

Lilly Industries (UK) Limited
(formerly Guardsman UK Limited)
Report and Accounts

30 November 1999

Registered no. 2360505



ERNST & YOUNG

DIRECTORS

K C Vander-Hyde

D G Doig

D Wilkins (appointed 1 February 1999)

R Gretton (appointed 1 February 1999)

SECRETARY

D Wilkins

AUDITORS

Ernst & Young

Apex Plaza

Reading

RG1 1YE

BANKERS

Barclays Bank Plc

South Oxon Group Abingdon

PO Box 42

Abingdon

Oxfordshire OX14 1GU

REGISTERED OFFICE

152 Milton Park

Abingdon

Oxfordshire

OX14 4SD

The directors present their report and accounts for the year ended 30 November 1999.

RESULTS AND DIVIDENDS

The results for the period are as set out in the attached accounts. No interim dividends were paid during 1999 (1998: £1,123,173). No final dividend is proposed.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the company continues to be the marketing and distribution of Guardsman products for fabric protection and for the protection and maintenance of upholstered and wooden furniture. The company also acts as an agent in the sale and administration of fabric and furniture protection insurance policies.

DIRECTORS AND THEIR INTERESTS

The directors during the period were as follows:

K C Vander-Hyde

D G Doig

D Wilkins (appointed 1 February 1999)

R Gretton (appointed 1 February 1999)

M Graham (appointed 1 March 1999 - resigned 31 May 1999)

No director holds any interest in the share capital of the company. The directors' interests and options in shares of Lilly Industries Inc are disclosed in the consolidated accounts of that company.

CHARITABLE CONTRIBUTIONS

During the year, the company made various charitable contributions totalling £nil (1998: £525).

YEAR 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A company-wide programme, designed to address the impact of the Year 2000 on our business, has been commissioned by the Board and was implemented. The total costs of ensuring the company is Year 2000 compliant is not expected to be material. At the date of signing these accounts, the directors are not aware that any significant problems relating to Year 2000 have arisen.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

Director



5 July 2000

Lilly Industries (UK) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts 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 of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Lilly Industries (UK) Limited (formerly Guardsman UK Limited)

We have audited the accounts on pages 5 to 13, which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

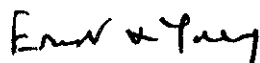
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 30 November 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor
Reading

25 July 2000

Lilly Industries (UK) Limited

PROFIT AND LOSS ACCOUNT for the year ended 30 November 1999

	Notes	1999 £	1998 £
TURNOVER	2	6,413,070	6,690,064
Cost of sales		2,145,224	2,469,844
Gross profit		4,267,846	4,220,220
Distribution expenses		606,321	767,330
Administration costs		3,191,580	2,884,782
OPERATING PROFIT	3	469,945	568,108
Interest receivable	6	31,435	53,245
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		501,380	621,353
Tax on profit on ordinary activities	7	(131,783)	(238,126)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		369,597	383,227
Dividend paid on equity shares	19	-	1,123,173
RETAINED PROFIT/(LOSS) FOR THE YEAR		369,597	(739,946)

The above results are all derived from continuing operations.

STATEMENT OF RECOGNISED GAINS AND LOSSES

There were no recognised gains and losses other than the profit attributable to members of £369,597 in the year ended 30 November 1999 and £383,227 in the year ended 30 November 1998.

Lilly Industries (UK) Limited

BALANCE SHEET at 30 November 1999

	Notes	1999 £	1998 £
FIXED ASSETS			
Intangible assets	8	-	-
Tangible assets	9	313,642	221,692
		<u>313,642</u>	<u>221,692</u>
CURRENT ASSETS			
Stocks	10	284,599	227,290
Debtors	11	2,604,292	3,502,076
Cash at bank and in hand		-	452,562
		<u>2,888,891</u>	<u>4,181,928</u>
CREDITORS: amounts falling due within one year	12	<u>2,193,912</u>	<u>3,719,714</u>
NET CURRENT ASSETS		<u>694,979</u>	<u>462,214</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,008,621</u>	<u>683,906</u>
CREDITORS: amounts falling due after more than one year	13	<u>472,345</u>	<u>517,227</u>
		<u>536,276</u>	<u>166,679</u>
CAPITAL AND RESERVES			
Called up share capital	15	2,000	2,000
Profit and loss account	19	534,276	164,679
Equity shareholders' funds		<u>536,276</u>	<u>166,679</u>

Director



5 July 2000

NOTES TO THE ACCOUNTS

at 30 November 1999

1 ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash Flow Statement

The company is a wholly owned subsidiary of Lilly Industries Inc and is included in its consolidated accounts which are publicly available. The directors have taken advantage of the exemption from preparing a cashflow statement in accordance with Financial Reporting Standard No.1 (Revised 1997).

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value of each asset, evenly over its expected useful life, as follows:

	<i>Years</i>
Leasehold improvements	10-20
Plant and Equipment	3-10
Furniture	3-10

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Advertising

Expenditure on literature is accounted for as a prepayment and written off over a period of 12 to 36 months. This reflects the useful life of such literature and the stock items to which it relates.

Warranty costs

The warranty accrual is based on an estimate of future claims within the warranty period outstanding for both current and prior year sales.

Pensions

The company contributes to group personal pension plans. Contributions are charged to the profit and loss account as they become payable.

NOTES TO THE ACCOUNTS

at 30 November 1999

2 **TURNOVER**

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to two continuing activities. The primary activity is the marketing and distribution of "Guardsman" products for fabric protection and for the protection and maintenance of upholstered and wooden furniture. A secondary activity relates to acting as agent in the sale and administration of fabric and furniture protection insurance policies.

Geographical analysis of turnover

	1999 £	1998 £
UK	6,392,887	6,653,959
Rest of Europe	20,183	16,331
South Africa	-	19,430
Russia	-	344
	<u>6,413,070</u>	<u>6,690,064</u>

Analysis of turnover by area of activity

In the opinion of the directors, the disclosure of this information would be seriously prejudicial to the interests of the company, hence it has not been disclosed.

3 **OPERATING PROFIT**

This is stated after charging:	1999 £	1998 £
Auditors' remuneration - audit services	14,500	13,940
- other	12,196	9,557
Depreciation of owned assets	78,654	84,920
Operating lease rentals		
- land and buildings	78,402	80,704
- plant and machinery	110,720	53,118
	<u>181,886</u>	<u>99,320</u>

4 **DIRECTORS' REMUNERATION**

	1999 £	1998 £
Emoluments	167,565	92,800
Company contributions to group personal pension plans	14,321	6,520
	<u>181,886</u>	<u>99,320</u>

Lilly Industries (UK) Limited

NOTES TO THE ACCOUNTS

at 30 November 1999

5 STAFF COSTS

	1999 £	1998 £
Wages & salaries	1,206,807	1,008,273
Social security costs	106,898	94,303
Other pension costs	74,068	63,963
Temporary staff	66,799	53,181
	<u>1,454,572</u>	<u>1,219,720</u>

	1999 No.	1998 No.
Average number of employees during the period:		
Administration	12	9
Sales	57	42
Warehouse	3	2
	<u>72</u>	<u>53</u>

6 INTEREST RECEIVABLE

	1999 £	1998 £
Bank deposit interest	26,384	48,649
Other	5,051	4,596
	<u>31,435</u>	<u>53,245</u>

7 TAXATION

The taxation charge is made up as follows:

	1999 £	1998 £
Based on the profit for the period:		
UK corporation tax	131,674	233,355
Deferred taxation	-	-
Prior year corporation tax under/(over) provided	109	4,771
	<u>131,783</u>	<u>238,126</u>

NOTES TO THE ACCOUNTS

at 30 November 1999

8 INTANGIBLE FIXED ASSETS

	£
Cost	
At 1 December 1998 and 30 November 1999	41,500
Amortisation	
At 1 December 1998 and 30 November 1999	41,500
Net book value	
At 1 December 1998 and 30 November 1999	-

The intangible fixed asset represents the cost of a non competition agreement and has been written off over 4 years.

9 TANGIBLE FIXED ASSETS

	<i>Leasehold Improvements</i> £	<i>Furniture</i> £	<i>Plant and Equipment</i> £	<i>Total</i> £
Cost				
At 1 December 1998	99,373	94,643	239,956	433,972
Additions	20,099	6,148	165,601	191,848
Disposals	-	-	(31,702)	(31,702)
At 30 November 1999	119,472	100,791	373,855	594,118
Depreciation				
At 1 December 1998	32,154	50,341	129,785	212,280
Charge for the period	11,947	7,206	59,501	78,654
Disposals	-	-	(10,458)	(10,458)
At 30 November 1999	44,101	57,547	178,828	280,476
Net book value				
At 30 November 1999	75,371	43,244	195,027	313,642
Net book value				
At 1 December 1998	67,219	44,302	110,171	221,692

Lilly Industries (UK) Limited

NOTES TO THE ACCOUNTS at 30 November 1999

10 STOCKS

	1999 £	1998 £
Raw materials and consumables	59,393	44,590
Finished goods and goods for resale	225,206	182,700
	<u>284,599</u>	<u>227,290</u>

11 DEBTORS

	1999 £	1998 £
Trade debtors	1,374,973	1,433,051
Prepayments and accrued income	437,906	892,552
Other debtors	15,955	14,312
Corporation tax repayable	47,329	157,150
Loan to parent undertaking	710,000	897,920
Amounts receivable from affiliated companies	18,129	107,091
	<u>2,604,292</u>	<u>3,502,076</u>

12 CREDITORS: amounts falling due within one year

	30 November 1999 £	30 November 1998 £
Bank loans and overdrafts	4,087	-
Trade creditors	300,731	22,014
Loan from associated company	-	1,555,143
Amount payable to associated company	385,703	35,630
Other taxes and social security costs	137,266	110,161
Corporation tax	31,674	82,804
Accruals and deferred income	655,625	1,149,996
Warranty claims accrual	678,826	763,966
	<u>2,193,912</u>	<u>3,719,714</u>

13 CREDITORS: amounts falling due after more than one year

	1999 £	1998 £
Warranty claims accrual	472,345	480,097
Deferred income	-	37,130
	<u>472,345</u>	<u>517,227</u>

NOTES TO THE ACCOUNTS

at 30 November 1999

14 PROVISION FOR LIABILITIES AND CHARGES

The movements in deferred taxation during the current and previous periods are as follows:

	1999 £	1998 £
Deferred taxation:		
Balance at 1 December	-	-
Transferred to the profit & loss account in respect of the current period	-	-
	<u>-</u>	<u>-</u>

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided		Not provided	
	1999 £	1998 £	1999 £	1998 £
Capital allowances in advance of depreciation	-	-	19,664	14,861
Other timing differences	-	-	(52,011)	(63,919)
	<u>-</u>	<u>-</u>	<u>(32,347)</u>	<u>(49,058)</u>

15 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1999 No	1998 No	1999 £	1998 £
Ordinary shares of £1 each	2,000	2,000	2,000	2,000

16 PENSION COMMITMENTS

The company contributes to group personal pension plans for its directors and all employees. The assets of the scheme are held separately from those of the company. The pension cost charged represents contributions payable by the company to the personal pension plans. There was no outstanding balance unpaid at the year end (1998: £nil).

17 CAPITAL COMMITMENTS

	1999 £	1998 £
At the balance sheet date the company had entered into contracts for future capital expenditure amounting to:	-	18,710

NOTES TO THE ACCOUNTS

at 30 November 1999

18 OPERATING LEASES

At 30 November 1999, the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Other</i>		<i>Land and buildings</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	£	£	£	£
Operating leases which expire:				
Within one year	13,542	10,012	85,000	85,000
Between two and five years	178,620	70,915	504,000	-
	<u>192,162</u>	<u>80,927</u>	<u>589,000</u>	<u>85,000</u>

19 RECONCILIATION OF SHAREHOLDERS' FUNDS

	<i>Share capital</i>	<i>Profit & loss account</i>	<i>Total</i>
	£	£	£
At 1 December 1997	2,000	904,625	906,625
Profit for the period	-	383,227	383,227
Dividend	-	(1,123,173)	(1,123,173)
At 1 December 1998	2,000	164,679	166,679
Profit for the year	-	369,597	369,597
Dividend	-	-	-
At 30 November 1999	<u>2,000</u>	<u>534,276</u>	<u>536,276</u>

20 ULTIMATE PARENT COMPANY

The largest and smallest group in which the results of Lilly Industries (UK) Limited are consolidated is that headed by Lilly Industries Inc a company incorporated in the United States. The consolidated accounts for this group are available to the public and may be obtained from:

Lilly Industries Inc
Corporate Office
733 S. West Street
Indianapolis
Indiana 46225
USA.

21 RELATED PARTY TRANSACTIONS

Related party transactions have not been disclosed as the company is entitled to an exemption under FRS8 as a wholly owned subsidiary.