

**ENGELHARD INTERNATIONAL LIMITED**

**Annual report for the year ended**

**31 December 2002**

Company Registration No. 3101215



# ENGELHARD INTERNATIONAL LIMITED

## Directors' report for the year ended 31 December 2002

The directors present their report and the financial statements of Engelhard International Limited for the year ended 31 December 2002.

### Principal activity

The Company's principal activity is metal commodity dealing. The Company is an Associate Broker Clearing Member of the London Metal Exchange and is regulated by the Financial Services Authority to conduct investment business under the Financial Services and Markets Act 2000. In addition, the Company is an Associate Member of the London Platinum and Palladium Market.

### Review of business and future developments

The profit for the year was \$805,000 (2001: \$1,819,000). Equity shareholder's funds increased to \$53,456,000 (2001: \$52,651,000). The year end financial position was satisfactory.

There have been no material developments in the business and no major changes in activities are planned.

### Dividends

No dividends were paid during the year or are proposed (2001: Nil).


### Directors

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

A C Dunne  
R M Lowish  
E P Martens  
L Fliegel (resigned 12 June 2002)  
G D Fugate (appointed 12 June 2002)

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

ON BEHALF OF THE BOARD



A C Dunne  
Director

Date: 26th March 2003

## **ENGELHARD INTERNATIONAL LIMITED**

### **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period 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 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; and
- 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 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.

# ENGELHARD INTERNATIONAL LIMITED

## Independent auditors' report to the members of Engelhard International Limited

We have audited the Company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

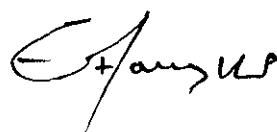
### Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
London

Date: 28 Mar 2003

# ENGELHARD INTERNATIONAL LIMITED

## Profit and loss account for the year ended 31 December 2002

	Notes	2002 \$000	2001 \$000
Dealing income	1(d), 2	4,531	4,072
Administrative expenses		(3,797)	(3,734)
Other operating expenses		(321)	(28)
Operating profit	3	<u>413</u>	<u>310</u>
Interest receivable and similar income	4	749	1,686
Interest payable and similar charges	5	(34)	(277)
Profit on ordinary activities before taxation		<u>1,128</u>	<u>1,719</u>
Tax on profit on ordinary activities	6	(323)	100
Retained profit for the financial year		<u>805</u>	<u>1,819</u>
Retained profits as at 31 December 2001		10,901	9,082
Retained profits as at 31 December 2002		<u>11,706</u>	<u>10,901</u>

There is no difference between profit on ordinary activities before taxation and profit for the financial year as stated above and their historical cost equivalent.

The operating profit of the company is derived from continuing operations.

The company has no recognised gains and losses for the current and previous financial years other than those stated in the profit and loss account.

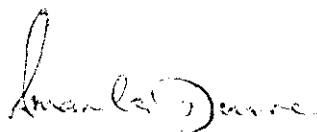
The accompanying notes are an integral part of these financial statements.

# ENGELHARD INTERNATIONAL LIMITED

## Balance Sheet - 31 December 2002

	Notes	2002 \$000	2001 \$000
<b>FIXED ASSETS</b>			
Tangible assets	7	-	-
Investments	8	482	482
		<u>482</u>	<u>482</u>
<b>CURRENT ASSETS</b>			
Debtors: amounts falling due within one year	9	73,768	60,498
Cash at bank and in hand		174	216
		<u>73,942</u>	<u>60,714</u>
<b>CREDITORS</b>			
Amounts falling due within one year	10	(20,968)	(8,545)
<b>NET CURRENT ASSETS</b>		<u>52,974</u>	<u>52,169</u>
<b>NET ASSETS</b>		<u>53,456</u>	<u>52,651</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	41,750	41,750
Profit and loss account		11,706	10,901
<b>EQUITY SHAREHOLDER'S FUNDS</b>	12	<u>53,456</u>	<u>52,651</u>

The directors' report and financial statements were approved by the board of directors on 27th March 2003



A C Dunne  
Director

The accompanying notes are an integral part of these financial statements.

# **ENGELHARD INTERNATIONAL LIMITED**

## **Notes to the financial statements - 31 December 2002**

### **1 ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and 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 notes 1(a) and 1(d). A summary of the more important accounting policies, which have been applied consistently throughout the year and preceding years is set out below.

#### **(a) Stocks and open contracts held for dealing purposes**

Metal stocks and open contracts held for dealing purposes are valued at market prices in accordance with established industry practice. Revaluation gains and losses resulting from the application of this policy are taken to the profit and loss account, which represents a departure, as far as gains are concerned, from the Companies Act 1985.

The directors consider that this departure is necessary in order that the financial statements should give a true and fair view of the results of the Company's dealing activities, in accordance with section 226(5) of the Companies Act 1985. The directors consider that it is not practicable, and moreover would be misleading, to quantify the effects of non-compliance with the Act.

Revaluation gains and losses on open contracts, which include futures and options, representing both long and short positions, are included in the balance sheet under debtors and creditors respectively.

#### **(b) Translation of foreign currencies**

The currency of the majority of trading transactions is the United States Dollar (US\$) and these financial statements are therefore denominated in that currency.

Where contracts are entered into for the forward purchase or sale of other currencies, the related transactions are translated into US\$ at the contract rates. Where such currency contracts are not entered into, transactions other than US\$ are translated into US\$ at the rates of exchange prevailing at the time those transactions are accounted for.

Non-monetary assets and liabilities denominated in currencies other than US\$ have been translated at their historical rate of exchange.

Other non-US\$ denominated assets and liabilities not covered by foreign currency contracts are translated into US\$ at the closing rates of exchange at the balance sheet date. All differences arising are taken to the profit and loss account. The exchange rate used at the year end was US\$1.6095:£1 (2001: US\$1.4528:£1).

#### **(c) Related party disclosure**

Under the provisions of FRS 8 Related Party Transactions, the Company is exempt from disclosing related party transactions with other group companies as 100% of the voting rights of the Company are controlled within the group and the ultimate parent company publishes consolidated financial statements that are publicly available.

#### **(d) Dealing income**

The directors believe that turnover and cost of sales do not have meaningful equivalents for the business of the Company and, in keeping with similar businesses, these items have not been separately disclosed in the profit and loss account. The directors consider that dealing income, which comprises profits and losses from dealing in metal commodities, is a more relevant measure of activity.

# **ENGELHARD INTERNATIONAL LIMITED**

## **Notes to the financial statements - 31 December 2002**

### **1 ACCOUNTING POLICIES (continued)**

#### **(e) Taxation**

Provision is made for corporation tax at current rates on the profits as adjusted for tax purposes.

#### **(f) Deferred 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.

Deferred tax is recognised in respect of all timing differences where transactions or events that have originated but not reversed at the balance sheet date result in an obligation to pay more tax in the future, or a right to pay less tax in the future.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### **(g) Tangible fixed assets**

Tangible fixed assets are stated at cost, including any incidental costs of acquisition, net of depreciation and any provision for impairment.

Depreciation is provided on a straight line basis over the expected useful lives of tangible fixed assets, as follows:

Fixtures and fittings, computers and equipment - 2 to 5 years.

#### **(h) Investments**

Long term investments are stated at their purchase cost less provision for any impairment in value.

#### **(i) Amounts due from/to counterparties**

Amounts due from/to the same counterparty in respect of unsettled dealing transactions are stated on a gross basis in the balance sheet.

### **2 SEGMENTAL ANALYSIS**

The Company has only one class of business, that of dealing in metal commodities. The directors are of the opinion that it would be seriously prejudicial to the interests of the Company to give separate disclosure of dealing income by destination.



# ENGELHARD INTERNATIONAL LIMITED

## Notes to the financial statements - 31 December 2002

### 3 OPERATING PROFIT

Operating profit is stated after charging:

	2002 \$000	2001 \$000
Auditors: Audit remuneration	92	78
Depreciation	-	1
	<u>          </u>	<u>          </u>

### 4 INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 \$000	2001 \$000
Ultimate parent company and fellow subsidiaries	732	1,632
Other loans and receivables	17	54
	<u>749</u>	<u>1,686</u>

### 5 INTEREST PAYABLE AND SIMILAR CHARGES

	2002 \$000	2001 \$000
Other loans and payables	34	277
	<u>          </u>	<u>          </u>

### 6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 \$000	2001 \$000
(a) Analysis of charge in year		
UK Corporation tax on profits of the period	338	518
Adjustments in respect of previous periods	(15)	(618)
Total current tax (note 6(a))	<u>323</u>	<u>(100)</u>
(b) Factors affecting tax charge for the period		
Profit on ordinary activities before tax	1,128	1,719
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	338	516
Effect of:		
Expenses not deductible for tax purposes	-	2
Adjustments in respect of previous periods	(15)	(618)
	<u>323</u>	<u>(100)</u>

No provision was required for deferred taxation as at the balance sheet date (2001: Nil).

# ENGELHARD INTERNATIONAL LIMITED

## Notes to the financial statements - 31 December 2002

### 7 TANGIBLE FIXED ASSETS

	Fixtures, Fittings, Computers and Equipment \$000
Cost: At 1 January and 31 December 2002	30
Depreciation: At 1 January and 31 December 2002	30
Net book value: At 1 January and 31 December 2002	-

### 8 INVESTMENTS

The \$482,000 (2001: \$482,000) investment represents one 'A' share in The London Clearing House Limited.

On 15 November 2000 the LME reorganised as a limited company, LME Holdings Limited. The Company, as an existing Associate Broker Clearing Member, was allocated 250,000 10p ordinary shares for nil consideration. All Associate Broker Clearing Members are required to hold a minimum of 250,000 shares in order to trade on the exchange and there are severe restrictions over the transfer or sale of such shares. As a result the directors believe that notwithstanding the fact that these shares may have a market value it is appropriate to record them at a carrying value of nil. Annual membership fees payable to the LME are expensed as incurred.

### 9 DEBTORS: amounts falling due within one year

	2002 \$000	2001 \$000
Trade debtors	1,919	2,241
Mark-to-market asset	12,674	5,625
Amounts owed by ultimate parent company and fellow subsidiaries	58,869	52,288
Other debtors	173	212
Prepayments and accrued income	133	132
	<u>73,768</u>	<u>60,498</u>

### 10 CREDITORS: amounts falling due within one year

	2002 \$000	2001 \$000
Trade creditors	5,705	4,579
Mark-to-market liability	11,003	2,717
Amounts owed to ultimate parent company and fellow subsidiaries	2,815	833
Corporation tax payable	669	274
Accruals and deferred income	776	142
	<u>20,968</u>	<u>8,545</u>

# ENGELHARD INTERNATIONAL LIMITED

## Notes to the financial statements - 31 December 2002

### 11 CALLED UP SHARE CAPITAL

	2002 \$000	2001 \$000
Authorised, issued and fully paid: 25,000,000 ordinary shares of £1 each	41,750	41,750

### 12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2002 \$000	2001 \$000
Balance at 1 January 2002	52,651	50,832
Retained profit for the year	805	1,819
Balance at 31 December 2002	53,456	52,651

### 13 CASH FLOW STATEMENT

Under the provisions of FRS 1 Cash Flow Statements, the Company is exempt from reporting a cash flow statement as 100% of the voting rights of the Company are controlled within the group and the ultimate parent company publishes consolidated financial statements that include the Company and are publicly available.

### 14 DIRECTORS' EMOLUMENTS

None of the directors were employed by the Company. E P Martens, G D Fugate and L Fliegel were employed by the Company's ultimate parent company and did not receive any emoluments for their services as directors of the Company. The emoluments of R M Lowish and A C Dunne attributable to the Company were as follows:

	2002 \$000	2001 \$000
Aggregate emoluments	241	221
Number of directors accruing retirement benefits:		
Defined benefits scheme	1	1
Money purchase scheme	1	1

### 15 EMPLOYEE INFORMATION

The Company does not have any employees. Staff are employed by a subsidiary of the ultimate parent company which recharges costs attributable to work undertaken for the Company.

# **ENGELHARD INTERNATIONAL LIMITED**

## **Notes to the financial statements - 31 December 2002**

### **16 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 undertakings. As at the balance sheet date the group is in a net reclaimable position with respect to VAT and therefore the maximum potential contingent liability of the Company is Nil (2001: Nil).

### **17 COMMITMENTS**

The Company has financial commitments and contingencies which arise from forward foreign exchange, commodity options and future contracts entered into in the normal course of business.

All other lease contracts are entered into by a fellow subsidiary of the ultimate parent company. The Company is recharged a proportion of these costs each month.

### **18 CONTROLLING COMPANY**

The Company is a wholly owned subsidiary of Engelhard Limited, a company registered in England and Wales. Engelhard Limited heads the smallest group of undertakings for which group financial statements are drawn up and of which the company is a member. The directors of the Company consider Engelhard Limited to be the company's controlling party.

Copies of Engelhard Limited's consolidated financial statements may be obtained from The Secretary, Engelhard Limited, 63 St. Mary Axe, London EC3A 8NH.

### **19 ULTIMATE PARENT COMPANY**

The Company's ultimate parent company is Engelhard Corporation, which is incorporated in the State of Delaware, USA. Engelhard Corporation heads the largest group of undertakings for which group financial statements are drawn up and of which the company is a member. The directors of the Company consider Engelhard Corporation to be the company's ultimate controlling party.

Copies of Engelhard Corporation's consolidated financial statements may be obtained from The Secretary, Engelhard Limited, 63 St. Mary Axe, London EC3A 8NH.