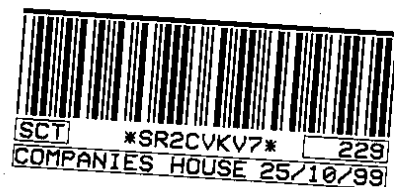


ENGLISH

Heraeus Quartz Limited
(formerly Heraeus Silica and Metals Limited)

Directors' report and financial statements

31 December 1998
Registered number 734915



Directors' report and financial statements

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Directors and other information

Directors

Mr HJ Weigl	-	Chairman
Mr A Pitzen	-	Managing Director
Mr DJ Bright		
Mr BM Caporn		
Mr RA Collyer		
Mr GP Cook		

Secretary

Mr AC Carr

Registered Office

1 Craven Court
Canada Road
Byfleet
Weybridge
Surrey KT14 7JL

Auditors

KPMG
24 Blythswood Square
Glasgow
G2 4QS

Solicitors

Bowles & Co
18 Church Street
Epsom
Surrey KT17 4QD

Bankers

Barclays Bank Plc
(Walton-on-Thames, Bromborough)

Commerzbank AG
(London)

Directors and other information *(continued)*

Premises

Unit 1, Craven Court Industrial Estate
Canada Road
Byfleet
Surrey

Unit 3, The Bytech Centre
Canada Road
Byfleet
Surrey

5 Langlands Place
Kelvin South Business Park
East Kibride

Croft Business Park
Caldbeck Road
Bromborough
Wirral
Merseyside

Directors' report

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

Principal activities

The company's activities during the year were the manufacture and sale of silica glass components, sale of materials for optical fibre manufacture, the supply of ceramic colours, the sale of materials and services for electronic circuits, precious metal and chemical products.

During the year the company disposed of its ceramic colours and precious metals business activities, together with the related assets and liabilities resulting in an exceptional profit as outlined in the notes to the financial statements.

Turnover decreased by 19% to £19.39 million. The directors are of the opinion that the company's state of affairs is satisfactory.

Year 2000

The company has assessed any potential impact of the Year 2000 problem as part of its Year 2000 Project Plan. The company foresees no material effect on its operations and the costs of complete Year 2000 readiness to be minimal.

Proposed dividend and transfer to reserves

A dividend of £2,000,000 was paid during the year (1997: £1.6 million).

The profit for the year retained in the company is £714,162 (1997: loss of £164,169).

Directors and directors' interests

The present members of the board are shown on page 1. During the year ended 31 December 1998 the following served as directors:

Dr P Vischer	(resigned 31 August 1998)
Mr G Vilsmeier	(resigned 31 August 1998)
Mr HJ Weigl	(appointed 1 September 1998)
Mr A Pitzen	
Mr DJ Bright	(appointed 1 September 1998)
Mr BM Caporn	
Mr RA Collyer	(appointed 1 September 1998)
Mr GP Cook	(appointed 1 September 1998)
Mr CB Latham	(resigned 30 June 1998)
Mr GND Lunt	(resigned 30 June 1998)

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



AC Carr
Company secretary

Craven Court
Canada Road
Byfleet
Weybridge
Surrey KT14 7JL

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.



24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Report of the auditors to the members of Heraeus Quartz Limited (formerly Heraeus Silica and Metals Limited)

We have audited the financial statements on pages 6 to 17.

Respective responsibilities of directors and auditors

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.

A handwritten signature in dark ink, appearing to be 'WmG'.

KPMG
Chartered Accountants
Registered Auditors

21 June 1999

Profit and loss account
for the year ended 31 December 1998

	Note	1998 £	1997 (restated) £
Turnover	2		
Continuing operations		16,615,865	16,920,199
Discontinued operations		2,770,443	7,018,690
		<hr/>	<hr/>
		19,386,308	23,938,889
Cost of sales		(15,224,337)	(19,117,376)
		<hr/>	<hr/>
Gross profit		4,161,971	4,821,513
Distribution and selling costs		(1,508,949)	(1,788,065)
Administrative expenses		(1,142,805)	(1,176,933)
Other operating income	6	44,194	113,923
		<hr/>	<hr/>
Operating profit	2		
Continuing operations		1,365,142	1,333,342
Discontinued operations		189,269	637,096
		<hr/>	<hr/>
		1,554,411	1,970,438
Profit on sale of discontinued operations		1,960,000	-
Reorganisation costs in continuing operations		(563,443)	-
		<hr/>	<hr/>
Profit on ordinary activities before interest		2,950,968	1,970,438
Interest receivable and similar income	8	204,415	224,286
Interest payable	9	(261,515)	(152,891)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3-7	2,893,868	2,041,833
Tax on profit on ordinary activities	10	(179,706)	(606,002)
		<hr/>	<hr/>
Profit on ordinary activities after taxation		2,714,162	1,435,831
Dividends paid	11	(2,000,000)	(1,600,000)
		<hr/>	<hr/>
Retained profit/(loss) for the financial year		714,162	(164,169)
Retained profit brought forward		6,371,584	6,535,753
		<hr/>	<hr/>
Retained profit carried forward		7,085,746	6,371,584
		<hr/> <hr/>	<hr/> <hr/>

The company has no recognised gains and losses other than those included in the profit and loss account above.

During the year the company made no acquisitions but discontinued its ceramic colours and precious metals business activities.

Balance sheet
at 31 December 1998

	<i>Note</i>	1998		1997	
		£	£	£	£
Fixed assets					
Tangible assets	12	3,442,419		3,784,423	
Current assets					
Stocks	13	2,719,931		3,508,479	
Debtors	14	6,796,454		4,371,918	
Cash at bank and in hand		1,553,130		366,202	
		<hr/>		<hr/>	
Creditors: amounts falling due within one year	15	11,069,515 (2,408,350)		8,246,599 (2,478,002)	
		<hr/>		<hr/>	
Net current assets		8,661,165		5,768,597	
		<hr/>		<hr/>	
Total assets less current liabilities		12,103,584		9,553,020	
Creditors: amounts falling due after more than one year	16	(4,671,838)		(2,807,436)	
Provisions for liabilities and charges	17	(146,000)		(174,000)	
		<hr/>		<hr/>	
Net assets		7,285,746		6,571,584	
		<hr/>		<hr/>	
Capital and reserves					
Called up share capital	18	200,000		200,000	
Profit and loss account		7,085,746		6,371,584	
		<hr/>		<hr/>	
Equity shareholders' funds	19	7,285,746		6,571,584	
		<hr/>		<hr/>	

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



A Pitzen
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 in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Heraeus Holding GmbH, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Heraeus Holding GmbH, within which this company is included, can be obtained from Heraeus Quartz Limited, Byfleet, England.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

Fixed assets and depreciation

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

Freehold buildings	-	2%
Long leasehold land and buildings	-	4%
Plant and machinery	-	10%
Motor vehicles	-	25%
Furniture, fixtures and fittings	-	10% - 20%

Deferred income

Reimbursement of expenditure on fixed assets is deferred and credited to the profit and loss account over the estimated useful economic lives of the related assets in line with the depreciation of those assets.

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)

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful lives of the assets to which they relate.

Leases

Annual rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension (money purchase) scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Employees have the right to make additional voluntary contributions. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods manufactured by the company, cost is taken as production cost which includes an appropriate proportion of attributable overheads. Raw materials and bought in components have been valued at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2 Operating profit

	Continuing £	Discontinued £	1998 Total £	Continuing £	Discontinued £	1997 Total £
Turnover	16,615,865	2,770,443	19,386,308	16,920,199	7,018,690	23,938,889
Cost of sales	(13,137,089)	(2,087,248)	(15,224,337)	(13,867,894)	(5,249,482)	(19,117,376)
Gross profit	3,478,776	683,195	4,161,971	3,052,305	1,769,208	4,821,513
Distribution costs	(1,074,989)	(433,960)	(1,508,949)	(805,034)	(983,031)	(1,788,065)
Administrative expenses	(1,038,645)	(104,160)	(1,142,805)	(913,929)	(263,004)	(1,176,933)
Other operating income	-	44,194	44,194	-	113,923	113,923
Operating profit	1,365,142	189,269	1,554,411	1,333,342	637,096	1,970,438

Notes (continued)

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	1998	1997
	£	£
Auditors' remuneration:		
Audit	18,000	20,000
Other services	77,115	36,450
Consultancy	-	53,018
Depreciation	526,902	545,250
Rentals payable under operating leases for land and buildings	68,620	100,821
Hire of other assets	25,858	26,773
	<hr/>	<hr/>
<i>after crediting</i>		
Government grants	47,049	57,049
Deferred income	86,500	86,500
	<hr/>	<hr/>

4 Remuneration of directors

	1998	1997
	£	£
Directors' emoluments:		
As directors	172,795	331,473
Compensation for loss of office	56,000	-
Company contributions to money purchase pension schemes	7,322	9,680
	<hr/>	<hr/>
	236,117	341,153
	<hr/>	<hr/>

The emoluments of the highest paid director were £105,319 (1997: £108,083), and company pension contributions of £2,312 (1997: £3,015) were made to a money purchase scheme on his behalf.

	Number of directors	
	1998	1997
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	3

Notes (continued)

5 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	
	1998	1997
Management and administration	11	14
Selling	33	34
Production	81	88
	<hr/>	<hr/>
	125	136
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£	£
Wages and salaries	2,435,348	2,915,525
Social security costs	229,069	267,864
Other pension costs (see note 21)	179,766	123,614
	<hr/>	<hr/>
	2,844,183	3,307,003
	<hr/>	<hr/>

6 Other operating income

	1998	1997
	£	£
Commissions	44,194	113,923
	<hr/>	<hr/>

7 Exceptional items

During the year the company restructured its business and administrative operations involving the disposal of its ceramic colours and precious metals activities. This gave rise to an exceptional profit of £1,396,557.

Notes (continued)

8 Interest receivable and similar income

	1998	1997
	£	£
Interest receivable on loans to group undertakings	172,226	-
Bank interest	32,189	68,100
Exchange gain realised on long term loan with group undertaking	-	156,186
	<u>204,415</u>	<u>224,286</u>

9 Interest payable

	1998	1997
	£	£
On bank overdraft	553	1,489
On foreign currency loan with group undertaking	147,720	151,341
On bank loan	113,242	-
Other	-	61
	<u>261,515</u>	<u>152,891</u>

10 Taxation

	1998	1997
	£	£
UK corporation tax at 31% (1997:31.5%) on the profit for the year on ordinary activities	245,922	623,000
Group relief (for no consideration)	(37,368)	-
Deferred taxation	(28,000)	(17,040)
Adjustment relating to an earlier year:		
Corporation taxation	(848)	42
	<u>179,706</u>	<u>606,002</u>

Notes (continued)

11 Dividend

	1998	1997
	£	£
Ordinary dividend paid: £10.26 per share (1997: £8.21 per share)	2,000,000	1,600,000

12 Tangible fixed assets

	Freehold land and buildings £	Long leasehold land and buildings £	Plant and machinery £	Fixtures and fittings £	Total £
Cost					
At beginning of year	698,108	527,412	1,694,629	3,223,439	6,143,588
Additions	-	4,029	327,815	309,731	641,575
Disposals	-	-	(147,718)	(843,761)	(991,479)
At end of year	698,108	531,441	1,874,726	2,689,409	5,793,684
Depreciation					
At beginning of year	38,110	96,037	831,039	1,393,979	2,359,165
Provided in year	14,146	17,801	190,590	304,365	526,902
Disposals	-	-	(81,865)	(452,937)	(534,802)
At end of year	52,256	113,838	939,764	1,245,407	2,351,265
Net book value					
At 31 December 1998	645,852	417,603	934,962	1,444,002	3,442,419
At 31 December 1997	659,998	431,375	863,590	1,829,460	3,784,423

The gross book value of freehold land and buildings includes £603,108 (1997: £603,108) of depreciable assets.

Notes (continued)

13 Stocks

	1998	1997
	£	£
Raw materials and bought in components	1,814,059	1,839,059
Work in progress	93,667	260,272
Finished goods	812,205	1,409,148
	<u>2,719,931</u>	<u>3,508,479</u>

14 Debtors

	1998	1997
	£	£
Trade debtors	2,000,110	4,181,097
Amounts owed by parent and fellow subsidiary undertakings	4,369,365	67,488
ACT recoverable	341,341	-
Prepayments	85,638	123,333
	<u>6,796,454</u>	<u>4,371,918</u>

15 Creditors: amounts falling due within one year

	1998	1997
	£	£
Bank loans and overdraft	-	1,630
Trade creditors	175,401	352,557
Amounts owed to parent and fellow subsidiary undertakings	338,088	400,832
Other creditors	689,303	-
Taxation and social security:		
Corporation tax	49,895	627,960
Other taxes and social security	677,195	614,442
	<u>727,090</u>	<u>1,242,402</u>
Accruals and deferred income	478,468	480,581
	<u>2,408,350</u>	<u>2,478,002</u>

Notes (continued)

16 Creditors: amounts falling due after more than one year

	1998	1997
	£	£
Loans from ultimate holding company	4,000,000	2,000,000
Deferred income	671,838	807,436
	<hr/>	<hr/>
	4,671,838	2,807,436
	<hr/>	<hr/>

The company has two loans each amounting to £2 million from Heraeus Holding GmbH. The first loan taken out in 1997 is repayable on or before 17 November 2002 and has a fixed interest rate of 7.25% per annum. An additional loan of £2 million taken out during the year with Commerzbank was repaid in December 1998 and replaced with a loan from the ultimate holding company. This loan is repayable on or before 22 December 2003 and has a fixed interest rate of 4.70% per annum.

17 Provisions for liabilities and charges

	1998	1997
	£	£
At beginning of year	174,000	196,000
Charge/(release) for the year in the profit and loss account	22,847	(17,040)
Charge due to change in corporation tax rate	2,681	-
Release on assets transferred to other group companies	(53,528)	-
	<hr/>	<hr/>
At end of year	146,000	178,960
Advance corporation tax recoverable	-	(4,960)
	<hr/>	<hr/>
	146,000	174,000
	<hr/>	<hr/>

The amounts provided for deferred taxation are set out below:

	1998	1997
	£	£
Accelerated capital allowances	146,000	178,960
Advance corporation tax recoverable	-	(4,960)
	<hr/>	<hr/>
	146,000	174,000
	<hr/>	<hr/>

There is no unprovided deferred taxation (1997: £nil).

Notes (continued)

18 Called up share capital

	1998	1997
	£	£
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	195,000	195,000
Deferred shares of £1 each	5,000	5,000
	<hr/>	<hr/>
	200,000	200,000
	<hr/>	<hr/>

19 Reconciliation of movement in shareholders' funds

	1998	1997
	£	£
Profit for the financial year	2,714,162	1,435,831
Dividends	(2,000,000)	(1,600,000)
	<hr/>	<hr/>
Net additions/(reductions) to shareholders' funds	714,162	(164,169)
Shareholders' funds at beginning of year	6,571,584	6,735,753
	<hr/>	<hr/>
Shareholders' funds at end of year	7,285,746	6,571,584
	<hr/>	<hr/>

20 Commitments

(i) Capital commitments at the end of the financial year for which no provision has been made.

	1998	1997
	£	£
Contracted	-	168,000
	<hr/>	<hr/>

(ii) Annual commitments under non-cancellable operating leases are as follows:

	1998	1997
	Land and buildings £	Land and buildings £
Operating leases which expire:		
In the second to fifth years inclusive	-	16,750
Over five years	68,620	84,620
	<hr/>	<hr/>
	68,620	101,370
	<hr/>	<hr/>

Notes *(continued)*

21 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £179,766 (1997: £123,614).

22 Ultimate holding company

The company is a subsidiary undertaking of Heraeus Holding GmbH incorporated in Germany. Copies of the consolidated accounts are available from Heraeus Quartz Limited, Byfleet, England. No other group accounts include the results of the company.