

Cookson Precious Metals Limited

Directors' report and financial statements

31 December 1998

Registered number 2775187



Directors' report and financial statements

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Directors' report

The directors present their report and audited financial statements for the year ended 31 December 1998.

Principal activities and business review

The principal activity of the company is the processing of precious metals. The results for the year are shown in the profit and loss account on page 6.

The company purchased the goodwill, trade and assets of Scottish Assay Office Supplies Limited, which retails jewellery, tools and accessories, on 12 January 1998.

Following the acquisition of the Jewellery Components division of Inverness Corporation by the Cookson Group, the trade and assets of its UK business were transferred to the company with effect from January 1998.

On 30 March 1998 the company acquired the entire issued share capital of Premier Metals Limited for a consideration of £2.5 million. Premier Metals Limited owns The Premier Chain Co Limited, a company engaged in the manufacture of precious metal chain jewellery.

On 30 December 1998, the company acquired the trade, fixed assets and stock of Bernard Förster GmbH, a supplier of jewellery findings.

Proposed dividend

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

Future developments

The directors expect trading to continue at existing levels during 1999. Since the year end, the company has acquired the trade, fixed assets and stock of Andrew Stephens Limited and the entire issued share capital of Micro Jewels Limited.

Donations

Donations in the UK for charitable purposes totalled £1,831 (1997: £2,282). In line with Group policy, no donations were made to UK political parties in the year.

Employee involvement

The board recognises that effective communication with, and the involvement of, employees is essential in order to maintain good employee relations, to achieve improved performance and productivity, and to enhance the quality of working life. Various methods of communications are used including company newspapers, news bulletins and the use of briefing groups, videos and visual presentations.

Employment of disabled persons

The company continues to give full and fair consideration to applications for employment from disabled persons. If an employee becomes disabled the company endeavours to continue his or her employment, if this is practical and in appropriate cases training is given. Depending on their skills and abilities the disabled have the same career prospects and opportunities for promotion as other employees.

Year 2000

Cookson Precious Metals Limited's management is committed to minimising the potential impact to all of its computer and business systems, equipment and products brought about by the Year 2000 date change. The company's Year 2000 programme, which is based on an internationally recognised definition of "Year 2000 Compliance" is aimed at minimising the associated problems. The Board receives regular reports on progress.

At present, the remediation of the business critical systems is progressing satisfactorily and the company expects to become Year 2000 compliant on a timely basis. However, given the complexity of the problem, it is not possible for Cookson Precious Metals Limited, as with any organisation, to guarantee that no Year 2000 problems will remain.

Directors' report *(continued)*

Year 2000 *(continued)*

Contingency plans are being developed to minimise risk of non-compliance caused by disruption from areas where the company does not have direct control, such as with key suppliers. In certain instances, utility supplies are not easily substitutable and contingency planning is difficult. If there were to be an extended significant failure by several third parties or supporting infrastructures resulting from Year 2000 events, there could be material adverse impacts on Cookson Precious Metals Limited's operations.

Excluding the cost of internal labour, the total costs to be incurred in order to minimise the impact of the Year 2000 date change on all critical technology systems and equipment throughout the company are not expected to be significant on the basis of current information.

Creditor payment policy

The company does not adopt any specific code or standard, however, it is the company's policy to pay its suppliers in accordance with the terms and conditions agreed prior to the commencement of trading provided that the supplier has met its contractual obligations.

The number of days purchases outstanding at 31 December 1998 was 50.

Directors and directors' interests

The directors who served during the year were:

JW Conley
RV Powers
RDP Knight
SL Howard
SC Dorsett

There is no officially appointed chairman of the company.

The beneficial interests of the directors and their families in ordinary shares of 50p each of Cookson Group plc were as shown below:

	At 31 December 1998		At 1 January 1998 or later date of appointment		Share option movements in year	
	Ordinary shares	Share options	Ordinary shares	Share options	Granted	Lapsed
JW Conley	3,284	901,033	3,284	925,752	-	24,719
RV Powers	2,998	424,034	3,284	298,410	125,624	-
RDP Knight	-	32,901	-	20,691	12,210	-
SL Howard	62,916	2,329,901	31,582	1,765,677	564,224	-
SC Dorsett	-	55,077	-	21,643	33,434	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

No director had any beneficial interest in the loan capital of Cookson Group plc, or the share or loan capital of any subsidiary undertaking of Cookson Group plc.

Directors' report *(continued)*

Auditors

A resolution will be proposed at the forthcoming annual general meeting to re-appoint KPMG Audit Plc for the forthcoming year.

By order of the board

A handwritten signature in black ink, appearing to be 'SJ Bate', written over a horizontal line.

SJ Bate
Secretary

59-83 Vittoria Street
Birmingham
B1 3NZ

9 September 1999

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 year. 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.



KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL

Report of the auditors to the members of Cookson Precious Metals Limited

We have audited the financial statements on pages 6 to 15.

Respective responsibilities of directors and auditor

As described on page 4, 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

9 September 1999

Profit and loss account

for the year ended 31 December 1998

	Note	Acquisitions	Continuing operations	Total	Continuing operations
		1998	1998	1998	1997
		£'000	£'000	£'000	£'000
Turnover	2	1,486	51,444	52,930	60,596
Cost of sales		(815)	(40,248)	(41,063)	(48,793)
Gross profit		671	11,196	11,867	11,803
Distribution costs		(539)	(3,955)	(4,494)	(3,984)
Administrative expenses		(133)	(2,259)	(2,392)	(2,421)
Operating profit		(1)	4,982	4,981	5,398
Interest payable and similar charges	3			(2,830)	(4,029)
Profit on ordinary activities before taxation	4			2,151	1,369
Tax on profit on ordinary activities	7			(804)	(275)
Profit on ordinary activities after taxation and retained profit for the financial year				1,347	1,094
Retained deficit brought forward				(4,152)	(5,153)
Goodwill written off directly to reserves				-	(93)
Retained deficit carried forward				(2,805)	(4,152)

There were no recognised gains or losses in either the current year or the preceding year other than those disclosed in the profit and loss account. The reconciliation of the movement in shareholders' funds is set out in note 18.

There is no difference between the results as presented above and the results on an unmodified historical cost basis.

Balance sheet
at 31 December 1998

	Note	1998 £'000	1997 £000
Fixed assets			
Intangible assets	8	123	-
Tangible assets	9	7,223	5,688
Investments	10	2,580	-
		<hr/>	<hr/>
		9,926	5,688
Current assets			
Stocks	11	5,118	6,053
Debtors	12	11,098	12,446
Cash at bank and in hand		15,512	12,580
		<hr/>	<hr/>
		31,728	31,079
Creditors: amounts falling due within one year	13	(9,865)	(8,797)
		<hr/>	<hr/>
Net current assets		21,863	22,282
		<hr/>	<hr/>
Total assets less current liabilities		31,789	27,970
Creditors: amounts falling due after more than one year	14	(28,554)	(26,074)
Provisions for liabilities and charges	15	(40)	(48)
		<hr/>	<hr/>
Net assets		3,195	1,848
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	17	6,000	6,000
Profit and loss account		(2,805)	(4,152)
		<hr/>	<hr/>
Equity shareholders' funds	18	3,195	1,848
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 9 September 1999 and were signed on its behalf by:



SC Dorsett
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied 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 using the historical cost convention and in accordance with applicable Accounting Standards.

The company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as 100% of the voting rights of the company's shares are controlled by Cookson Group plc. The consolidated financial statements of Cookson Group plc, which include the company, are publicly available.

Group accounts

The company is exempt by virtue of S228(1) of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Turnover

Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to external customers.

Goodwill

Purchased goodwill is capitalised and amortised over 20 years, representing the period over which it is estimated that the company will derive economic benefit from the goodwill acquired.

Tangible fixed assets

Depreciation is provided on a straight line basis to write off the cost, less estimated residual value, of tangible fixed assets at the following annual rates:

Freehold and long leasehold buildings	-	2%
Plant and machinery	-	7%
Fixtures and fittings	-	10%
Computer hardware	-	20%

Freehold land is not depreciated.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises expenditure directly incurred in purchasing or manufacturing stocks together with, where appropriate, attributable overheads based on normal activity levels.

Stocks held under consignment arrangements are reviewed regularly in order to assess whether the substance of the arrangements are such that those stocks constitute assets which should be reflected in the balance sheet. Further details of consignment stocks held at the year end are given in note 11.

Leased assets

Operating lease costs are charged to the profit and loss account as they are incurred.

Notes (continued)

1 Accounting policies (continued)

Deferred taxation

Provision is made, on the liability basis, for taxation deferred due to the excess of capital allowances over depreciation and other timing differences, only to the extent that such tax may become payable in the foreseeable future.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

2 Turnover

Turnover analysed by geographic market in which customers are located is:

	1998 £'000	1997 £'000
United Kingdom	48,881	54,035
Continental Europe	3,476	5,716
Rest of the world	573	845
	<u>52,930</u>	<u>60,596</u>

3 Interest payable and similar charges

	1998 £'000	1997 £'000
Interest payable to group undertakings	1,228	2,137
Precious metals leasing interest	1,343	1,626
Interest payable on bank loans and overdrafts	259	266
	<u>2,830</u>	<u>4,029</u>

4 Profit on ordinary activities before taxation

	1998 £'000	1997 £'000
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Profit on ordinary activities before taxation is stated

after charging

Depreciation of tangible fixed assets	515	490
Hire of land and buildings - rentals payable under operating leases	104	95
Hire of other assets - operating leases	162	129
Auditor's remuneration	35	30
Non-audit fees paid to the auditor	3	7
	<u></u>	<u></u>

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company during the year was as follows:

	Number of employees	
	1998	1997
Production	148	131
Administration and selling	201	191
	<u>349</u>	<u>322</u>

The aggregate payroll costs during the year amounted to:

	£'000	£'000
Wages and salaries	6,166	5,348
Social security costs	480	448
Other pension costs	431	421
	<u>7,077</u>	<u>6,217</u>

6 Directors' emoluments

	1998 £'000	1997 £'000
Emoluments for services as directors	138	133
Pension contributions	18	9
	<u>156</u>	<u>142</u>
	Number	
Number of directors who are:		
Members of defined benefit pension schemes	2	2

7 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
UK corporation tax at 31% (1997: 31%)	585	275
Adjustment in respect of previous year:	219	-
	<u>804</u>	<u>275</u>

Notes (continued)

8 Intangible fixed assets

	Goodwill £000
<i>Cost</i>	
Additions (relating to business acquisitions during the year)	129
At end of year	129
<i>Amortisation</i>	
Charged in year	6
At end of year	6
<i>Net book value</i>	
At 31 December 1998	123

9 Tangible fixed assets

	Land and buildings	Plant, machinery and motor vehicles	Total
	£000	£000	£000
<i>Cost</i>			
At beginning of year	2,400	4,734	7,134
Additions	480	1,597	2,077
Disposals	-	(51)	(51)
At end of year	2,880	6,280	9,160
<i>Depreciation</i>			
At beginning of year	155	1,291	1,446
Charge for year	46	469	515
Disposals	-	(24)	(24)
At end of year	201	1,736	1,937
<i>Net book value</i>			
At 31 December 1998	2,679	4,544	7,223
At 31 December 1997	2,245	3,443	5,688

Notes (continued)

9 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	1998 £'000	1997 £'000
Freehold land	116	116
Freehold buildings	763	782
Long leasehold land and buildings	1,800	1,347
	<hr/> 2,679 <hr/>	<hr/> 2,245 <hr/>

10 Fixed asset investments

	Shares in group undertakings £000
<i>Cost</i>	
Acquisition during the year	2,580
	<hr/>
At 31 December 1998	2,580 <hr/>

Investments comprise a 100% holding in the ordinary share capital of Premier Metals Limited which owns 100% of the ordinary share capital of The Premier Chain Co Limited, a company engaged in the manufacture of precious metal pendant chain. Both companies are registered in England and Wales.

11 Stocks

	1998 £'000	1997 £'000
Raw materials and consumables	1,496	3,804
Work in progress	985	851
Finished goods and goods for resale	2,637	1,398
	<hr/> 5,118 <hr/>	<hr/> 6,053 <hr/>

In addition to the stocks recorded in the balance sheet, the company held precious metals on consignment terms with a total value at 31 December 1998 of £49,700,000 (1997: £32,100,000).

The company utilises significant amounts of precious metals, primarily gold, held on consignment terms. The terms provide inter alia that the consignor retains title to the metal and both parties have the right of return over the metal without penalty. In the great majority of cases, when fabrication is complete the consignor sells the metal or consigns the metal directly to the company's customers, the company charging customers solely for the fabrication process. In the other cases the company purchases the metal and sells it concurrently to the customer. Under these arrangements the company is neither liable to buy the metal nor is it at risk in relation to market fluctuations in metal prices. Accordingly the stocks are not recorded in the balance sheet. Consignment fees are charged by the consignors which totalled £1,343,000 in 1998 (1997: £1,626,000).

The company also holds precious metal on behalf of customers for processing, with a total value at 31 December 1998 of £1,800,000 (1997: £1,900,000).

Notes (continued)

12 Debtors

	1998	1997
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	8,279	9,820
Amounts owed by group undertakings	1,701	2,186
Other debtors	33	29
Prepayments and accrued income	1,085	411
	<u>11,098</u>	<u>12,446</u>

13 Creditors: amounts falling due within one year

	1998	1997
	£'000	£'000
Payments received on account	153	275
Trade creditors	5,389	4,363
Amounts owed to group undertakings	358	1,500
Corporation tax	1,079	278
Other taxation and social security	1,349	1,393
Other creditors	250	-
Accruals and deferred income	1,287	988
	<u>9,865</u>	<u>8,797</u>

14 Creditors: amounts falling due after more than one year

	1998	1997
	£'000	£'000
Amounts owed to group undertakings	28,554	25,824
Other creditors	-	250
	<u>28,554</u>	<u>26,074</u>

The amounts owed to group undertakings were unsecured, incurred interest at a variable rate and had no fixed repayment terms.

Other creditors included deferred consideration of £250,000 in relation to the acquisition of the assets, liabilities and business undertakings formally carried on by Exchange Findings Limited. £150,000 of the deferred consideration is held in an Escrow account and included in cash at bank and in hand.

Notes (continued)

15 Provisions for liabilities and charges

	Other provisions £000
At 1 January 1998	48
Expenditure during year	(8)
	<hr/>
At 31 December 1998	40
	<hr/> <hr/>

16 Deferred tax

No amounts have been provided for deferred tax, as the liability is not expected to crystallise in the near future. The unprovided amounts for deferred tax are:

	1998 £'000	1997 £'000
Excess of capital allowances over depreciation	299	48
Other timing differences	(53)	(53)
	<hr/>	<hr/>
	246	434
	<hr/> <hr/>	<hr/> <hr/>

17 Called up share capital

	1998 £'000	1997 £'000
<i>Authorised:</i>		
7,000,000 ordinary shares of £1 each	7,000	7,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
6,000,002 ordinary shares of £1 each	6,000	6,000
	<hr/> <hr/>	<hr/> <hr/>

8 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the year	1,347	1,094
Goodwill written off directly to reserves	-	(93)
	<hr/>	<hr/>
Movement in shareholders' funds	1,347	1,001
Shareholders' funds at beginning of year	1,848	847
	<hr/>	<hr/>
Shareholders' funds at end of year	3,195	1,848
	<hr/> <hr/>	<hr/> <hr/>