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R. J. Weston & Co.

Chartered Accountants

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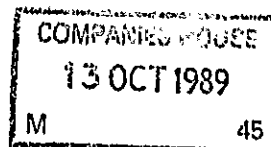
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QUALCAST BATHROOMS LIMITED

(FORMERLY QUALCAST (CERAMICS) LIMITED)

DIRECTORS' REPORT AND ACCOUNTS

31ST DECEMBER 1988



QUALCAST BATHROOMS LIMITED

REPORT OF THE DIRECTORS

The directors present their report for the 61 weeks ended 31st December 1988 together with the audited accounts of the company.

REVIEW OF ACTIVITIES

The principal activity of the company continues to be the manufacture of bathroom products.

The profit for the period and the appropriation thereof are set out in the profit and loss account on page 4.

The directors consider the level of activity and the period end financial position to be satisfactory and expect that this will continue in the foreseeable future.

The company changed its name on 12th May 1988 from Qualcast (Ceramics) Limited to Qualcast Bathrooms Limited.

DIVIDENDS

The directors recommend the following dividend in respect of the 61 weeks ended 31st December 1988:

	£
Proposed final dividend	820000

FIXED ASSETS

The movements during the period are set out in note 10 on page 9. Having taken professional advice, the directors are of the opinion that the land and buildings of the company had a market value, based on existing use of approximately £797000 in excess of book value at 31st December 1988.

DIRECTORS

The directors at 31st December 1988, all of whom have been in office for the whole of the period, with the exception of Mr C. G. Young who was appointed on 16th November 1987, are shown below:

Mr C. G. Young	(Chairman)
Mr K. R. Flitcroft	(Managing Director)
Mr C. J. Thomas	
Mr S. Smith	
Mr J. V. Whitaker	

Mr K. Allen and Mr P. T. Baker resigned from the board on 25th May 1988 and 2nd December 1988 respectively.

DIRECTORS' INTERESTS

The directors and their families had no beneficial interest in the shares of the company as it is a wholly owned subsidiary of Birmid Qualcast PLC nor in the shares of any other subsidiary of Birmid Qualcast PLC. The directors had the following interests (including family interests) in the shares and loan stock of Blue Circle Industries PLC at 31st December 1988 according to the register kept under Section 325 of the Companies Act 1985:

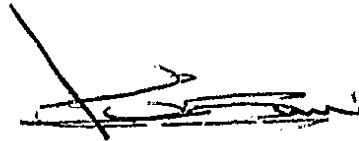
	Ordinary Shares of £1	7½% Convertible Cumulative Preference Shares of £1
Mr C. G. Young	-	17100
Mr K. R. Flitcroft	235	-

QUALCAST BATHROOMS LIMITED
REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS

The auditors, Messrs. R. J. Weston and Company, have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

By order of the Board

A handwritten signature, possibly "J. J. Weston", is written over a horizontal line. A diagonal line is drawn across the signature from the top left to the bottom right.

Secretary

27th February 1989

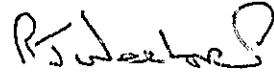
REPORT OF THE AUDITORS TO THE MEMBERS OF
QUALCAST BATHROOMS LIMITED

We have audited the accounts on pages 2 to 12 in accordance with approved Auditing Standards. The accounts have been prepared under the historical cost convention.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31st December 1988 and of its profit and source and application of funds for the 61 weeks then ended and comply with the Companies Act 1985.

"PROBATE HOUSE",
37/38 ST. MARY'S GATE,
DERBY.

27th February 1989


CHARTERED ACCOUNTANTS

QUALCAST BATHROOMS LIMITEDACCOUNTING POLICIESACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention.

TURNOVER is the invoiced value of sales, including sales to other companies in the Birmid Qualcast group, excluding turnover taxes.

OPERATING PROFIT reflects profits and losses arising from normal trading activities in the period.

EXTRAORDINARY ITEMS are material profits and losses after appropriate taxation, arising outside normal trading activities.

FIXED ASSETS

Depreciation is calculated on a straight line basis to write off the book value over the expected useful lives of the assets using the following annual rates:

Freehold buildings	2.5%
Plant	7.5% to 15%
Computers	20%
Vehicles	25%

Freehold land is not depreciated.

The charge for depreciation commences in the month following the asset being brought into use.

STOCKS

Stocks are valued at the lower of cost and estimated net realisable value, due allowance being made for obsolete or slow-moving items. Cost represents the cost of materials and, in the case of products manufactured by the company, includes the cost of direct labour and full production overheads assuming normal levels of activity.

DEBTORS

Known bad debts are written off and specific provisions are made for any debts considered to be doubtful.

DEFERRED TAXATION

Deferred taxation is calculated on the liability method and provided, to the extent that there is a reasonable probability that such tax will become payable in the foreseeable future, on the excess of the book value based on historical cost of those fixed assets qualifying for taxation allowances over their written down value for tax purposes, and other timing differences, less losses available for set off against future profits.

QUALCAST BATHROOMS LIMITEDACCOUNTING POLICIES (CONTINUED)FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the close of the financial period.

RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure is written off in the period in which it is incurred.

WARRANTIES

Costs of rectification and service arising under warranty are charged against profits in the period in which they are incurred. Provision is made at each period end for any significant expenditure which is considered likely to arise.

QUALCAST BATHROOMS LIMITEDPROFIT AND LOSS ACCOUNT
FOR THE 61 WEEKS ENDED 31ST DECEMBER 1988

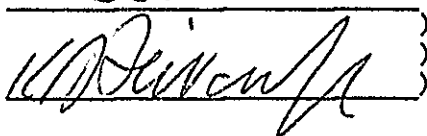
		<u>1988</u> <u>(61 weeks)</u>	<u>1987</u> <u>(52 weeks)</u>
	<u>Notes</u>	<u>£</u>	<u>£</u>
Turnover	1	16341280	8491559
Cost of sales		(10625348)	(5456104)
Gross profit		5715932	3035455
Net operating expenses	2	(3226927)	(1670341)
Operating profit	3	2489005	1365114
Interest receivable	6	125823	-
Interest payable	7	-	(5770)
Profit on ordinary activities before taxation		2614828	1359344
Taxation	8	(922037)	(437095)
Profit for the financial period		1692791	922249
Proposed dividend	9	(820000)	(350000)
Transfer to retained profits		872791	572249
STATEMENT OF RETAINED PROFITS			
At 31st October 1987		1678361	1106112
Transfer from profit and loss account		872791	572249
At 31st December 1988		2551152	1678361

Auditors' report page 1
Accounting policies pages 2 and 3
The notes on pages 7 to 12 form part of these accounts

QUALCAST BATHROOMS LIMITED
BALANCE SHEET - 31ST DECEMBER 1988

		<u>1988</u>		<u>1987</u>	
	<u>Notes</u>	£	£	£	£
FIXED ASSETS					
Tangible assets	10		2663055		1421343
Investments	11		1102		-
			<hr/>		<hr/>
			2664157		1421343
CURRENT ASSETS					
Stocks	12	2507935		1252145	
Debtors	13	902071		903187	
Cash at bank and in hand		3757238		1128147	
		<hr/>		<hr/>	
		7167244		3283479	
CREDITORS: amounts falling due within one year	14	(5253249)		(1649461)	
		<hr/>		<hr/>	
NET CURRENT ASSETS			1913995		1634018
			<hr/>		<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			4578152		3055361
			<hr/>		<hr/>
CAPITAL AND RESERVES					
Called up share capital	16		127000		127000
Profit and loss account			2551152		1678361
			<hr/>		<hr/>
			2678152		1805361
GROUP LOAN ACCOUNT	17		1900000		1250000
			<hr/>		<hr/>
			4578152		3055361
			<hr/>		<hr/>

These accounts were approved by the Board on 27th February 1989.

SSA
 } Directors

Auditors' report page 1
Accounting policies pages 2 and 3
The notes on pages 7 to 12 form part of these accounts

QUALCAST BATHROOMS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE 61 WEEKS ENDED 31ST DECEMBER 1988

	<u>1988</u> <u>(61 weeks)</u>	<u>1987</u> <u>(52 weeks)</u>
	£	£
SOURCE		
Profit before taxation	2614828	1359344
Depreciation	242985	98145
	<hr/>	<hr/>
Amounts generated by operations	2857813	1457489
Net book value of fixed assets sold or scrapped	137863	6221
Group loan receipts	650000	750000
	<hr/>	<hr/>
	3645676	2213710
	<hr/>	<hr/>
APPLICATION		
Additions to fixed assets	1622560	514492
Additions to investments	1102	-
Taxation paid	183690	454251
Dividend paid	350000	450000
Movements in working capital:		
Stocks	1255790	318099
Debtors	255776	34325
Group debtors	(256892)	151706
Creditors	(1123591)	(113177)
Group creditors	(1271850)	(37944)
	<hr/>	<hr/>
	(1140767)	353009
	<hr/>	<hr/>
	1016585	1771752
	<hr/>	<hr/>
	2629091	441958
	<hr/>	<hr/>
Net increase in funds		
Represented by:		
Increase in bank and cash balances	2629091	441958
	<hr/>	<hr/>

Auditors' report page 1
Accounting policies pages 2 and 3

QUALCAST BATHROOMS LIMITEDNOTES TO THE ACCOUNTS - 31ST DECEMBER 1988

	<u>1988</u> <u>(61 weeks)</u>	<u>1987</u> <u>(52 weeks)</u>
	£	£
1. <u>ANALYSIS OF TURNOVER</u>		
The turnover attributable to each of the company's geographical markets is:		
United Kingdom	16 239 325	8 423 318
Africa	1 019 55	-
Australasia	-	952
Europe:		
EEC Countries	-	-
Other European Countries	-	67 289
	<hr/> 16 341 280	<hr/> 8 491 559
2. <u>NET OPERATING EXPENSES</u>		
Net operating expenses are made up as follows:		
Selling and distribution costs	1 237 759	640 885
Administrative expenses	1 989 168	1 029 456
	<hr/> 3 226 927	<hr/> 1 670 341
3. <u>OPERATING PROFIT</u>		
Operating profit is stated after charging:		
Depreciation	242 985	98 145
Hire of plant and equipment	184 382	107 688
Auditors' remuneration	18 492	7 450
Directors' emoluments (note 4)		
For management (including pension scheme contributions)	<hr/> 181 361	<hr/> 132 903

QUALCAST BATHROOMS LIMITEDNOTES TO THE ACCOUNTS - 31ST DECEMBER 1988 (CONTINUED)

	<u>1988</u> <u>(61 weeks)</u>	<u>1987</u> <u>(52 weeks)</u>
4. <u>DIRECTORS EMOLUMENTS</u> (excluding pension scheme contributions)		
The emoluments of the chairman amounted to £Nil (1987: £4726). The emoluments of the highest paid director amounted to £53847 (1987: £36130).		
	<u>Number</u>	<u>Number</u>
Number of other directors whose emoluments during the period were in the ranges:		
Up to £ 5000	3	1
£20001 to £25000	-	1
£25001 to £30000	-	2
£35001 to £40000	3	-
5. <u>EMPLOYEE INFORMATION</u>		
(a) The average number of persons employed by the company (excluding executive directors) during the period is analysed below:		
Production	197	151
Selling and distribution	26	21
Administration	30	25
	<u>253</u>	<u>197</u>
(b) Employment costs - all employees (excluding executive directors):		
	<u>£</u>	<u>£</u>
Aggregate gross wages and salaries	3098677	1887357
Employers' national insurance contributions	256323	139610
Employers' pension contributions	-	16538
Total direct costs of employment	<u>3355000</u>	<u>2043505</u>
6. <u>INTEREST RECEIVABLE</u>		
Interest on in-hand bank balances	<u>125823</u>	<u>-</u>
7. <u>INTEREST PAYABLE</u>		
Interest payable on sums wholly repayable within five years	<u>-</u>	<u>5770</u>

QUALCAST BATHROOMS LIMITEDNOTES TO THE ACCOUNTS - 31ST DECEMBER 1988 (CONTINUED)

	<u>1988</u> <u>(61 weeks)</u>		<u>1987</u> <u>(52 weeks)</u>	
	£		£	
8. <u>TAXATION</u>				
United Kingdom corporation tax on the profit of the period calculated at 35% (1987 : 35%)	905080		445026	
Adjustment in respect of prior periods	16357		(7931)	
	<hr/> 922037		<hr/> 437095	
9. <u>PROPOSED DIVIDEND</u>				
Proposed final dividend	820000		350000	
10. <u>TANGIBLE FIXED ASSETS</u>				
	<u>Freehold</u> <u>land and</u> <u>buildings</u>	<u>Leasehold</u> <u>land and</u> <u>buildings</u>	<u>Plant and</u> <u>equipment</u>	<u>Total</u>
	£	£	£	£
<u>Cost</u>				
At 31st October 1987	512814	-	1192513	1705327
Additions	-	-	665487	665487
Transfers from group companies	339644	508997	1429878	2278519
Transfers to group companies	-	-	(121014)	(121014)
Disposals	-	-	(75969)	(75969)
	<hr/> 852458	<hr/> 508997	<hr/> 3090895	<hr/> 4452350
<u>Aggregate depreciation</u>				
At 31st October 1987	36796	-	247188	283984
Charge for the period	20325	8483	214177	242985
Transfers from group companies	101372	291682	928392	1321446
Transfers to group companies	-	-	(23633)	(23633)
Disposals	-	-	(35487)	(35487)
	<hr/> 158493	<hr/> 300165	<hr/> 1330637	<hr/> 1789295
<u>Net book value</u>				
At 31st December 1988	693965	208832	1760258	2663055
At 31st October 1987	476018	-	945325	1421343

QUALCAST BATHROOMS LIMITEDNOTES TO THE ACCOUNTS - 31ST DECEMBER 1988 (CONTINUED)

	<u>1988</u>	<u>1987</u>
	£	£
11. <u>FIXED ASSET INVESTMENTS</u>		
<u>Shares in fellow subsidiaries at cost</u>		
Transfer from group companies	1102	-
	<hr/>	<hr/>
12. <u>STOCKS</u>		
Raw materials and components	1504888	563709
Work in progress	277231	239008
Finished goods	725816	449428
	<hr/>	<hr/>
	2507935	1252145
	<hr/>	<hr/>
13. <u>DEBTORS</u>		
Trade debtors	250802	-
Amounts owed by group companies: Holding company and fellow subsidiaries	488105	744997
Other debtors	83500	85770
Prepayments and accrued income	79664	72420
	<hr/>	<hr/>
	902071	903187
	<hr/>	<hr/>
14. <u>CREDITORS</u>		
<u>Amounts falling due within one year</u>		
Trade creditors	1670055	634732
Amounts owed to group companies: Holding company and fellow subsidiaries	1524043	49726
Other creditors	158670	114592
Taxation	980906	445026
Social security	46484	32607
Accruals and deferred income	53091	22778
Dividend payable	820000	350000
	<hr/>	<hr/>
	5253249	1649461
	<hr/>	<hr/>

QUALCAST BATHROOMS LIMITEDNOTES TO THE ACCOUNTS - 31ST DECEMBER 1988 (CONTINUED)

	<u>1988</u>	<u>1987</u>
	£	£
15. <u>PROVISIONS FOR LIABILITIES AND CHARGES</u>		
<u>Deferred taxation</u>		
No provision for deferred taxation is required.		
The deferred liability, calculated on the full liability basis, would have been as follows:		
Timing differences	412000	220000
	<u> </u>	<u> </u>
16. <u>CALLED UP SHARE CAPITAL</u>		
	<u>Authorised</u>	<u>Allotted</u>
		<u>called up and</u>
		<u>fully paid</u>
	<u>Number</u>	<u>Number</u>
	£	£
Ordinary shares of £1 each		
At 31st October 1987 and		
31st December 1988	130000	127000
	<u>130000</u>	<u>127000</u>
	£	£
17. <u>GROUP LOAN ACCOUNT</u>		
In the opinion of the directors, the requirement of the Companies Act 1985 to include the loan account with Birmid Qualcast PLC within "Creditors: amounts falling due after more than one year" is not appropriate. The loan account, which has no terms for repayment, forms part of the long term financing of the business and is therefore shown in the balance sheet after capital and reserves.		
	<u>1988</u>	<u>1987</u>
	£	£
18. <u>CAPITAL EXPENDITURE SCHEMES</u>		
Authorised but not contracted for	565000	-
Contracted but not provided for in these accounts	567595	306691
	<u>1132595</u>	<u>306691</u>
	£	£

QUALCAST BATHROOMS LIMITEDNOTES TO THE ACCOUNTS - 31ST DECEMBER 1988 (CONTINUED)19. CONTINGENT LIABILITIES

The company has given a guarantee for the bank overdraft of its ultimate holding company in respect of which no liability is expected to arise.

20. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Blue Circle Industries PLC which is incorporated in Great Britain.