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Directors' Report and Accounts

STERLING-IZAL LIMITED

31 October 1984



Price
Waterhouse

STERLING-IZAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1984

DIRECTORS

The directors holding office during the financial year were:

R Brown MA (Chairman)
P Brocklehurst BSc Phd FCS
EJ Dixon MBE
CWM Herbert BSc
A Mellor FBIM MInstM
R Richardson BCOM FCA AMBIM
RP Wright CEng MIMech FMIWM

None of the directors had any interest in the shares of the company or of any other group company in the United Kingdom at the beginning or at the end of the year.

ACTIVITIES

The principal activities of the company are the manufacture and sale of household consumer, DIY and industrial products.

ACCOUNTS AND TRADING RESULTS

The directors have pleasure in submitting the audited accounts of the company for the year ended 31 October 1984.

The profit for the year amounted to £713,000 (1983 £1,066,000) which, after providing for UK corporation tax, left a surplus of £375,000 (1983 £657,000) to be added to opening reserves on profit and loss account of £2,224,000.

Following the announcement in the Chancellor's 1984 Budget, reducing the rate of capital allowances, it has been necessary to make an extraordinary charge of £748,000 in order to reinstate the deferred taxation account at 1 November 1983.

After accounting for dividends receivable of £800,000, the directors propose to pay a dividend of £1,150,000 which, after providing for the extraordinary taxation charge and transferring £10,000 from the revaluation reserve, leaves a balance of £1,511,000 on profit and loss account.

The level of sales marginally increased by £485,000 (2%) to £25,148,000 (1983 £24,663,000).

Sales of DIY and household consumer products only increased by 5.1% principally as a result of difficult trading conditions in the first six months of the year. Sales of industrial products declined by a further 6.4% as a result of the general recession in the traditional manufacturing industries.

STERLING-IZAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1984 (CONTINUED)

ACCOUNTS AND TRADING RESULTS (CONTINUED)

A repeat of the depressed DIY market conditions experienced in the first half of 1984 is not anticipated. Plans are already well advanced for new product launches early in 1985 and when combined with our established core business, prospects for growth remain good. The plans announced last year for the restructuring of the Industrial business were not expected to provide instant remedies for this difficult trading sector. However, improvements are anticipated in 1985. Negotiations to supply products to a number of major UK companies are at an advanced stage and significant growth potential can be foreseen. The penetration of consumer products into European markets continues to improve and export markets are providing a number of growth opportunities.

RESEARCH AND DEVELOPMENT

The policy of the company is to make continued investment in the research and development area. This year these activities have been reorganised to be more synonymous with sales and marketing strategies and production capability. During the year substantial resources were provided for the development of the new DIY products to be launched in the Spring of 1985. In addition improvements of Air Purification and Biocide products were also made.

FIXED ASSETS

During the year £1,129,000 was invested. This was mainly directed to the modernisation of distribution facilities and to increasing the production capacity for moist tissues.

EMPLOYMENT POLICY

The company seeks to encourage employee involvement in its business through a variety of approaches. At the core of these is a flexible system of briefings which encourage feedback from the work force at every level to management. Such briefings may take different forms according to local circumstances where people work, but have the common purpose of providing regular information on the state of business in a format which allows employees to question their immediate managers on any aspect which interests them. These consultations are, of course, additional to more narrowly defined consultative procedures that exist with trade unions and other specialist committees covering health and safety, pensions and recreation.

STERLING-IZAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1984 (CONTINUED)

EMPLOYMENT POLICY (CONTINUED)

The company also employs a variety of regular publications to keep employees informed of developments within the company. In addition, the parent company produces a company newsletter (re-launched in 1984) and an annual financial report for all members of staff.

It is the policy of the company that disabled employees have, so far as is practicable, equal opportunities with other employees with regard to training, career development and promotion. The company will endeavour to re-train any person who becomes disabled whilst in service to enable employment to be continued. Applications for employment by disabled persons are given full consideration bearing in mind the aptitudes and abilities of the applicant.

DONATIONS

The amount of donations made for charitable purposes was £1,010. No political contributions were made during the year.

AUDITORS

Price Waterhouse have offered themselves for re-election and a resolution for their re-appointment under the provisions of Section 14 of the Companies Act 1976 will be proposed at the Annual General Meeting.

By Order of the Board

PW ELLSON
Secretary

8 March 1985

Registered Office

Chapelton
Sheffield
S30 4YP

AUDITORS' REPORT TO THE MEMBERS OF
STERLING-IZAL LIMITED

We have audited the financial statements on pages 5 to 17 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 October 1984 and of its profit and source and application of funds for the year then ended and comply with the Companies Acts 1948 to 1981.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants

8 March 1985

STERLING-IZAL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 31 OCTOBER 1984

	<u>Notes</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
TURNOVER	2	25,148	24,663
Cost of sales		<u>16,359</u>	<u>15,393</u>
GROSS PROFIT		8,789	9,270
Distribution costs		(1,581)	(1,629)
Marketing costs		(3,846)	(4,132)
Administrative costs		(2,288)	(2,031)
Other operating costs		<u>(300)</u>	<u>(364)</u>
TRADING PROFIT		774	1,114
Interest payable	3	<u>(61)</u>	<u>(48)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2 & 3	713	1,066
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	6	<u>338</u>	<u>409</u>
PROFIT FOR THE YEAR		375	657
Dividends receivable	10	<u>800</u>	<u>-</u>
		1,175	657
PROPOSED DIVIDEND		<u>1,150</u>	<u>650</u>
RETAINED PROFIT FOR THE YEAR (BELOW)	16	25	7
MOVEMENT ON RESERVES FOR THE YEAR ENDED 31 OCTOBER 1984			
Reserves at 1 November 1983		15,979	15,972
Deferred taxation provision due to Finance Act 1984	7	(748)	-
Retained profit as shown above		<u>25</u>	<u>7</u>
Reserves at 31 October 1984	16	<u>15,256</u>	<u>15,979</u>

STERLING-IZAL LIMITED

BALANCE SHEET - 31 OCTOBER 1984

	<u>Notes</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
FIXED ASSETS			
Intangible assets	8	6,662	6,892
Tangible assets	9	4,879	4,310
Investment	10	<u>553</u>	<u>553</u>
		<u>12,094</u>	<u>11,755</u>
CURRENT ASSETS			
Inventories	11	4,195	3,948
Debtors	12	4,187	5,214
Cash at bank and in hand		<u>264</u>	<u>432</u>
		8,646	9,594
CREDITORS (amounts falling due within one year)	13	<u>4,311</u>	<u>5,157</u>
NET CURRENT ASSETS		<u>4,335</u>	<u>4,437</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		16,429	16,192
CREDITORS (amounts falling due after more than one year)	14	(223)	(212)
PROVISION FOR LIABILITIES AND CHARGES	7	<u>(949)</u>	<u>-</u>
NET ASSETS		<u>15,257</u>	<u>15,980</u>
CAPITAL AND RESERVES			
Called up share capital	15	1	1
Share premium account	16	13,000	13,000
Revaluation reserve	16	745	755
Profit and loss account	16	<u>1,511</u>	<u>2,224</u>
		<u>15,257</u>	<u>15,980</u>

R Brown
A Mellor

DIRECTORS

APPROVED BY THE BOARD
ON 8 MARCH 1985

STERLING-IZAL LIMITED

STATEMENT OF SOURCE AND APPLICATION OF
FUNDS FOR THE YEAR ENDED 31 OCTOBER 1984

	1984 £'000	1983 £'000
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	713	1,066
Adjustments for items not involving the movement of funds:		
Depreciation	537	538
Amortisation of goodwill	230	230
Disposal of tangible fixed assets	(3)	10
	<u>764</u>	<u>778</u>
TOTAL GENERATED FROM OPERATIONS	1,477	1,844
FUNDS FROM OTHER SOURCES		
Finance leases	37	96
Proceeds on disposal of tangible fixed assets	<u>26</u>	<u>28</u>
	1,540	1,968
APPLICATION OF FUNDS		
Tax paid	(587)	(73)
Purchase of tangible fixed assets	(1,129)	(794)
Dividend paid	(650)	(500)
Decrease/(increase) in working capital	<u>658</u>	<u>(383)</u>
	(1,708)	(1,750)
(DECREASE)/INCREASE IN CASH AT BANK AND IN HAND	<u>(168)</u>	<u>218</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984

1 ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which the directors consider material in relation to the company's accounts.

(1) Basis of accounting

The accounts have been prepared under the historical cost convention adjusted by the revaluations of certain properties (see (9) below).

(2) Turnover

Turnover comprises amounts invoiced to third parties and associated companies (excluding value added tax) in respect of goods delivered in the year.

The company has refined the method of determining the point of despatch of sale. The effect of adopting this refinement is to reduce sales and profit for the year by £591,000 and £317,000 respectively.

(3) Goodwill

Goodwill represents the excess of purchase consideration for the business acquired from Newton Chambers & Company Limited and other previous acquisitions over the amount attributed to the fair value of the net assets acquired and is being amortised over 40 years, or the appropriate economic life of the products required wherever shorter.

(4) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less depreciation. Provision has been made for depreciation on the straight-line method at rates designed to write off the original cost and subsequent revaluation of assets over their useful economic lives. No depreciation is calculated on freehold land and assets in the course of construction. The maximum lives assumed for depreciating assets are as follows:

Freehold land and buildings	40 years
Short leasehold properties	Lease life
Plant and machinery	15 years
Fixtures, fittings and equipment	10 years

Some of the company's plant and machinery is financed by long term leasing arrangements. Although not legally the property of the company these items are included as fixed assets and the obligation to pay future rentals treated as a liability.

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(5) Inventories

Inventories have been consistently valued at the lower of cost or net realisable value. Cost includes an appropriate proportion of manufacturing overhead expenses.

(6) Research and development costs

Research and development costs are charged to the profit and loss account when incurred.

(7) Regional development grants

Regional development grants receivable are credited to the regional development grant account and a proportion of the grants, based on depreciation rates of the relevant assets, is credited each year to the profit and loss account.

(8) Pension funding

The company operates a pension scheme under which contributions by employees and by the company are held in a trustee administered fund separated from the company's finances. Actuarial valuations of the fund are conducted at three year intervals and include a review of contributions.

(9) Deferred taxation

Provision is made for taxation deferred because of timing differences between profits as computed for taxation purposes and profits as stated in the accounts. Timing differences are due primarily to the excess of tax allowances on fixed assets over the corresponding depreciation charged in the accounts.

The provision for deferred taxation is made at the rate of corporation tax anticipated for the year in which the deferral is expected to reverse.

(10) Revaluation reserve

The revaluation reserve represents the accumulated surplus from professional valuations of the company's freehold land and buildings, which were last valued in August 1978, less depreciation on the revaluation surplus accumulated since that date.

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

2 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>Turnover</u>		<u>Profit before taxation</u>	
	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Class of business:				
Consumer products	18,850	17,932	1,607	1,282
Industrial products	<u>6,298</u>	<u>6,731</u>	<u>(894)</u>	<u>(216)</u>
	<u>25,148</u>	<u>24,663</u>	<u>713</u>	<u>1,066</u>
Geographical market:				
United Kingdom	24,827	24,465		
Rest of the world	<u>321</u>	<u>198</u>		
	<u>25,148</u>	<u>24,663</u>		

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Is stated after the following amounts:

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Staff costs (Notes 4 and 5)	5,405	4,755
Depreciation after transfer from regional development grant reserve	534	535
Amortisation of goodwill (Note 8)	230	230
Hire of plant and machinery	277	254
Auditors' remuneration	20	19
Interest payable on bank overdraft	<u>61</u>	<u>48</u>

4 STAFF NUMBERS AND COST

	<u>1984</u>	<u>1983</u>
The average number of persons employed by the company during the year were	<u>683</u>	<u>630</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

4 STAFF NUMBERS AND COST (CONTINUED)

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
The aggregate payroll costs were:		
Wages and salaries	4,746	4,149
Social security costs	361	361
Other pension costs	<u>298</u>	<u>245</u>
	<u>5,405</u>	<u>4,755</u>

5 REMUNERATION OF DIRECTORS AND OTHER EMPLOYEES

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Directors' remuneration included in aggregate payroll costs in Note 4 above were as follows:		
Salaries and other emoluments	223	175
Compensation for loss of office	<u>-</u>	<u>33</u>
	<u>223</u>	<u>208</u>

No fees are paid to directors.

	<u>1984</u>	<u>1983</u>
The remuneration, excluding pension contributions, of the Chairman and highest paid director was	<u>42,851</u>	<u>39,008</u>

An analysis of remuneration, excluding pension contributions, of other directors in the year is as follows:

	<u>Number</u>	<u>Number</u>
£5,001 - £10,000	-	3
£10,001 - £15,000	-	2
£15,001 - £20,000	-	3
£20,001 - £25,000	2	1
£25,001 - £30,000	2	-
£30,001 - £35,000	2	-

There were no UK employees (1983 Nil) whose gross remuneration, excluding company pension contributions, but before Income Tax and other deductions, was in excess of £30,000.

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

6 TAXATION

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Based on the profit for the year		
Corporation tax at 47% (1983 52%)	142	420
Deferred tax (Note 7)	<u>201</u>	<u>-</u>
	343	420
Prior year overprovision for corporation tax	<u>(5)</u>	<u>(11)</u>
	338	409
	<u>---</u>	<u>---</u>

7 PROVISION FOR LIABILITIES AND CHARGES

This represents the full potential liability for deferred taxation calculated at 35% except for timing differences which are expected to reverse prior to 31 March 1986 for which the appropriate rates of tax have been used.

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
At 1 November 1983	-	-
Adjustment arising from the Finance Act 1984	748	-
Increase for the year (Note 6)	<u>201</u>	<u>-</u>
At 31 October 1984	949	-
	<u>---</u>	<u>---</u>
Deferred taxation results from the following timing differences:		
Accelerated capital allowances	958	37
Other	<u>(9)</u>	<u>(37)</u>
	949	-
	<u>---</u>	<u>---</u>

SEIZAL LIMITED

THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

8 INTANGIBLE ASSETS

Goodwill, trademarks and know-how	£'000
Cost:	
At 1 November 1983 and 31 October 1984	<u>9,190</u>
Amortisation:	
At 1 November 1983	2,298
Charge for the year	<u>230</u>
At 31 October 1984	<u>2,528</u>
Net book value at 31 October 1984	<u>6,662</u>

9 TANGIBLE ASSETS

	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
<u>Cost or valuation</u>				
At 1 November 1983	3,094	2,509	250	5,853
Additions	105	942	82	1,129
Reclassifications	(20)	20	-	-
Disposals	<u>-</u>	<u>(115)</u>	<u>(5)</u>	<u>(120)</u>
At 31 October 1984	<u>3,179</u>	<u>3,356</u>	<u>327</u>	<u>6,862</u>
Comprising:				
Valuation of freehold property at 31 October 1978	2,200	-	-	2,200
Cost of owned assets	922	3,120	327	4,369
Cost of leased assets	<u>57</u>	<u>236</u>	<u>-</u>	<u>293</u>
	<u>3,179</u>	<u>3,356</u>	<u>327</u>	<u>6,862</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

9 TANGIBLE ASSETS (CONTINUED)

	<u>Land and buildings</u> £'000	<u>Plant and machinery</u> £'000	<u>Fixtures, fittings, tools and equipment</u> £'000	<u>Total</u> £'000
<u>Depreciation</u>				
At 1 November 1983	444	965	134	1,543
Charge for the year	109	380	48	537
Reclassifications	-	-	-	-
Disposals	-	(93)	(4)	(97)
At 31 October 1984	<u>553</u>	<u>1,252</u>	<u>178</u>	<u>1,983</u>
<u>Net book amount</u>				
At 31 October 1984	<u>2,626</u>	<u>2,104</u>	<u>149</u>	<u>4,879</u>
At 31 October 1983	<u>2,650</u>	<u>1,544</u>	<u>116</u>	<u>4,310</u>
The net book amount of land and buildings comprises:			<u>1984</u> £'000	<u>1983</u> £'000
Freehold			2,604	2,635
Short leasehold			<u>22</u>	<u>15</u>
			<u>2,626</u>	<u>2,650</u>

The valuations have generally been made on the basis of current market values of the land in its developed state together with the cost of replacing the existing buildings in their present condition.

The historical cost of land and buildings amounts to £2,599,000 (1983 £2,514,000) and the accumulated depreciation thereon is £729,000 (1983 £639,000) giving a net book amount of £1,870,000 (1983 £1,875,000).

10 INVESTMENT

	<u>1984</u> £'000	<u>1983</u> £'000
Company shares in subsidiaries at cost:		
At 1 November 1983 and 31 October 1984	<u>553</u>	<u>553</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

10 INVESTMENT (CONTINUED)

Consolidated accounts have not been prepared as the company is a wholly owned subsidiary of another company incorporated in Great Britain.

Following several years of adverse trading conditions Izal Overseas Limited ceased trading with effect from 1 November 1984. A dividend of £800,000 was declared to be payable out of reserves and has been taken up in these accounts.

The company has other wholly owned non-trading subsidiaries.

In the opinion of the directors, the aggregate value of the company's investments in its subsidiaries is not less than the amount at which they are stated in the accounts.

11 INVENTORIES

	<u>1984</u> £'000	<u>1983</u> £'000
Raw materials	1,646	1,695
Work in progress	496	538
Finished goods	<u>2,053</u>	<u>1,715</u>
	<u>4,195</u>	<u>3,948</u>

12 DEBTORS

	<u>1984</u> £'000	<u>1983</u> £'000
Trade debtors	3,478	3,703
Amounts owed by group companies	606	1,365
Other debtors	35	57
Prepayments and accrued income	<u>68</u>	<u>89</u>
	<u>4,187</u>	<u>5,214</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

13 CREDITORS (amounts falling due within one year)

	<u>1984</u>	<u>1983</u>
	<u>£'000</u>	<u>£'000</u>
Trade creditors	2,325	2,956
Amounts owed to group companies	435	416
Corporation tax	541	991
Taxation and social security	299	200
Other creditors	94	68
Accruals and deferred income	<u>617</u>	<u>526</u>
	<u>4,311</u>	<u>5,157</u>

14 CREDITORS (amounts falling due after more than one year)

	<u>1984</u>	<u>1983</u>
	<u>£'000</u>	<u>£'000</u>
Future lease obligations	112	98
Deferred income - regional development grants	<u>111</u>	<u>114</u>
	<u>223</u>	<u>212</u>

The movement on regional development grants comprises the amount released to profit and loss account in the year.

15 CALLED UP SHARE CAPITAL

	<u>1984</u>	<u>1983</u>
	<u>£</u>	<u>£</u>
Authorised, allotted and fully paid		
Ordinary shares of £1 each	100	100
Deferred shares of £1 each	<u>200</u>	<u>200</u>
Total (rounded to £1,000 in the balance sheet)	<u>300</u>	<u>300</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1984 (CONTINUED)

16 RESERVES

	Share premium £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 November 1983	13,000	755	2,224	15,979
Deferred taxation provision due to Finance Act 1984	-	-	(748)	(748)
Retained profit	-	-	25	25
Transfers	-	(10)	10	-
At 31 October 1984	13,000	745	1,511	15,256

17 CAPITAL COMMITMENTS

	1984 £'000	1983 £'000
Contracted for, but not yet provided	122	51
Authorised by directors, but not contracted for	54	42
	176	93

18 PENSIONS

An actuarial valuation of the Sterling-Izal UK Pension Fund at 31 March 1983 showed a total surplus of £850,000. This has been utilised to fund increases for pensions in course of payment and some improvements in anticipated benefits for members in service.

The actuary has recommended that company and employee contributions remain unchanged.

19 HOLDING COMPANY

Sterling-Izal Limited is a wholly owned subsidiary of Sterling-Winthrop Group Limited, a company incorporated in Great Britain. The ultimate holding company is Sterling Drug Inc. which is incorporated in the United States of America.