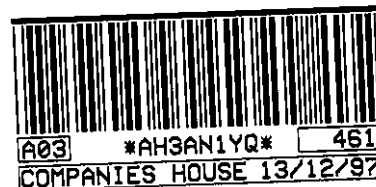


CeramTec UK Ltd

Directors' report and financial statements

30 September 1997

Registered number 851165



CeramTec UK Ltd

Directors' report and financial statements

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CeramTec UK Ltd

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 1997.

Principal activities

The principal activity of the company continued to be the manufacture and sale of technical ceramics.

Business review

On 1 October 1996 the company acquired the entire issued share capital of Cerasiv SPK Ltd based in Coventry. At the same time the company purchased the total net assets of Cerasiv SPK Ltd. Subsequently Cerasiv SPK Ltd has been put into voluntary liquidation having distributed the original investment back to CeramTec Ltd. Cerasiv SPK Ltd did not trade during the year.

The company has continued its efforts in the research and development of materials, process steps, new steps, new products and new markets.

Proposed dividend

The directors recommend that no final dividend is paid.

Political and charitable contributions

The company made no political contributions during the year (1996:£Nil). Donations to UK charities amounted to £Nil (1996:£Nil).

Directors and directors' interests

The directors who held office during the year were as follows:

WK Opitz (managing director)
Dr W Weber
Mr GK Schmolz (appointed 26 November 1996)
Mr NK Blume (appointed 26 November 1996)

The director retiring by rotation is Mr Opitz who, being eligible, offers himself for re-election.

Mr Schmolz and Mr Blume retire under Article 95 of the Articles of Association and, being eligible, offer themselves for re-election.

None of the directors who held office at the end of the year has any disclosable interest in the shares of group companies.

CeramTec UK Ltd

Directors' report *(continued)*

Auditors

A resolution to re-appoint KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



EW Edge
Secretary

Sidmouth Road
Colyton
Devon
EX13 6NP

CeramTec UK Ltd

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;
- 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 maintaining 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.



Plym House
3 Longbridge Road
Marsh Mills
Plymouth PL6 8LT

Report of the auditors to the members of CeramTec UK Ltd

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit of those statements 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 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 the company's affairs as at 30 September 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

14 November 1997

*Chartered Accountants
Registered Auditors*



CeramTec UK Ltd

Profit and loss account for the year ended 30 September 1997

	Note	1997 £	Nine months ended 30 September 1996 £
Turnover	2	4,922,282	3,584,218
Cost of sales		(3,188,892)	(2,681,310)
Gross profit		1,733,390	902,908
Distribution costs		(93,902)	(78,765)
Administrative expenses		(920,643)	(363,474)
Other operating income	6	140	125
Operating profit		718,985	460,794
Other interest receivable and similar income		55,296	19,259
Profit on ordinary activities before taxation	3	774,281	480,053
Tax on profit on ordinary activities	7	(246,184)	(160,162)
Retained profit for the financial period		528,097	319,891
Retained profit brought forward		710,576	390,685
Retained profit carried forward		1,238,673	710,576

There are no recognised gains or losses other than the profit for the year and consequently no separate statement of recognised gains and losses is presented.


CeramTec UK Ltd

Balance sheet at 30 September 1997

	Note	1997		1996	
		£	£	£	£
Fixed assets					
Tangible assets	8		787,960		929,411
Current assets					
Stocks	9	431,940		517,290	
Debtors	10	2,021,666		1,195,907	
Cash at bank and in hand		42,071		465,361	
			<u>2,495,677</u>		<u>2,178,558</u>
Creditors: amounts falling due within one year	11	(754,025)		(1,096,109)	
			<u>1,741,652</u>		<u>1,082,449</u>
Net current assets					
			<u>1,741,652</u>		<u>1,082,449</u>
Total assets less current liabilities			2,529,612		2,011,860
Provisions for liabilities and charges	12		(103,939)		(114,284)
			<u>2,425,673</u>		<u>1,897,576</u>
Net assets					
			<u>2,425,673</u>		<u>1,897,576</u>
Capital and reserves					
Called up share capital	13	1,187,000		1,187,000	
Profit and loss account		1,238,673		710,576	
			<u>2,425,673</u>		<u>1,897,576</u>
Shareholders' funds					
			<u>2,425,673</u>		<u>1,897,576</u>

These financial statements were approved by the board of directors on 14 November 1997 and were signed on its behalf by:


WK Opitz
Director


Dr Weber
Director

CeramTec UK Ltd

Cash flow statement for the year ended 30 September 1997

	<i>Note</i>	1997 £	Nine months ended 30 September 1996 £
Net cash (outflow)/inflow from operating activities	<i>A</i>	(365,552)	809,557
Return on investments and servicing of finance	<i>C</i>	53,861	18,739
Taxation	<i>C</i>	(60,020)	(258,321)
Capital expenditure and financial investment	<i>C</i>	(51,579)	(476,846)
(Decrease)/increase in cash	<i>B,D</i>	<u>(423,290)</u>	<u>93,129</u>

CeramTec UK Ltd

Notes

(forming part of the financial statements)

A Reconciliation of operating profit to net cashflow from operating activities

	1997	Nine months ended 30 September 1996
	£	£
Operating profit	718,985	460,794
Depreciation	201,563	139,479
Decrease in stocks	85,349	43,969
Increase in debtors	(868,031)	(167,538)
(Decrease)/increase in creditors	(486,385)	334,153
Reserve against customer claims	(8,500)	(1,300)
Profit on disposal of fixed assets	(8,533)	-
Net cash (outflow)/inflow from operating activities	<u>(365,552)</u>	<u>809,557</u>

B Reconciliation of net cashflow to movement in cash

(Decrease)/increase in cash in the period	(423,290)	93,129
Cash at start of the year	<u>465,361</u>	<u>442,232</u>
Cash at end of the year	<u>42,071</u>	<u>465,361</u>

C Gross Cashflows

Returns on investments and servicing of finance

Interest received	<u>53,861</u>	<u>18,739</u>
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Taxation

UK corporation tax paid	(60,020)	(503,655)
Repayment of corporation tax received	-	245,334
	<u>(60,020)</u>	<u>258,321</u>

Capital expenditure

Payments to acquire tangible fixed assets	(64,098)	(476,846)
Receipts from sales of tangible fixed assets	12,519	-
	<u>(51,579)</u>	<u>(476,846)</u>

D Analysis of changes in cash

	At 1 October 1996	Cash flow	At 30 September 1997
	£	£	£
Cash at bank and in hand	<u>465,361</u>	<u>(423,290)</u>	<u>42,071</u>

CeramTec UK Ltd

Notes (continued)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

In accordance with Financial Reporting Standard Number 8, the company has taken advantage of the exemption from the requirement to publish details of intra-group transactions as it is a wholly owned subsidiary undertaking of Metallgesellschaft AG (see note 19).

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	4 %
Plant and machinery	
In continual use	33.33 %
In general use	20 %
With replacement parts	16.67 %
Kilns	12.5 %
Lasers	12.5 % - 25 %
Water and electrical installation	5 %
Furniture fittings and equipment	20 % - 10 %
Motor vehicles	25 %

No depreciation is provided on freehold land.

Pension costs

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work-in-progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

CeramTec UK Ltd

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and the gains or losses on transaction are included in the profit and loss account.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element which is charged to the profit and loss account under the item 'interest payable and similar charges', and the capital element which reduces the outstanding obligation for future instalments included within creditors. All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Research and development

Expenditure on research and development is written off against profits in the year in which it is incurred.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

2 Turnover and operating profit

All turnover and operating profits arose from the company's principal activity of the manufacture and sale of technical ceramics.

	1997	Nine months ended 30 September 1996
	£	£
<i>Turnover by market</i>		
United Kingdom	4,076,300	2,803,318
Overseas	845,982	780,900
	<u>4,922,282</u>	<u>3,584,218</u>

During the year, the company acquired the assets and trade of Cerasiv SPK Ltd, a fellow subsidiary company. The contribution to turnover as a result of the acquisition is £602,387 for the year ended 30 September 1997. The operating costs relating to this turnover are not separately identifiable from other costs. Consequently, no analysis of operating profit from acquisitions is presented.

CeramTec UK Ltd

Notes (continued)

3 Profit on ordinary activities before taxation

	1997	Nine months ended 30 September 1996
	£	£
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration	5,000	4,500
Depreciation on tangible fixed assets	201,563	139,479
Research and development expenditure	300,500	220,000
Other operating leases	47,324	-
	<u> </u>	<u> </u>

4 Remuneration of directors

Executive directors are employed and remunerated by CeramTec AG.

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	1997	Nine months ended 30 September 1996
Production	111	115
Management and administration	20	12
	<u>131</u>	<u>127</u>

The aggregate payroll costs of these persons were as follows:

	1997	Nine months ended 30 September 1996
	£	£
Wages and salaries	1,676,592	1,096,102
Social security costs	127,548	77,240
Other pension costs (see note 15)	93,287	67,993
	<u>1,897,427</u>	<u>1,241,335</u>

Notes (continued)

1997	Nine months ended 30 September 1996
£	£

7 Taxation

1997	Nine months ended 30 September 1996
£	£

Deferred taxation

248,029	151,782
(1,845)	8,380
<u>246,184</u>	<u>160,162</u>

Freehold land and buildings	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
£	£	£	£	£

At 1 October 1996	499,767	2,807,711	27,463	100,948	3,435,889
Additions	-	22,988	-	41,110	64,098
Disposals	-	-	-	(35,417)	(35,417)

Depreciation

At 1 October 1996	295,589	2,121,458	22,830	66,601	2,506,478
Charge for period	16,107	160,129	1,326	24,001	201,563
Disposals	-	-	-	(31,431)	(31,431)

Net book value

At 1 January 1996	204,178	686,253	4,633	34,347	929,411
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CeramTec UK Ltd

Notes (continued)

9 Stocks

	1997 £	1996 £
Raw materials and consumables	340,768	407,787
Work in progress	42,689	43,766
Finished goods	48,483	65,737
	<u>431,940</u>	<u>517,290</u>

10 Debtors

	1997 £	1996 £
Trade debtors	1,066,278	1,093,511
Amounts owed by parent and fellow subsidiary undertakings	926,407	43,947
Prepayments and accrued income	28,741	14,402
Other debtors	240	340
ACT recoverable	-	43,707
	<u>2,021,666</u>	<u>1,195,907</u>

ACT recoverable includes an amount of £nil (1996: £43,707) which falls due after more than one year.

11 Creditors: amounts falling due within one year

	1997 £	1996 £
Trade creditors	162,065	476,307
Corporation tax	204,093	59,793
Other taxation and social security	166,046	166,650
Amounts owed to fellow subsidiary undertakings	4,924	208,353
Other creditors	187,281	155,192
Accruals and deferred income	29,616	29,814
	<u>754,025</u>	<u>1,096,109</u>

CeramTec UK Ltd

Notes (continued)

12 Provisions for liabilities and charges

	Provision against customers' claims £	Deferred taxation £	Total £
At 1 October 1996	93,500	20,784	114,284
(Credit)/charge for the period in the profit and loss account	(8,500)	(1,845)	(10,345)
At 30 September 1997	85,000	18,939	103,939

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1997		1996	
	Provided £	Unprovided £	Provided £	Unprovided £
Difference between accumulated depreciation and capital allowances	18,939	-	20,224	-
Other timing differences	-	-	560	-
Industrial buildings allowances	-	1,263	-	3,898
	<u>18,939</u>	<u>1,263</u>	<u>20,784</u>	<u>3,898</u>

13 Called up share capital

	1997 and 1996 £
<i>Authorised, allotted, called up and fully paid</i> 237,400 Ordinary shares of £5 each	<u>1,187,000</u>

14 Capital commitments

Capital commitments at the end of the year for which no provision has been made are as follows:

	1997 £	1996 £
Contracted	<u>168,000</u>	<u>124,000</u>

CeramTec UK Ltd

Notes (continued)

15 Pension scheme

- (a) Contributions to the company's defined benefit pension scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the aggregate valuation method. The most recent valuation was at 1 April 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The pension charge for the period was £75,489 (1996:£58,103).

The most recent actuarial valuation showed that the market value of the scheme's assets was £2,262,348 and that the actuarial value of those assets represented 106% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at 11.5% and 6.5% of earnings respectively.

Contributions amounting to £9,877 (1996:£11,123) were payable to the fund and are included in creditors.

- (b) The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £17,798 (1996:£9,890).

Contributions amounting to £2,071 (1996:£1,677) were payable to the fund and are included in creditors.

16 Reconciliation of movements in shareholders funds

	1997	Nine months ended 30 September 1996
	£	£
Profit for the year	528,097	319,891
Shareholders' funds at start of year	1,897,576	1,577,685
	<hr/>	<hr/>
Shareholders' funds at end of year	2,425,673	1,897,576
	<hr/>	<hr/>

CeramTec UK Ltd

Notes (continued)

17 Operating Leases

At the end of the year, the company had annual commitments under non-cancellable operating leases as follows:

	1997 £	1996 £
Land and buildings		
Operating leases which expire:		
In the second to fifth years inclusive	<u>11,750</u>	<u>-</u>
Other leases		
Operating leases which expire:		
Within one year	11,407	-
In the second to fifth years inclusive	<u>24,167</u>	<u>-</u>

18 Contingent liabilities

At 30 September 1997 the company has an outstanding guarantee given in the ordinary course of business amounting to £5,000 (1996:£5,000). The directors do not expect any liability to arise in respect of this guarantee.

19 Ultimate parent company

The ultimate parent company at 30 September 1997 is Metallgesellschaft AG registered in Germany, copies of whose accounts are available to the public from PO Box 101501, D-60271 Frankfurt am Main, Germany.