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Sika Limited

Report and Accounts

31 DECEMBER 1998



Sika Limited

Registered No. 226822

DIRECTORS

B Baggersgaard

R Farmer

P Laeng

SECRETARY

S Hales

BANKERS

Midland Bank Plc

Howardsgate

Welwyn Garden City

Hertfordshire

AL8 6BH

AUDITORS

Ernst & Young

400 Capability Green

Luton

LU1 3LU

REGISTERED OFFICE

Watchmead

Welwyn Garden City

Hertfordshire

AL7 1BQ

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1998.

RESULTS & DIVIDENDS

The profit for the year after taxation amounted to £2,166,912 (1997: £1,784,169). The directors have paid interim dividends amounting to £3,000,000 (1997: £1,600,000). The directors do not recommend the payment of a final dividend leaving £833,088 (1997: £184,169) which has been deducted from (1997: added to) retained profits.

PRINCIPAL ACTIVITY, BUSINESS REVIEW AND FUTURE DEVELOPMENT

The company is principally engaged in the formulation, manufacture and marketing of speciality chemicals for the construction industry and adhesive sealants for the automotive and marine industries.

A summary of the result of the year's trading is given on page 7 of the accounts.

The company has continued its strong marketing of new and unique systems, in particular in the concrete repair and protection market and for structural strengthening. A new up-market industrial flooring range has also been introduced as well as environmental-friendly solutions for the precast industry.

Sales into industry markets such as bus, coach and truck continue to develop positively.

Costs have been kept well under control.

RESEARCH AND DEVELOPMENT

The company's activities in research and development are principally concerned with the development of new products and the improvement of existing products.

FIXED ASSETS

Movements in fixed assets are shown in note 8 to the accounts. The freehold property was revalued at 31 December 1997. The valuation of £6,367,000, which is £2,270,013 higher than book value, has not been incorporated in these accounts.

CHARITABLE AND POLITICAL GIFTS

Gifts for charitable purposes during the year amounted to £5,203.

DIRECTORS

The directors at 31 December 1998, none of whom held an interest in the company's shares during the year, were:

B Baggersgaard
R Farmer
P Laeng

DIRECTORS' REPORT

YEAR 2000 COMPLIANCE

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 possible malfunctions and resulting widespread commercial disruption. This is a complex and widespread 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 review of Year 2000 compliance was undertaken in 1998. A significant risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business processes. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact on our business of Year 2000 related failures by our significant suppliers and customers. In appropriate cases we have initiated formal communication with those other parties.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

Much of the cost of implementing the action plans will be absorbed into the recurring activities of the departments involved. The total cost of modifications to our computer hardware and software is estimated at £350,000, of which about £150,000 is new equipment that has been and will be, capitalised and the remainder has been and will be expensed as incurred. Of the total expenditure, approximately £275,000 has been incurred to date and the remaining £75,000 is expected to be incurred during 1999.

AUDITORS

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

By order of the board



Secretary

3/2/99.

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 Sika Limited

We have audited the accounts on pages 7 to 14, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 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 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor
Luton

3 February 1999

Sika Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

| | Notes | 1998 £ | 1997 £ |
|--|-------|------------|------------|
| TURNOVER | 2 | 19,195,703 | 18,135,222 |
| Cost of sales | | 8,900,500 | 8,712,216 |
| GROSS PROFIT | | 10,295,203 | 9,423,006 |
| Selling and distribution costs | | 5,679,631 | 5,553,564 |
| Administrative expenses | | 1,700,673 | 1,537,612 |
| Other operating income - foreign exchange gains | | (47,059) | (103,086) |
| | | 7,333,245 | 6,988,090 |
| OPERATING PROFIT | 3 | 2,961,958 | 2,434,916 |
| Interest receivable | | 205,829 | 237,950 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 3,167,787 | 2,672,866 |
| Tax on profit on ordinary activities | 6 | 1,000,875 | 888,697 |
| PROFIT FOR THE FINANCIAL YEAR | | 2,166,912 | 1,784,169 |
| Dividends | 7 | 3,000,000 | 1,600,000 |
| (DEDUCTED FROM)/ADDED TO RETAINED PROFITS | | (833,088) | 184,169 |

There are no recognised gains or losses other than the profit for the financial year.

Sika Limited

BALANCE SHEET as at 31 December 1998

| | Notes | 1998 £ | 1997 £ |
|---|-------|------------------|-------------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | 4,411,758 | 4,434,113 |
| Investments | 9 | 4 | 4 |
| | | <u>4,411,762</u> | <u>4,434,117</u> |
| CURRENT ASSETS | | | |
| Stocks | 10 | 1,112,445 | 1,236,495 |
| Debtors | 11 | 3,436,359 | 3,731,250 |
| Cash at bank and in hand | | 3,378,065 | 4,305,031 |
| | | <u>7,926,869</u> | <u>9,272,776</u> |
| CREDITORS: amounts falling due within one year | 12 | 2,457,791 | 2,992,965 |
| | | <u>5,469,078</u> | <u>6,279,811</u> |
| NET CURRENT ASSETS | | | |
| | | <u>9,880,840</u> | <u>10,713,928</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | <u>9,880,840</u> | <u>10,713,928</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital - equity interests | 13 | 6,000,000 | 6,000,000 |
| Profit and loss account | 14 | 3,880,840 | 4,713,928 |
| | | <u>9,880,840</u> | <u>10,713,928</u> |
| Shareholders' funds | 14 | 9,880,840 | 10,713,928 |
| | | <u>9,880,840</u> | <u>10,713,928</u> |

Directors




3 February 1999

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Accounting convention

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

No cash flow statement is presented as the company is a wholly owned subsidiary.

Depreciation

Depreciation is calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life as follows:

| | | |
|-------------------------------|---|--------------------|
| Freehold property | - | over 4 to 25 years |
| Plant and machinery | - | over 4 years |
| Computer and office equipment | - | over 3 or 4 years |
| Motor vehicles | - | over 3 years |

Leasing commitments

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

Stock and work in progress

Raw materials and finished goods are valued 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 selling price, less any further costs of realisation. Cost includes all expenditure incurred in the normal course of business in bringing stocks to their present location and condition, including, in the case of home produced finished goods, an appropriate proportion of manufacturing overheads.

Work in progress is valued at the lower of cost and net realisable value. Cost consists of direct materials, labour and attributable overheads. Net realisable value is based on estimated selling price, less any further costs of realisation.

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.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the dates of the transactions or at the contracted rate if the transaction is covered by a forward exchange contract.

Monetary assets and liabilities denominated in a foreign currency are translated at the balance sheet date at the exchange rate ruling on that day or if appropriate at the forward contract rate. Resulting exchange gains and losses are taken to the profit and loss account.

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES (continued)

Pensions

The company operates a defined contribution pension scheme and the pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties for goods supplied and for services provided.

Turnover is attributable to one continuing activity, the formulation, manufacture and sale of chemical products and adhesive sealants.

An analysis of turnover by geographical market is as follows:

| | 1998 £ | 1997 £ |
|--------------------------------|-------------------|-------------------|
| United Kingdom | 17,375,332 | 17,348,222 |
| Continental Europe and Ireland | 1,680,547 | 692,784 |
| Other | 139,824 | 94,216 |
| | <u>19,195,703</u> | <u>18,135,222</u> |

3. OPERATING PROFIT

This is stated after charging/(crediting):

| | 1998 £ | 1997 £ |
|---|-----------|-----------|
| Operating lease rentals for vehicles and office equipment | 400,301 | 350,106 |
| Depreciation | 345,690 | 523,898 |
| Profit on disposal of fixed assets | (60,444) | (95,659) |
| Auditors' remuneration - audit services | 22,500 | 20,000 |
| - non-audit services | 28,109 | 11,750 |
| | <u></u> | <u></u> |

4. STAFF COSTS

| | 1998 £ | 1997 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 3,579,333 | 3,452,245 |
| Social security costs | 371,638 | 366,240 |
| Pension costs | 254,373 | 238,048 |
| Private health care | 112,574 | 101,705 |
| | <u>4,317,918</u> | <u>4,158,238</u> |

Sika Limited

NOTES TO THE ACCOUNTS at 31 December 1998

4. STAFF COSTS (continued)

The average monthly number of employees during the year was:

| | <i>1998</i> <i>No</i> | <i>1997</i> <i>No</i> |
|-------------------------------|--------------------------|--------------------------|
| Production | 33 | 35 |
| Selling | 91 | 92 |
| Administrative and management | 13 | 14 |
| | <u>137</u> | <u>141</u> |

5. DIRECTORS' EMOLUMENTS

| | <i>1998</i> <i>£</i> | <i>1997</i> <i>£</i> |
|---|-------------------------|-------------------------|
| Aggregate emoluments | 171,747 | 165,299 |
| Company pension contributions to money purchase schemes | 11,860 | 16,476 |
| | <u>183,607</u> | <u>181,775</u> |

Retirement benefits are accruing to two directors under money purchase arrangements.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | <i>1998</i> <i>£</i> | <i>1997</i> <i>£</i> |
|---|-------------------------|-------------------------|
| Based on the profit for the year: | | |
| UK corporation tax at 31% (1997: 31.5%) | 1,006,000 | 890,000 |
| Over provided in previous years | (5,125) | (1,303) |
| | <u>1,000,875</u> | <u>888,697</u> |

The unrecognised value of the company's deferred tax asset at 31 December 1998 is £170,000 (1997: £230,000). This arises primarily as a result of accelerated depreciation in advance of tax allowances.

7. DIVIDENDS

| | <i>1998</i> <i>£</i> | <i>1997</i> <i>£</i> |
|---|-------------------------|-------------------------|
| Equity dividends on ordinary shares of £1 each: | | |
| Interim dividends of 50p per share (1997: 26.67p per share) | 3,000,000 | 1,600,000 |
| | <u>3,000,000</u> | <u>1,600,000</u> |

Sika Limited

NOTES TO THE ACCOUNTS at 31 December 1998

8. TANGIBLE FIXED ASSETS

| | <i>Freehold property £</i> | <i>Plant and machinery £</i> | <i>Computer and office equipment £</i> | <i>Motor vehicles £</i> | <i>Total £</i> |
|--------------------------|------------------------------------|--------------------------------------|--|---------------------------------|--------------------|
| Cost: | | | | | |
| At 1 January 1998 | 6,501,776 | 2,992,104 | 1,741,552 | 87,555 | 11,322,987 |
| Additions | – | 87,200 | 187,188 | 48,947 | 323,335 |
| Disposals | – | (120,000) | (5,695) | (26,442) | (152,137) |
| At 31 December 1998 | 6,501,776 | 2,959,304 | 1,923,045 | 110,060 | 11,494,185 |
| Depreciation: | | | | | |
| At 1 January 1998 | 2,269,173 | 2,878,754 | 1,653,392 | 87,555 | 6,888,874 |
| Provided during the year | 135,616 | 88,496 | 105,264 | 16,314 | 345,690 |
| Disposals | – | (120,000) | (5,695) | (26,442) | (152,137) |
| At 31 December 1998 | 2,404,789 | 2,847,250 | 1,752,961 | 77,427 | 7,082,427 |
| Net book value: | | | | | |
| At 31 December 1998 | 4,096,987 | 112,054 | 170,084 | 32,633 | 4,411,758 |
| At 1 January 1998 | 4,232,603 | 113,350 | 88,160 | – | 4,434,113 |

The amount of freehold buildings on which depreciation is being charged is £4,512,312 (1997: £4,512,312). The net book value of these assets is £2,107,520 (1997: £2,243,136).

9. INVESTMENTS

| | <i>1998 £</i> | <i>1997 £</i> |
|-------------------------|-------------------|-------------------|
| Sika Contracts Limited | 2 | 2 |
| Sika Technology Limited | 2 | 2 |
| | <u>4</u> | <u>4</u> |

The company owns 100% of the ordinary share capital of the above companies, which are dormant companies with no assets or liabilities, registered in England and Wales.

Sika Limited

NOTES TO THE ACCOUNTS at 31 December 1998

10. STOCKS

| | 1998 £ | 1997 £ |
|-------------------------------------|------------------|------------------|
| Raw materials and consumables | 186,139 | 293,334 |
| Work in progress | 55,959 | 49,615 |
| Finished goods and goods for resale | 870,347 | 893,546 |
| | <u>1,112,445</u> | <u>1,236,495</u> |

11. DEBTORS

| | 1998 £ | 1997 £ |
|---|------------------|------------------|
| Trade debtors | 2,818,381 | 2,968,205 |
| Amounts owed by parent and fellow subsidiary undertakings | 117,245 | 204,670 |
| Prepayments and accrued income | 500,733 | 558,375 |
| | <u>3,436,359</u> | <u>3,731,250</u> |

Included within prepayments and accrued income is £361,570 (1997 - £158,816) in respect of over one year.

12. CREDITORS: amounts falling due within one year

| | 1998 £ | 1997 £ |
|---|------------------|------------------|
| Trade creditors | 444,337 | 383,760 |
| Amounts owed to parent and fellow subsidiary undertakings | 335,115 | 334,766 |
| UK corporation tax | 260,025 | 686,158 |
| Tax and social security costs | 589,116 | 534,817 |
| Accruals and deferred income | 829,198 | 1,053,464 |
| | <u>2,457,791</u> | <u>2,992,965</u> |

13. SHARE CAPITAL

| | 1998 No | 1997 No | 1998 £ | 1997 £ |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Authorised: | | | | |
| Ordinary shares of £1 each | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| | <u>10,000,000</u> | <u>10,000,000</u> | <u>10,000,000</u> | <u>10,000,000</u> |
| Allotted, called up and fully paid: | | | | |
| Ordinary shares of £1 each | 6,000,000 | 6,000,000 | 6,000,000 | 6,000,000 |
| | <u>6,000,000</u> | <u>6,000,000</u> | <u>6,000,000</u> | <u>6,000,000</u> |

NOTES TO THE ACCOUNTS
at 31 December 1998

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

| | <i>Share capital £</i> | <i>Profit and loss account £</i> | <i>Total shareholders' funds £</i> |
|---------------------|--------------------------------|--|--|
| At 31 December 1996 | 6,000,000 | 4,529,759 | 10,529,759 |
| Profit for the year | – | 1,784,169 | 1,784,169 |
| Dividends | – | (1,600,000) | (1,600,000) |
| At 31 December 1997 | 6,000,000 | 4,713,928 | 10,713,928 |
| Profit for the year | – | 2,166,912 | 2,166,912 |
| Dividends | – | (3,000,000) | (3,000,000) |
| At 31 December 1998 | 6,000,000 | 3,880,840 | 9,880,840 |

15. OTHER FINANCIAL COMMITMENTS

At 31 December 1998 the company had annual commitments over and above amounts prepaid under non-cancellable operating leases as set out below:

| | <i>Plant and equipment 1998 £</i> | <i>Plant and equipment 1997 £</i> |
|----------------------------|---|---|
| Operating leases expiring: | | |
| Within one year | – | 453 |
| Within 2-5 years | 61,007 | 61,007 |
| | 61,007 | 61,460 |

16. PENSION COSTS

The company operates a money purchase scheme for the benefit of the directors and employees. The assets of the scheme are administered by the trustees in a fund independent from those of the company.

17. ULTIMATE PARENT COMPANY

The ultimate parent company is Sika Finanz A.G. which is incorporated in Switzerland and is also the smallest and largest group of undertakings of which the company is a member and for which group accounts are drawn up. Copies of the group accounts can be obtained from Zugerstrasse 50, CH-6341 Baar, Switzerland.

Since the company is a wholly owned subsidiary no disclosure is made of transactions with other members of the group.