

ENGELHARD LIMITED

Report of the directors for the year ended 31 December 1996

The directors present their report and the group financial statements of Engelhard Limited for the year ended 31 December 1996.

Principal activities

The group's principal activities are the refining of precious metals, the manufacture and marketing of precious and other metal products and precious and base metal commodity trading.

Review of business and future developments

On 31 December 1996, Engelhard Limited was allotted at par a further 20,000,000 £1 ordinary shares in Engelhard International Limited.

The group's retained loss for the year was £2,467,000 (1995: profit £5,987,000). Following an exchange movement on translation of foreign net assets of £4,762,000, equity shareholders' funds decreased to £54,701,000 (1995: £61,930,000).

Provision was made in 1991, 1992 and 1995 for the estimated net losses on termination of operations at Cinderford. It remains the intention of the directors to dispose of this business and the provision remaining is considered by the directors to be adequate but not excessive.

Dividends

No dividends were paid or proposed in the year.

Property values

In the absence of a recent valuation of land and buildings the directors are unable to indicate by how much the market value of property differs from the value at which it is included in the balance sheet.

Political and charitable contributions

The group made no political or charitable contributions during the year (1995: Nil).

Directors

The following persons have been directors of the company during the year:

A T McWilliams (USA)

P Middlemas

P Green (resigned 16 February 1996)

None of the directors had, at any time during the year, a beneficial interest in the shares of the company, its holding company or its fellow subsidiary companies.

Close company provisions

As far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the company.



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Post balance sheet events

The group disposed of its interest in Engelhard Pyrocontrole SA on 1 January 1997 for a consideration of 383,682,370 French francs.

On 26 March 1997, Engelhard Limited sold its land and buildings at the Cinderford site for a consideration of £1,200,000 and now leases part of the site from the new owner.

Prior year adjustment

As referred to in note 22 of these financial statements, a prior year adjustment has been made due to a fundamental error in the treatment of exchange differences on translation of results and net assets of foreign subsidiaries. This adjustment has led to the consolidated retained profit for 1995 being reduced by £766,000 and group reserves remaining unchanged.

Directors' responsibility

The directors are required by UK company law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and group as at the end of the financial period and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1996. The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the company and of the group and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the General Meeting.

BY ORDER OF THE BOARD



P Middlemas
Director

Date: 24 October 1997.

REPORT OF THE AUDITORS TO THE MEMBERS OF ENGELHARD LIMITED

We have audited the financial statements on pages 4 to 23.

Respective responsibilities of directors and auditors

As described on page 2, 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.

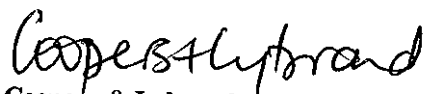
Basis of opinion

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 affairs of the company and the group at 31 December 1996 and of the loss and total recognised gains and losses of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
London

Date: 24 October 1997

ENGELHARD LIMITED

Group profit and loss account for the year ended 31 December 1996

	Notes	1996 £000	1995 (restated) £000
<i>Continuing operations</i>			
Turnover	2,3	11,642	71,750
Cost of sales		(3,547)	(49,436)
Dealing income	3	6,319	2,409
Gross profit		<u>14,414</u>	<u>24,723</u>
Distribution costs		(215)	(3,895)
Administrative expenses		(16,547)	(11,769)
Operating (loss)/profit	4	<u>(2,348)</u>	<u>9,059</u>
Share of loss of associated undertakings	12	(3,268)	(945)
Other income		2,902	40
Profit on sale of fixed assets		183	2,784
Profit/(loss) on termination of operations- chemical business segment	4	575	(35)
(Loss)/profit on ordinary activities before interest		<u>(1,956)</u>	<u>10,903</u>
Interest receivable and similar income	7	6,799	5,301
Interest payable and similar charges	8	(6,924)	(4,785)
(Loss)/profit on ordinary activities before taxation	2	<u>(2,081)</u>	<u>11,419</u>
Tax on (loss)/profit on ordinary activities	9	(1,228)	(5,717)
(Loss)/profit on ordinary activities after taxation		<u>(3,309)</u>	<u>5,702</u>
Minority interests	25	842	285
Retained (loss)/profit for the year	22	<u>(2,467)</u>	<u>5,987</u>

The notes on pages 8 to 23 form part of these financial statements.

ENGELHARD LIMITED**Statement of total recognised gains and losses - 31 December 1996**

	1996 £000	1995 £000
Profit for the financial year	(2,467)	5,987
Currency translation differences on foreign currency net investments	(4,762)	766
Transfer from profit and loss account in respect of disposal of subsidiary	-	(140)
Other recognised (losses) and gains relating to the year	(4,762)	626
Total (losses) and gains recognised since last annual report	(7,229)	6,613

The notes on pages 8 to 23 form part of these financial statements.

ENGELHARD LIMITED

Group Balance Sheet - 31 December 1996

	Notes	1996 £000	1995 £000
FIXED ASSETS			
Tangible assets	11	1,549	1,329
Investments	12	34,161	43,308
		<u>35,710</u>	<u>44,637</u>
CURRENT ASSETS			
Stocks and open contracts	13	104,601	112,168
Debtors: amounts falling due after one year	14	-	12,661
Debtors: amounts falling due within one year	14	57,312	9,069
		<u>57,312</u>	<u>21,730</u>
Cash at bank and in hand		1,259	5,804
		<u>163,172</u>	<u>139,702</u>
CREDITORS: amounts falling due within one year	15	(131,725)	(104,681)
NET CURRENT ASSETS		<u>31,447</u>	<u>35,021</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>67,157</u>	<u>79,658</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Pensions and similar obligations	17,26	(2,006)	(1,650)
Deferred taxation	18	-	(2,053)
Other provisions	19	(1,105)	(2,347)
		<u>(3,111)</u>	<u>(6,050)</u>
NET ASSETS		<u>64,046</u>	<u>73,608</u>
CAPITAL AND RESERVES			
Called up share capital	20	2,400	2,400
Share premium account		639	639
Other reserves	21	1,665	1,665
Profit and loss account	22	49,997	57,226
EQUITY SHAREHOLDERS' FUNDS	23	<u>54,701</u>	<u>61,930</u>
EQUITY MINORITY INTERESTS	25	9,345	11,678
		<u>64,046</u>	<u>73,608</u>

The directors' report and financial statements were approved by the board of directors on 24th October 1997.

P. Middlemas
P Middlemas

Finance Director

The notes on pages 8 to 23 form part of these financial statements.

ENGELHARD LIMITED

Balance Sheet - 31 December 1996

	Notes	1996 £000	1995 £000
FIXED ASSETS			
Tangible assets	11	984	926
Investments	12	66,683	41,683
		<u>67,667</u>	<u>42,609</u>
CURRENT ASSETS			
Stocks and open contracts	13	1,889	1,339
Debtors: amounts falling due after one year	14	-	12,661
Debtors: amounts falling due within one year	14	18,467	7,487
Deferred taxation	18	-	217
		<u>18,467</u>	<u>20,365</u>
Cash at bank and in hand		312	4,738
		<u>20,668</u>	<u>26,442</u>
CREDITORS: amounts falling due within one year	15	(41,479)	(40,463)
NET CURRENT (LIABILITIES)		<u>(20,811)</u>	<u>(14,021)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>46,856</u>	<u>28,588</u>
CREDITORS: amounts falling due after more than one year	16	(2,500)	(2,500)
PROVISIONS FOR LIABILITIES AND CHARGES			
Pensions and similar obligations	17,26	(2,006)	(1,352)
Other provisions	19	(1,225)	(1,806)
		<u>(3,231)</u>	<u>(3,158)</u>
NET ASSETS		<u>41,125</u>	<u>22,930</u>
CAPITAL AND RESERVES			
Called up share capital	20	2,400	2,400
Share premium account		194	194
Profit and loss account	22	38,531	20,336
EQUITY SHAREHOLDERS' FUNDS	23	<u>41,125</u>	<u>22,930</u>

The directors' report and financial statements were approved by the board of directors on 24th October 1997.

P. Middleton
P Middleton
Finance Director

The notes on pages 8 to 23 form part of these financial statements.

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, except for the departure from the requirements of the Companies Act 1985 in order to give a true and fair view which is explained in note 1 (c). A summary of the more important accounting policies, which have been applied consistently, is set out below.

a) Accounting convention

The financial statements have been prepared in accordance with the historical cost convention except as explained in note 1 c).

b) Stocks other than those held for trading purposes

Stocks, mainly precious metals, are stated at the lower of cost and net realisable value. Cost includes the costs of conversion incurred in bringing stocks to their present state and location.

c) Stocks and open contracts held for trading purposes

Stocks and open contracts (together with precious metal owed in the normal course of business) are included in the balance sheet at market value. Schedule 4 of the Companies Act 1985 requires that stock be valued at the lower of cost and net realisable value. In the opinion of the directors this policy, while not in accordance with Schedule 4 of the Companies Act 1985, properly reflects the trading position of stocks of metals that are instantly marketable at prices quoted on recognised exchanges or markets. The effect of the departure is taken to the profit and loss account and is set out in note 13.

d) Deferred taxation

Deferred tax is provided using the liability method for all short term timing differences where the directors expect with reasonable probability that the liability or asset will crystallise.

e) Translation of foreign currencies

Where contracts are entered into for the forward purchase or sale of foreign currencies, the related transactions are translated into sterling at the contract rates. Where foreign currency contracts are not entered into, transactions in foreign currencies are translated into sterling at the rates of exchange prevailing at the time those transactions are accounted for.

Assets and liabilities not covered by foreign currency contracts are translated into sterling at the closing rates of exchange at the balance sheet date. All differences arising are taken to the profit and loss account.

In accordance with SSAP 20, unrealised exchange gains on the translation of long-term monetary items are credited to the profit and loss account. The directors consider that this accounting policy results in the financial statements giving a true and fair view. However, the Companies Act 1985 allows only profits realised at the balance sheet date to be included in the profit and loss account. Such exchange gains would, therefore, under the Act have to be taken to reserves as they are unrealised, but that treatment would conflict with the generally accepted principles set out in SSAP 20. See note 4 for the effect on operating profit for the financial year due to this departure from the Act.

The profit and loss accounts and net assets of foreign subsidiaries are translated into sterling at the rates of exchange ruling at the year end.

Differences on exchange arising from the retranslation of the opening net assets and results of subsidiary undertakings which are denominated in currencies other than sterling are taken to reserves and are reported in the statements of total recognised gains and losses.

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

1 ACCOUNTING POLICIES (continued)

f) Pension costs and other post retirement benefits

Pension costs and other post retirement benefits are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effect of variations from regular cost are spread over the expected average remaining lives of members of the scheme. The costs are assessed in accordance with the advice of qualified actuaries.

g) Depreciation and amortisation

Depreciation and amortisation are provided in equal annual instalments over the estimated useful lives of tangible fixed assets, as follows:

Freehold buildings	25 years
Leasehold buildings	Period of the lease
Plant & machinery	3 to 7 years
Fixtures & fittings, tools and equipment	3 to 7 years
Motor vehicles	4 years

h) Lease commitments

Amounts due to and from the company under operating lease agreements, including those in respect of precious metals, are credited/charged to the profit and loss account as they become due.

i) Dealing Income

The directors believe that turnover and cost of sales do not have meaningful equivalents for the business of Engelhard Metals Limited and Engelhard International Limited and, in keeping with similar businesses, these items are therefore not separately analysed in the profit and loss account.

Dealing income comprises net profits from dealing in precious and other metal commodities.

j) Basis of consolidation

The group balance sheet, profit and loss account and statement of group retained profits include the financial statements of the company and its principal subsidiaries, Engelhard Sales Limited, Engelhard Metals Limited, Engelhard SA, Engelhard International Limited, The Sheffield Smelting Company Limited and Engelhard Technologies Limited.

The financial statements of the remaining subsidiaries have not been consolidated since their inclusion is not material to giving a true and fair view. The group financial statements reflect, on an equity basis, the underlying net assets of these subsidiaries which are listed in note 12.

k) Associated undertakings

The group's share of profits less losses of associated undertakings is included in the consolidated profit and loss accounts, and the group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned, which has the same accounting reference date. Because the accounting policies of associated undertakings do not necessarily conform in all material respects to the group, adjustments are made on consolidation where the amounts involved are material to the group.

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

1 ACCOUNTING POLICIES (continued)

l) Goodwill

Goodwill on acquisition, representing the excess of the fair value of purchase consideration over the fair value of the identifiable assets and liabilities of the undertaking acquired, is written off immediately against reserves. Other purchased goodwill is written off immediately. Where the fair value of net assets acquired exceeds the fair value of the purchase consideration, the difference is taken to reserves.

Goodwill or discount arising on acquisition of associated undertakings is either added to or deducted from the group's share in the net assets of associated undertakings and amortised over its estimated useful life.

m) Related party disclosure

The group has taken advantage of the exemption in Financial Reporting Standard No. 8 "Related Party Transactions", not to disclose transactions with entities which are part of the Engelhard Corporation group. The parent company's financial statements are publicly available.

2 Segmental analysis by class of business

The analysis by class of business of the group's turnover, (loss)/profit before taxation and net assets is set out as below:

Turnover	1996	1995
	£000	£000
<i>Class of business</i>		
Chemical	1,921	-
Metallurgical	9,721	71,750
	<u>11,642</u>	<u>71,750</u>
(Loss)/profit before taxation	1996	1995
	£000	(restated) £000
<i>Class of business</i>		
Chemical	1,094	161
Commodity Trading	1,012	(2,228)
Metallurgical	(4,186)	13,486
	<u>(2,080)</u>	<u>11,419</u>
Net assets	1996	1995
	£000	£000
<i>Class of business</i>		
Chemical	16,321	14,652
Commodity Trading	24,485	2,451
Metallurgical	28,120	61,191
	<u>68,926</u>	<u>78,294</u>
Net operating assets	(4,880)	(4,686)
Unallocated net liabilities	<u>64,046</u>	<u>73,608</u>

Unallocated net liabilities represent corporation and deferred tax balances.

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

3 Analysis by geographical area

Turnover represents the value of precious metals and other goods sold, and services provided during the year, net of value added tax. Turnover of £4,491,000 originated in France. All other turnover originates from the United Kingdom.

Turnover by destination is analysed as follows:

	1996 £000	1995 £000
Geographical area:		
United Kingdom		
- to third parties	4,324	59,965
Other Europe		
- to third parties	6,055	5,034
- to ultimate holding company and fellow subsidiaries	-	5,482
India	116	114
South Africa	1,147	1,155
	<hr/> 11,642	<hr/> 71,750

In the opinion of the directors, as commodities are traded on a world market, it is not meaningful to provide a geographical analysis of turnover of Engelhard Metals Limited or of Engelhard International Limited.

The directors consider that an analysis by class of business and geographical market of the group's share of the profit and net assets of associated undertakings would be prejudicial to the business of the associated undertakings. A brief description of the business of each material associated undertaking is given in note 12 to the accounts.

4 Continuing operations

The directors have made a decision to dispose of the chemical business at Cinderford. However, it is still classified as a continuing business under the definition of FRS3 because it is still part of the group three months after the balance sheet date. In accordance with the standard, the profit and loss account consolidates the trading results and shows separately termination costs incurred in the year and the release of provisions set up in earlier years to cover these losses.

Operating (loss)/profit is stated after charging/(crediting):

	1996 £000	1995 (restated) £000
Auditors: Audit Remuneration (a)	113	114
Other Fees	40	36
Depreciation	318	384
Amortisation of goodwill	-	1,653
Unrealised foreign exchange (gains)/losses		
- on trading	(26)	1,013
- on translation of long-term monetary items	1,635	(983)
Hire of plant and machinery	173	74
Other operating leases (b)	410	1,399
	<hr/>	<hr/>

Prior year comparatives for foreign exchange have been restated (note 22).

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

4 Continuing operations (continued)

- (a) Audit fees for the company were £30,000 (1995: £30,000).
(b) The figures above include operating lease charges in respect of precious metals of £410,000 (1995: £1,383,000)

5 Directors' emoluments

One of the directors of the company is remunerated as an employee of the ultimate holding company, and is seconded to the company. The emoluments which relate to services rendered as director of the company are as follows:

	1996 £000	1995 £000
Emoluments (including pension contributions and benefits in kind) of Chairman and highest-paid director	102	98
Emoluments of other directors	-	12
	<u>102</u>	<u>110</u>

The number of directors (including the Chairman and highest paid director but excluding those whose services are entirely overseas) who received fees and other emoluments (excluding pension contributions) within the following ranges are:

	1996 Number	1995 Number
£0 to £5,000	1	-
£10,001 to £15,000	-	1
£95,001 to £100,000	1	1
	<u>1</u>	<u>1</u>

6 Employee information

- a) The average number of employees, excluding directors of the group, during the year is analysed below:

	1996 Number	1995 Number
Manufacturing	71	138
Distribution	56	107
Administration	37	41
Research and development	2	3
	<u>166</u>	<u>289</u>

- b) Group employment costs excluding directors:

	1996 £000	1995 £000
Aggregate gross wages and salaries	4,140	5,300
Employer's NI contributions	596	347
Employer's pension contributions	142	248
Post retirement medical benefit costs	214	73
	<u>5,092</u>	<u>5,968</u>

ENGELHARD LIMITED**Notes to the financial statements - 31 December 1996****7 Interest receivable and similar income**

	1996 £000	1995 £000
Ultimate holding company and fellow subsidiaries	5,836	4,990
Other interest receivable	943	311
	<u>6,799</u>	<u>5,301</u>

8 Interest payable and similar charges

	1996 £000	1995 £000
Ultimate holding company and fellow subsidiaries	5,229	3,365
Bank loans and overdrafts	1,993	37
Metal lease (credits)/costs	(298)	1,383
	<u>6,924</u>	<u>4,785</u>

9 Tax on (loss)/profit on ordinary activities

	1996 £000	1995 £000
UK corporation tax at 33%	3,005	2,892
Adjustment for prior year tax charge	(486)	-
Transfer (from)/to deferred taxation - current	(2,053)	966
Tax attributable to associated undertakings	511	1,859
Overseas taxation	251	-
Tax (credit)/charge for the year	<u>1,228</u>	<u>5,717</u>

10 Retained profit for the year

Engelhard Limited has taken advantage of Section 230 of the Companies Act 1985 which allows it not to publish a separate profit and loss account. The profit for the year retained in the books of the company was £18,195,000 (1995: £10,298,000).

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

11 Tangible fixed assets

		Land and buildings £000	Other tangible assets £000	Total £000
<i>Group</i>				
Cost:	At 1 January 1996	2,170	2,264	4,434
	Translation adjustment	(83)	(178)	(261)
	Additions	261	330	591
	Disposals	(383)	(39)	(422)
	Transfers	214	(214)	-
	At 31 December 1996	<u>2,179</u>	<u>2,163</u>	<u>4,342</u>
Depreciation:	At 1 January 1996	1,250	1,855	3,105
	Translation adjustment	(54)	(156)	(210)
	Provided during the year	64	254	318
	Disposals	(383)	(37)	(420)
	Transfers	214	(214)	-
	At 31 December 1996	<u>1,091</u>	<u>1,702</u>	<u>2,793</u>
Net Book Value:	At 31 December 1996	<u>1,088</u>	<u>461</u>	<u>1,549</u>
	At 31 December 1995	<u>920</u>	<u>409</u>	<u>1,329</u>
<i>Company</i>				
Cost:	At 1 January 1996	1,628	584	2,212
	Additions	-	168	168
	At 31 December 1996	<u>1,628</u>	<u>752</u>	<u>2,380</u>
Depreciation:	At 1 January 1996	885	401	1,286
	Provided during the year	7	103	110
	At 31 December 1996	<u>892</u>	<u>504</u>	<u>1,396</u>
Net Book Value:	At 31 December 1996	<u>736</u>	<u>248</u>	<u>984</u>
	At 31 December 1995	<u>743</u>	<u>183</u>	<u>926</u>

Other tangible assets include plant and machinery, fixtures, fittings, tools and equipment.

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

12 Fixed Asset Investments

	Associated undertaking £000	Other fixed asset investments £000	Total £000
(a) <i>Group</i>			
Cost or valuation:			
At 1 January 1996	43,304	4	43,308
Acquisition	-	330	330
Group share of losses	(3,780)	-	(3,780)
Foreign exchange translation	(5,697)	-	(5,698)
At 31 December 1996	33,827	334	34,161

On acquiring Engelhard SA in the year ended 31 December 1995, Engelhard Limited indirectly acquired an associated company, Engelhard-CLAL SAS, which is incorporated in France. Engelhard SA holds 88% 'B' ordinary 60F shares but no 'A' shares, giving a 44% holding in the total share capital of Engelhard-CLAL SAS. Engelhard-CLAL SAS holds interests in several further companies, all of whom are engaged in the Engineered Materials business. The following information is given in respect of the Engelhard-CLAL SAS group:

At 31 December 1996: £000

Turnover	585,200
Depreciation	5,965
Loss before taxation	7,427
Group share of loss before taxation	3,268
Tangible fixed assets	43,736
Intangible fixed assets	668
Creditors falling due within one year	83,837

(b) *Company*

Shares in consolidated subsidiary companies:	1996 £000	1995 £000
Engelhard SA	36,276	36,276
Engelhard Pyrocontrôle SA*	-	-
SCI Les Sept Chemins*	-	-
Engelhard Sales Limited	1	1
Engelhard International Limited	25,000	-
The Sheffield Smelting Company Limited	400	400
Engelhard Metals Limited	2,500	2,500
Engelhard Technologies Limited	2,506	2,506
	66,683	41,683
Shares in unconsolidated subsidiary companies:		
Engelhard Pension Trustees Limited (registered in England and Wales)	-	-
Total investments in subsidiary companies	66,683	41,683

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

12 Fixed Asset Investments (continued)

(c) Interest in group undertakings:

<i>Name of undertaking</i>	<i>Description of shares held</i>	<i>Activities</i>	<i>Country of incorporation/ registration</i>	<i>% held</i>
Engelhard SA	Ordinary 10F	Holding company	France	74
Engelhard Pyrocontrôle SA*	Ordinary 150F	Thermocouple manufacture	France	74*
SCI Les Sept Chemins*	Ordinary 100F	Service company	France	74*
Engelhard Sales Limited	Ordinary £1	Marketing of precious metals	England and Wales	100
Engelhard Metals Limited	Ordinary £1	Metal trading	England and Wales	100
The Sheffield Smelting Company Limited	Ordinary 1p) Preference £1)	Not trading	England and Wales	100
Engelhard Technologies Limited	Ordinary £1	Not trading	England and Wales	100
Engelhard International Limited	Ordinary £1	Metal trading	England and Wales	100

* Indirect holding: 100% owned by Engelhard SA.

13 Stocks and open contracts

	1996	1995
	£000	£000
<i>Group</i>		
Metal trading stocks and open contracts	101,958	109,906
Raw materials and consumables	2,490	2,058
Work in progress	101	100
Finished goods	52	104
	<hr/> 104,601	<hr/> 112,168
<i>Company</i>		
Raw material and consumables	1,857	1,307
Work in progress	32	32
	<hr/> 1,889	<hr/> 1,339

Metal trading stocks and open contracts represent the position in relation to precious and base metals which, after taking into consideration metal owed in the normal course of business (see note 15), are substantially hedged in the market by forward contracts and futures.

Following the company's accounting policy set out in note 1 (c), metal trading stocks and open contracts have been stated at market value, which is not in accordance with Schedule 4 of the Companies Act 1985.

If the company's accounting policy had followed Schedule 4 of the Companies Act 1985, ie stock had been valued at the lower of cost and net realisable value, there would have been no material difference in the figures reported (1995 no material difference).

ENGELHARD LIMITED**Notes to the financial statements - 31 December 1996****14 Debtors**

<i>Group</i>	1996	1995
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade debtors	22,362	3,869
Amounts owed by holding company and fellow subsidiaries	7,571	1,695
Loan to fellow subsidiary	10,456	-
Other debtors	5,017	2,670
Prepayments and accrued income	11,906	835
	<hr/> 57,312	<hr/> 9,069
<i>Amounts falling due after more than one year:</i>		
Loan to fellow subsidiary (repayable within 5 years)	-	12,661
	<hr/>	<hr/>

Interest on the loan to a fellow subsidiary is charged at 11% and the principal is repayable in 1997.

<i>Company</i>	1996	1995
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade debtors	796	65
Loan to fellow subsidiary (repayable within 5 years)	10,456	-
Amounts owed by holding company and fellow subsidiaries	768	43
Amounts owed by subsidiaries	5,930	7,187
Other debtors	482	115
Prepayments and accrued income	35	77
	<hr/> 18,467	<hr/> 7,487
<i>Amounts falling due after more than one year:</i>		
Loan to fellow subsidiary (repayable within 5 years)	-	12,661
	<hr/>	<hr/>

Interest on the loan to a fellow subsidiary is charged at 11% and the principal is repayable in 1997.

15 Creditors: amounts falling due within one year

<i>Group</i>	1996	1995
	£000	£000
Bank loans and overdrafts	300	3,379
Other loans	18,824	-
Trade creditors	9,843	3,402
Amounts owed to holding company and fellow subsidiaries	25,868	31,838
Precious metal owed in the normal course of business	70,177	59,606
Corporation tax	4,880	2,634
Other creditors and accruals	1,833	3,822
	<hr/> 131,725	<hr/> 104,681
	<hr/>	<hr/>

Interest is payable at a rate of 8.5% per annum on £5,882,000 (1995: £6,452,000) of the amounts owed to fellow subsidiaries.

ENGELHARD LIMITED**Notes to the financial statements - 31 December 1996****15 Creditors: amounts falling due within one year (continued)**

<i>Company</i>	1996 £000	1995 £000
Bank loans and overdrafts	9	55
Trade creditors	493	116
Amounts owed to holding company and fellow subsidiaries	7,697	7,227
Amounts owed to subsidiaries	29,346	29,038
Corporation tax	3,439	3,788
Other creditors and accruals	495	239
	<hr/> 41,479 <hr/>	<hr/> 40,463 <hr/>

Interest is payable at a rate of 8.5% per annum on £5,882,000 (1995: £6,452,000) of the amounts owed to fellow subsidiaries.

16 Creditors: amounts falling due after more than one year

<i>Company</i>	1996 £000	1995 £000
Amounts owed to subsidiaries	2,500	2,500
	<hr/>	<hr/>

Amounts owed to subsidiaries represent a long-term loan which is not repayable on demand and has no set maturity date.

17 Pensions and similar obligations

	Group £000	Company £000
As at 1 January 1996	1,650	1,352
Profit and loss account (see note 26)		
- pensions	142	142
- other post retirement benefits	214	214
Transfer in respect Engelhard Metals Limited	-	298
As at 31 December (see note 26)	<hr/> 2,006 <hr/>	<hr/> 2,006 <hr/>

18 Deferred taxation

Provision has been made for the full potential liability. Deferred tax assets are recognised only to the extent that they are likely to reverse in the accounting period following the one in which they originated. Deferred taxation has been provided at 31% (1995: 33%).

<i>Group</i>	1996 £000	1995 £000
Accelerated capital allowances	-	129
Other timing differences	-	1,924
Deferred tax provided	<hr/> - <hr/>	<hr/> 2,053 <hr/>

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

18 Deferred taxation (continued)

	1996 £000	1995 £000
<i>Company</i>		
Accelerated capital allowances	-	129
Other timing differences	-	(346)
Deferred tax asset recognised	-	(217)

Movements on the provision for deferred tax are:

	Group £000	Company £000
Balance at 1 January	2,053	(217)
Transfer from/(to) profit and loss account (see note 9)	(2,053)	217
Balance at 31 December	-	-

Unrecognised deferred tax asset:

	Group £000	Company £000
Accelerated capital allowances	(8)	15
Other timing differences	(1973)	(808)
	(1981)	(793)

19 Other provisions

	Group £000	Company £000
Balance at 1 January	2,347	1,806
Profit and loss account	(1,242)	(581)
Balance at 31 December	1,105	1,225

Included within other provisions is a provision for the termination of the chemical business segment at Cinderford of £650,000 (1995: £1,225,000).

20 Called up share capital

	1996 £000	1995 £000
Authorised, issued and fully paid: 2,000,000 'A' ordinary shares of £1 each and 400,000 'B' ordinary shares of £1 each	2,400	2,400

ENGELHARD LIMITED**Notes to the financial statements - 31 December 1996****21 Other reserves**

	1996	1995
<i>Group</i>	£000	£000
The Sheffield Smelting Company Limited:		
Pre-acquisition reserves	2,620	2,620
Unrealised reserve arising on consolidation	698	698
Write-off of goodwill on acquisition	(1,653)	(1,653)
	<u>1,665</u>	<u>1,665</u>

The pre-acquisition reserves of The Sheffield Smelting Company Limited relate to the retained profits at 10 May 1972, when the company was acquired by a fellow subsidiary of the ultimate holding company.

22 Profit and loss account

	1996	1995 (restated)
<i>Group</i>	£000	£000
Retained profits at 1 January	57,226	50,613
Transfer from profit and loss account in respect of disposal of subsidiary	-	(140)
Retained (loss)/profit for the year	(2,467)	5,987
Exchange movement on translation of foreign net assets	(4,762)	766
Retained profits at 31 December	<u>49,997</u>	<u>57,226</u>
<i>Company</i>	1996 £000	1995 £000
Retained profits at 1 January	20,336	10,038
Retained profit for the year	18,195	10,298
Retained profits at 31 December	<u>38,531</u>	<u>20,336</u>

A prior year adjustment has been made due to a fundamental error in the treatment of exchange differences on translation of the results and net assets of foreign subsidiaries. The exchange differences were previously recognised in the profit and loss account for the year. In the current year, such differences have been recognised as a reserve movement, in accordance with the requirements of Statement of Standard Accounting Practice No. 20, "Foreign Currency Translation", and prior year comparative figures have been restated. This adjustment has led to the group result for 1995 being reduced by £766,000 with no effect on group reserves.

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

23 Reconciliation of movements in shareholders' funds

	1996 £000	1995 £000
<i>Group</i>		
At 1 January	61,930	56,970
Retained (loss)/profit for the year	(2,467)	5,987
Transfer from profit and loss account in respect of disposal of subsidiary	-	(140)
Write-off of goodwill on acquisition	-	(1,653)
Exchange movement on translation of foreign net assets	(4,762)	766
At 31 December	54,701	61,930
<i>Company</i>		
At 1 January	22,930	12,632
Retained profit for the year	18,195	10,298
At 31 December	41,125	22,930

24 Commitments

(a) Group and company capital expenditure commitments

	1996 £000	1995 £000
Contracted for	33	2
Authorised but not contracted	28	-

(b) Other financial commitments (leases)

The group is committed under the terms of operating leases (including those for precious metal), to make the following payments in 1996 in respect of leases expiring in the following time periods:

	1996 £000	1995 £000
<i>Group</i>		
Land and buildings: expiring after five years	-	19
Other operating leases:		
Expiring in one year	467	292
Expiring in two to five years	23	59
	490	370

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

24 Commitments (continued)

<i>Company</i>	1996 £000	1995 £000
Land and buildings: expiring after five years	-	19
Other operating leases:		
Expiring in one year	10	4
Expiring in two to five years	10	20
	<hr/> 20	<hr/> 43

25 Minority interest

	£000
At 1 January 1996	11,678
Foreign exchange on translation	(1,491)
Minority share of subsidiary's loss for the year	(842)
	<hr/> 9,345

26 Pensions and other post retirement obligations

The group operates two funded defined benefit pension schemes in the United Kingdom. The date of the last actuarial valuation, for both schemes, was 31 December 1995. The larger scheme is the Engelhard Pension Scheme.

The most recent actuarial valuation of the scheme was at 31 December 1995, using the projected unit credit method. The principal assumptions used in the valuation were that the future investment yield would be 9% per annum, the increase in pensionable pay would average 6% per annum and that pensions in payment would increase at 4% per annum on the excess over Guaranteed Minimum Pensions.

At 31 December 1995 the market value of the combined assets of the scheme was £33,593,000 and the actuarial value of the assets was sufficient to cover 104% of the accrued liabilities. The actuaries have confirmed that the surplus assets will support the suspension of employers' contributions at least until the next valuation due as at 31 December 1998. The employers and trustees therefore agreed to the continued suspension of employers' contributions.

An amount of £634,000 (1995: £492,000) for the group and £634,000 (1995: £348,000) for the company is included in provisions, which represents the excess of the accumulated pension cost over the payment of contributions to pension funds.

The group is obliged to pay medical insurance for certain pensioners and active employees upon retirement. Benefits are provided to eligible pensioners, their spouses and eligible dependants. An actuarial estimate of the accrued liability in respect of the post retirement medical expenses has been carried out as at 31 December 1995, using the projected unit method. The valuation rate of interest used for the calculation was 9% per annum and allowance was made for medical inflation of 10% per annum for 5 years, reducing over a further period of five years to 7% per annum and level at 7% per annum thereafter.

As at 31 December 1996 the accrued liability in respect of post retirement medical expenses benefits was estimated to be £1,372,000 (1995: £1,158,000) for the group and £1,372,000 (1995: £1,004,000) for the company.

During the year the estimated cost of the liability was £214,000 (1995: £73,000) for the group and £368,000 (1995: £54,000) for the company.

ENGELHARD LIMITED

Notes to the financial statements - 31 December 1996

27 Contingent liabilities

As a result of group registration for UK VAT purposes the company is contingently liable for the VAT liabilities of certain other group and associate companies.

An unlimited multilateral guarantee has been given to the group's bank by the company and two of its subsidiary companies, Engelhard Sales Limited and Engelhard Metals Limited, in respect of all amounts owed to the bank.

The company has given guarantees to banks for the proper performance of contracts entered into by its subsidiary, Engelhard Metals Limited, in the ordinary course of business.

28 Post Balance Sheet Events

The group disposed of its interest in Engelhard Pyrocontrole SA on 1 January 1997 for a consideration of 383,682,370 French francs.

On 26 March 1997, Engelhard Limited sold its land and buildings at the Cinderford site for a consideration of £1,200,000 and now leases part of the site from the new owner .

29 Cash Flow Statement

A cash flow statement is not included in these financial statements because the company is ultimately controlled by Engelhard Corporation, whose consolidated financial statements include the cash flows of Engelhard Limited and are publicly available. One hundred per cent of the voting rights of Engelhard Limited are held within the group.

30 Ultimate parent company and controlling company

The company's ultimate parent company is Engelhard Corporation, which is incorporated in the State of Delaware, USA. This company heads the only higher group of undertakings for which group financial statements are drawn up and of which the company is a member. Copies of Engelhard Corporation and Engelhard Limited consolidated financial statements may be obtained from The Secretary, Engelhard Limited, 63 St. Mary Axe, London EC3A 8NH. The directors of Engelhard Limited consider Engelhard Corporation to be the company's ultimate controlling party.