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DIRECTORS' REPORT AND ACCOUNTS

STERLING-IZAL LIMITED

31 October 1985



Price Waterhouse



DIRECTORS' REPORT AND ACCOUNTS

STERLING-IZAL LIMITED

31 October 1985



STERLING-IZAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1985

DIRECTORS

The directors holding office during the year were:

R Brown MA	(Chairman)
P Brocklehurst BSc Phd FCS	(Resigned 14 February 1986)
EJ Dixon MBE	(Resigned 14 February 1986)
CWM Herbert BSc	(Resigned 14 February 1986)
A Mellor FBIM MInstM	(Resigned 14 February 1986)
R Richardson BCOM FCA AMBIM	(Resigned 14 February 1986)
RP Wright CEng MIMech FMIWM	(Resigned 14 February 1986)

Mr VJA Underhill was appointed a director on 14 February 1986.

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 1985.

The profit for the year amounted to £1,082,000 (1984 £713,000) which, after providing for UK corporation tax, left a surplus of £506,000 (1984 £375,000) to be added to opening reserves on profit and loss account of £1,511,000. The directors propose to pay a dividend of £500,000 which, after transferring £10,000 from the revaluation reserve, leaves a balance of £1,527,000 on profit and loss account.

The industrial and consumer markets were once again difficult trading areas. Sales increased by £1,849,000 (7%) to £26,997,000 (1984 £25,148,000). The continued lack of real growth has resulted in a complete review of operations. The directors have concluded that significant savings can be achieved by re-organising the whole business in divisional format operating directly under the holding company. The business and assets of the company were, therefore, transferred to Sterling Winthrop Group Limited on 1 November 1985 from which date the contracts of employment of our employees were automatically transferred to the holding company. Consequently, Sterling-Izal Limited ceased to trade with effect from 1 November 1985.

STERLING-IZAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1985 (CONTINUED)

ACCOUNTS AND TRADING RESULTS (CONTINUED)

However, for the future and within Sterling Winthrop Group Limited the manufacture and development of new and existing products for those businesses will continue but will utilise recent and planned investments in manufacturing capacity and computer based systems to achieve reductions in operating costs. In addition, reductions in the number of people employed since the year ended have been achieved through a voluntary redundancy programme. It has also been possible to transfer the marketing activities to new premises and it is proposed that the research facilities will also be transferred to new premises within the next few months thus enabling the administration facilities to be transferred from leased to owned premises.

The effect of all this is to place the business in a sound financial position from which it will be able to compete more effectively than in recent years.

RESEARCH AND DEVELOPMENT

The policy of the company is to make continued investment in the research and development area. This year saw the launch of a new outdoor wood preservative which had been developed on the basis of being environmentally acceptable.

FIXED ASSETS

During the year £635,000 was invested which was used mainly to improve a number of manufacturing areas.

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 the local circumstances in which 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.

The company also employs a variety of regular publications to keep employees informed of developments within the company. In addition, the parent company produces an annual financial report for all members of staff.

STERLING-IZAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1985 (CONTINUED)

EMPLOYMENT POLICY (CONTINUED)

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 £550. 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 384 of the Companies Act 1985 will be proposed at the Annual General Meeting.

By Order of the Board



A WARNOCK-SMITH
Secretary

12 March 1986

Registered Office

Chapelton
Sheffield
S30 4YP

Price Waterhouse



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 1985 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants

12 March 1986

STERLING-IZAL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 31 OCTOBER 1985

	<u>Notes</u>	<u>1985</u> £ '000	<u>1984</u> £ '000
TURNOVER	2	26,997	25,148
Cost of sales		<u>17,323</u>	<u>16,359</u>
GROSS PROFIT		9,674	8,789
Distribution costs		(1,669)	(1,581)
Marketing costs		(4,304)	(3,846)
Administrative costs		(2,256)	(2,288)
Other operating costs		<u>(296)</u>	<u>(300)</u>
TRADING PROFIT		1,149	774
Interest payable	3	<u>(67)</u>	<u>(61)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2 & 3	1,082	713
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	6	<u>576</u>	<u>338</u>
PROFIT FOR THE YEAR		506	375
Dividends receivable		<u>-</u>	<u>800</u>
PROPOSED DIVIDEND		506	1,175
RETAINED PROFIT FOR THE YEAR (BELOW)		<u>500</u>	<u>1,150</u>
RETAINED PROFIT FOR THE YEAR (BELOW)	16	6	25
MOVEMENT ON RESERVES FOR THE YEAR ENDED 31 OCTOBER 1985			
Reserves at 1 November 1984		15,256	15,979
Deferred taxation provision due to Finance Act 1984		-	(748)
Retained profit as shown above		<u>6</u>	<u>25</u>
Reserves at 31 October 1985	16	15,262	15,256

STERLING-IZAL LIMITED

BALANCE SHEET - 31 OCTOBER 1985

	<u>Notes</u>	<u>1985</u> £'000	<u>1984</u> £'000
FIXED ASSETS			
Intangible assets	8	6,437	6,662
Tangible assets	9	4,780	4,879
Investment	10	<u>553</u>	<u>553</u>
		<u>11,770</u>	<u>12,094</u>
CURRENT ASSETS			
Inventories	11	4,449	4,195
Debtors	12	4,958	4,187
Cash at bank and in hand		<u>111</u>	<u>264</u>
		9,518	8,646
CREDITORS (amounts falling due within one year)	13	<u>4,887</u>	<u>4,311</u>
NET CURRENT ASSETS		<u>4,631</u>	<u>4,335</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		16,401	16,429
CREDITORS (amounts falling due after more than one year)	14	(226)	(223)
PROVISION FOR LIABILITIES AND CHARGES	7	<u>(912)</u>	<u>(949)</u>
NET ASSETS		<u>15,263</u>	<u>15,257</u>
CAPITAL AND RESERVES			
Called up share capital	15	1	1
Share premium account	16	13,000	13,000
Revaluation reserve	16	735	745
Profit and loss account	16	<u>1,527</u>	<u>1,511</u>
		<u>15,263</u>	<u>15,257</u>

R Brown
VJA Underhill

DIRECTORS

APPROVED BY THE BOARD
ON 12 MARCH 1986

STERLING-IZAL LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 OCTOBER 1985

	<u>1985</u> £ '000	<u>1984</u> £ '000
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	<u>1,082</u>	<u>713</u>
Adjustments for items not involving the movement of funds:		
Depreciation	659	537
Amortisation of goodwill	230	230
Disposal of tangible fixed assets	<u>8</u>	<u>(3)</u>
	<u>897</u>	<u>764</u>
TOTAL GENERATED FROM OPERATIONS	1,979	1,477
FUNDS FROM OTHER SOURCES		
Dividend received	800	-
Finance leases	24	37
Proceeds on disposal of tangible fixed assets	<u>67</u>	<u>26</u>
	2,870	1,540
APPLICATION OF FUNDS		
Tax paid	(288)	(587)
Purchase of tangible fixed assets	(635)	(1,129)
Purchase of intangible fixed assets	(5)	-
Dividend paid	(1,150)	(650)
Decrease/(increase) in working capital	<u>(945)</u>	<u>658</u>
	<u>(3,023)</u>	<u>(1,708)</u>
DECREASE IN CASH AT BANK AND IN HAND	<u>(153)</u>	<u>(168)</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1985

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.

(2) Turnover

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

(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 acquired 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 1985 (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.

STEBLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1985 (CONTINUED)

2 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Turnover		Profit before taxation	
	1985 £'000	1984 £'000	1985 £'000	1984 £'000
Class of business:				
Consumer products	20,792	18,850	1,698	1,607
Industrial products	<u>6,205</u>	<u>6,298</u>	<u>(616)</u>	<u>(894)</u>
	26,997	25,148	1,082	713
Geographical market:				
United Kingdom	26,699	24,827		
Rest of the world	<u>298</u>	<u>321</u>		
	26,997	25,148		

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Is stated after the following amounts:

	1985 £'000	1984 £'000
Staff costs (Notes 4 and 5)	5,576	5,405
Depreciation after transfer from regional development grant reserve	659	534
Amortisation of goodwill (Note 8)	230	230
Hire of plant and machinery	317	277
Auditors' remuneration	21	20
Finance charges in respect of finance leases	<u>67</u>	<u>61</u>

4 STAFF NUMBERS AND COST

	1985	1984
The average number of persons employed by the company during the year were ..	<u>654</u>	<u>683</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1985 (CONTINUED)

4 STAFF NUMBERS AND COST (CONTINUED)

	<u>1985</u> £'000	<u>1984</u> £'000
The aggregate payroll costs were:		
Wages and salaries	4,933	4,746
Social security costs	355	361
Other pension costs	<u>288</u>	<u>298</u>
	5,576	5,405
	<u> </u>	<u> </u>

5 REMUNERATION OF DIRECTORS AND OTHER EMPLOYEES

	<u>1985</u> £'000	<u>1984</u> £'000
Directors' remuneration included in aggregate payroll costs in Note 4 above were as follows:		
Salaries and other emoluments	<u>228</u>	<u>223</u>
No fees are paid to directors.		
	<u>1985</u>	<u>1984</u>
The remuneration, excluding pension contributions, of the Chairman and highest paid director was	<u>£48,233</u>	<u>£42,851</u>
An analysis of remuneration, excluding pension contributions, of other directors in the year is as follows:	<u>Number</u>	<u>Number</u>
£20,001 - £25,000	2	2
£25,001 - £30,000	2	2
£30,001 - £35,000	2	2

There were no UK employees (1984 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 1985 (CONTINUED)

6 TAXATION

	<u>1985</u> £'000	<u>1984</u> £'000
Based on the profit for the year		
Corporation tax at 42% (1984 47%)	604	142
Deferred tax (Note 7)	<u>(28)</u>	<u>201</u>
	576	343
Prior year overprovision for corporation tax	<u>-</u>	<u>(5)</u>
	576	338
	<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>1985</u> £'000	<u>1984</u> £'000
At 1 November 1984	949	-
Adjustment arising from the Finance Act 1984 (Decrease)/increase for the year (Note 6)	<u>(9)</u> <u>(28)</u>	<u>748</u> <u>201</u>
At 31 October 1985	912	949
	<u>---</u>	<u>---</u>
Deferred taxation results from the following timing differences:		
Accelerated capital allowances	912	958
Other	<u>-</u>	<u>(9)</u>
	912	949
	<u>---</u>	<u>---</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1985 (CONTINUED)

8 INTANGIBLE ASSETS

	<u>1985</u> £'000	<u>1984</u> £'000
Goodwill, trademarks and know-how		
Cost:		
At 1 November 1984	9,190	9,190
Additions	<u>5</u>	<u>-</u>
At 31 October 1985	9,195	9,190
Amortisation:		
At 1 November 1984	2,528	2,298
Charge for the year	<u>230</u>	<u>230</u>
At 31 October 1985	2,758	2,528
	<u>-----</u>	<u>-----</u>
Net book value at 31 October 1985	<u>6,437</u>	<u>6,662</u>

9 TANGIBLE ASSETS

	<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>Cost or valuation</u>				
At 1 November 1984	3,179	3,356	327	6,862
Additions	21	566	48	635
Reclassifications	-	-	-	-
Disposals	<u>-</u>	<u>(119)</u>	<u>(10)</u>	<u>(129)</u>
At 31 October 1985	<u>3,200</u>	<u>3,803</u>	<u>365</u>	<u>7,368</u>
Comprising:				
Valuation of freehold property at 31 October 1978	2,200	-	-	2,200
Cost of owned assets	942	3,492	365	4,799
Cost of leased assets	<u>58</u>	<u>311</u>	<u>-</u>	<u>369</u>
	<u>3,200</u>	<u>3,803</u>	<u>365</u>	<u>7,368</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1985 (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 1984	553	1,252	178	1,983
Charge for the year	122	474	63	659
Reclassifications	-	-	-	-
Disposals	<u>-</u>	<u>(47)</u>	<u>(7)</u>	<u>(54)</u>
At 31 October 1985	<u>675</u>	<u>1,679</u>	<u>234</u>	<u>2,588</u>
<u>Net book amount</u>				
At 31 October 1985	<u>2,525</u>	<u>2,124</u>	<u>131</u>	<u>4,780</u>
At 31 October 1984	<u>2,626</u>	<u>2,104</u>	<u>149</u>	<u>4,879</u>
The net book amount of land and buildings comprises:			<u>1985</u> £'000	<u>1984</u> £'000
Freehold			2,524	2,604
Short leasehold			<u>1</u>	<u>22</u>
			<u>2,525</u>	<u>2,626</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 £2,621,000 (1984 £2,599,000) and the accumulated depreciation thereon is £840,000 (1984 £729,000) giving a net book amount of £1,781,000 (1984 £1,870,000).

10 INVESTMENT

	<u>1985</u> £'000	<u>1984</u> £'000
Company shares in subsidiaries, all of which are non-trading, at cost:		
At 1 November 1984 and 31 October 1985	<u>553</u>	<u>553</u>

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1985 (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.

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>1985</u> £'000	<u>1984</u> £'000
Raw materials	1,799	1,646
Work in progress	551	496
Finished goods	<u>2,099</u>	<u>2,053</u>
	4,449	4,195
	-----	-----

12 DEBTORS

	<u>1985</u> £'000	<u>1984</u> £'000
Trade debtors	4,009	3,478
Amounts owed by group companies	717	606
Other debtors	55	35
Prepayments and accrued income	<u>177</u>	<u>68</u>
	4,958	4,187
	-----	-----

STERLING-IZAL LIMITED

NOTES TO THE ACCOUNTS - 31 OCTOBER 1985 (CONTINUED)

13 CREDITORS (amounts falling due within one year)

	<u>1985</u> £ '000	<u>1984</u> £ '000
Trade creditors	2,574	2,325
Amounts owed to group companies	471	435
Corporation tax	866	541
Taxation and social security	191	299
Other creditors	132	94
Accruals and deferred income	<u>653</u>	<u>617</u>
	<u>4,887</u>	<u>4,311</u>

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

	<u>1985</u> £ '000	<u>1984</u> £ '000
Future lease obligations	120	112
Deferred income - regional development grants	<u>106</u>	<u>111</u>
	<u>226</u>	<u>223</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>1985</u> £	<u>1984</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 1985 (CONTINUED)

16 RESERVES

	<u>Share premium</u> £ '000	<u>Revaluation reserve</u> £ '000	<u>Profit and loss account</u> £ '000	<u>Total</u> £ '000
At 1 November 1984	13,000	745	1,511	15,256
Retained profit	-	-	6	6
Transfers	-	(10)	10	-
At 31 October 1985	13,000	735	1,527	15,262

17 CAPITAL COMMITMENTS

	<u>1985</u> £ '000	<u>1984</u> £ '000
Contracted for, but not yet provided	11	122
Authorised by directors, but not contracted for	182	54
	193	176

18 PENSIONS

An actuarial valuation of the Sterling-Izal UK Pension Fund at 31 March 1985, showed a total surplus of £1,201,000. This has been utilised to fund increases for pensions in course of payment and some improvements in anticipated benefits for members in service.

At 1 November 1985 all employees transferred their employment to Sterling-Winthrop Group Limited, and that company will administer the fund on behalf of the trustees. Company and employee contributions will continue at rates recommended by the actuary.

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.

20 TRANSFER OF UNDERTAKING

On 1 November 1985 the assets, liabilities and undertaking of the company were transferred to its holding company, Sterling-Winthrop Group Limited and the company ceased to trade.