901</u>

2. Operating Profit

Operating profit on ordinary activities is stated after:

	1998	1997
	£'000	£'000
Changes in stocks	(371)	(466)
Own work capitalised	(435)	(434)
Raw materials & consumables	5,543	6,417
Other external charges:		
Distribution costs	11,770	12,992
Energy Costs	2,040	1,958
Others	3,458	3,152
Employment costs	10,494	9,621
Depreciation	2,662	2,653
Auditors remuneration	26	26
Other operating income	(446)	(404)
Management charge - from holding company	2,653	4,506
Management charge - from other group companies	606	0
Profit on disposal of fixed assets	(75)	(245)
Government grants credited	(7)	(7)
Loss on currency	25	56
	<u>37,943</u>	<u>39,825</u>

3. Exceptional Costs

Exceptional costs refer to the first design, now withdrawn, for a proposed quarry extension with associated river diversion.

4. Tax on Profit on Ordinary Activities

	1998	1997
	£'000	£'000
U.K. Corporation Tax payable at 31% on taxable profits for the year (1997 31.5%)	1,570	2,222
Overprovision in prior years	(43)	(134)
	<u>1,527</u>	<u>2,088</u>

The tax charge has not been increased as a result of timing differences on which deferred tax has not been provided (Note 13).

5. Dividends Paid

	1998	1997
	£'000	£'000
Ordinary Dividend of £1,250,000 per share (1997 : £1,250,000) paid 31st December 1998	2,500	2,500

Notes to the Financial Statements for the Year Ended 31st December 1998 (continued)

6. Tangible Fixed Assets

	Total £'000	Plant and Machinery £'000	Furniture and Equipment £'000	Projects in Progress £'000
Cost				
At 1st January 1998	38,982	36,733	1,070	1,179
Additions	2,467	1,232	166	1,069
Disposals	(920)	(890)	(30)	0
Net transfers to/from group undertakings	0	752	8	(760)
At 31st December 1998	40,529	37,827	1,214	1,488
Depreciation				
At 1st January 1998	22,994	22,188	806	-
Provided in the year	2,663	2,511	152	-
Disposals	(893)	(863)	(30)	-
Net transfers to/from group undertakings	10	6	4	-
At 31st December 1998	24,774	23,842	932	-
Net Book Value at 31st December 1998	15,755	13,985	282	1,488
Net Book Value at 31st December 1997	15,988	14,545	264	1,179

7. Stocks

	1998 £'000	1997 £'000
Bought-in goods and consumables	1,131	1,180
Own Production	2,534	2,230
	3,665	3,410

8. Debtors

	1998 £'000	1997 £'000
Trade Debtors	9,672	9,427
Amounts owed by fellow subsidiary undertakings	323	275
Amounts owed by associated undertakings	50	28
Other Debtors	804	872
Prepayments	339	577
	11,188	11,179

9. Creditors : Amounts falling due in less than one year

	1998 £'000	1997 £'000
Trade Creditors	2,605	3,169
Amounts owed to fellow subsidiary undertakings	51	80
Corporation Tax	1,965	2,670
Accruals	439	476
Other Creditors	19	25
	5,079	6,420

Notes to the Financial Statements for the Year Ended 31st December 1998 (continued)

10. Creditors : Amounts falling due after more than one year

	<u>1998</u> £'000	<u>1997</u> £'000
Amounts owed to group undertakings	8,951	9,622
Other Creditors	0	8
	<u>8,951</u>	<u>9,630</u>

11. Provisions for Liabilities and Charges

	<u>1998</u> £'000	<u>1997</u> £'000
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Writedown in value of fixed assets

As at 1st January 1998	0	
Transferred (to) / from Profit & Loss	0	
As at 31st December 1998	<u> </u>	0

Overburden removal

As at 1st January 1998	0	
Transferred from/(to) Profit & Loss	0	
As at 31st December 1998	<u> </u>	0

Other provisions in respect of deferred revenue expenditure

As at 1st January 1998	287	
Transferred to Profit & Loss	(282)	
Transfer	(5)	
As at 31st December 1998	<u> </u>	0

Total provisions as at 31st December 1998

0

Total provisions as at 31st December 1997

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Notes to the Financial Statements for the Year Ended 31st December 1998 (continued)

12. Shareholders' Funds

	1998 £'000	1997 £'000
Profit and Loss Account		
As at 1st January 1998	14,242	11,754
Retained profit for the year	2,338	2,488
As at 31st December 1998	<u>16,580</u>	<u>14,242</u>

Authorised, allotted, called up and fully paid Share Capital consists of 2 Ordinary Shares of £1 each.

13. Deferred Taxation

There is no provision for deferred taxation. The total potential liability, which represents a contingent liability at the balance sheet date, is set out below :-

	1998 £'000	1997 £'000
Accelerated Capital Allowances at 30% (1997 : 31%)	2,318	2,424
Other timing differences at 30% (1997 : 31%)	88	(14)
	<u>2,406</u>	<u>2,410</u>

14. Contingent Liabilities

The contingent liabilities as at 31st December 1998 are :-

Deferred Tax (Note 13.)

The Company has given an unlimited guarantee in favour of some of the bank indebtedness of its Parent Company. The amount of this indebtedness at 31st December 1998 is £35.395m (1997 : £26.417m).

15. Capital Commitments

As at 31st December the company's capital expenditure commitments were :

	1998 £'000	1997 £'000
Authorised by the Directors but not contracted for	316	1,093
Contracted for but not provided in these financial statements	497	24
	<u>813</u>	<u>1,117</u>

Notes to the Financial Statements for the Year Ended 31st December 1998 (continued)

16. Directors Interests

The directors have no beneficial interest in the shares of this company. The directors' interests in shares of the parent company are as follows:

	Under Option		Fully Paid	
	31 Dec	1 Jan	31 Dec	1 Jan
J.G.Addy	10,632	10,632	165	0
H B Evans	16,127	16,360	8,300	8,300
D.L.A.Holyoak (Ceased 31st Dec 1998)	15,158	12,341	314	314
M C James	0	0	494	494
M J Stentiford	10,623	11,047	5,182	4,996
Dr J.M.Woodfine (Re-app 31st Jan 1998)	9,000	0	305	0

The interests of Messrs. J.D.Pike, R Shuttleworth and G.B.Lawson in the shares of the parent company are as shown in that company's accounts

17. Controlling Related Party and Related Party Transactions

The parent undertaking of this company is Watts Blake Bearne & Company Plc, registered in England & Wales, which is also the company's controlling related party.

The Annual Report and Accounts can be obtained from the Company Secretary, Park House, Courtenay Park, Newton Abbot, Devon, TQ12 4PS.

The company's ultimate parent undertaking and ultimate controlling related party is S.C.R. Sibelco SA. registered in Belgium.

The company has taken advantage of the exemption permitted by FRS 8, not to disclose transactions with related parties, as it is a wholly owned subsidiary included within the consolidated financial statements of Watts Blake Bearne & Company Plc.

Balances with related parties are disclosed in notes 8,9 and 10 to these financial statements.