

Guardsman UK Limited

Report and Accounts

30 November 1997

152 Milton Park

Abingdon

Oxon

OX14 4SD

Reg No
2360505



ERNST & YOUNG

Guardsman UK Limited

DIRECTORS

K C Vander-Hyde
D G Doig

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

REGISTERED NUMBER

2360505

Guardsman UK Limited
DIRECTORS' REPORT

The directors present their report and accounts for the year ended 30 November 1997.

RESULTS AND DIVIDENDS

The results for the period are as set out in the attached accounts. Interim dividends of £150,000 and £600,000 were declared and paid in February 1997 and May 1997 respectively (1996: £350,000). 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.

FIXED ASSETS

All movements of fixed assets are shown in notes 8 and 9 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors during the period were as follows:

K C Vander-Hyde
D G Doig

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.

Guardsman 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.

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

 27/4/1998

REPORT OF THE AUDITORS
to the members of Guardsman UK Limited

We have audited the accounts on pages 6 to 15 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 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.

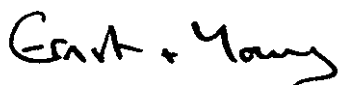
Basis of opinion

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 the company's affairs as at 30 November 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
Registered Auditor
Reading

29 April 1998.

Guardsman UK Limited
PROFIT AND LOSS ACCOUNT
for the year ended 30 November 1997

		<i>Year ended 30 November 1997</i>	<i>11 months ended 30 November 1996</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
TURNOVER			
Cost of sales	2	6,687,234 (2,223,742)	5,094,897 (1,487,268)
Gross profit		4,463,492	3,607,629
Distribution expenses		1,262,603	1,002,569
Administration costs		2,517,639	1,902,805
OPERATING PROFIT	3	683,250	702,255
Interest receivable	6	47,456	39,211
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		730,706	741,466
Tax on profit on ordinary activities	7	(215,195)	(287,686)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		515,511	453,780
Dividend paid on equity shares	18	(750,000)	(350,000)
Retained (loss)/profit for the year/period		(234,489)	103,780

STATEMENT OF RECOGNISED GAINS AND LOSSES

There were no recognised gains and losses other than the profit attributable to members of £515,511 in the year ended 30 November 1997 and £453,780 in the eleven months ended 30 November 1996.

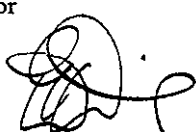
Guardsman UK Limited

BALANCE SHEET

at 30 November 1997

		30 November 1997	30 November 1996
	Notes	£	£
FIXED ASSETS			
Intangible assets	8	-	881
Tangible assets	9	250,632	255,298
		<u>250,632</u>	<u>256,179</u>
CURRENT ASSETS			
Stocks	10	220,941	158,148
Debtors	11	2,910,847	1,518,678
Cash at bank and in hand		375,959	1,332,123
		<u>3,507,747</u>	<u>3,008,949</u>
CREDITORS: amounts falling due within one year	12	2,044,695	1,752,187
		<u>1,463,052</u>	<u>1,256,762</u>
NET CURRENT ASSETS			
		<u>1,713,684</u>	<u>1,512,941</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>1,713,684</u>	<u>1,512,941</u>
CREDITORS: amounts falling due after more than one year	13	807,059	371,827
		<u>906,625</u>	<u>1,141,114</u>
CAPITAL AND RESERVES			
Called up share capital	15	2,000	2,000
Profit and loss account	18	904,625	1,139,114
		<u>906,625</u>	<u>1,141,114</u>
Equity shareholders' funds			
		<u>906,625</u>	<u>1,141,114</u>

Director

 27/4/1998

Guardsman UK Limited

NOTES TO THE ACCOUNTS

at 30 November 1997

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 1996).

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.

Guardsman UK Limited

NOTES TO THE ACCOUNTS

at 30 November 1997

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

	<i>Year ended 30 November 1997 £</i>	<i>11 months ended 30 November 1996 £</i>
UK	6,643,080	5,057,563
Rest of Europe	13,885	12,887
South Africa	29,614	24,447
Australia	655	-
	<u>6,687,234</u>	<u>5,094,897</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

	<i>Year ended 30 November 1997 £</i>	<i>11 months ended 30 November 1996 £</i>
This is stated after charging:		
Auditors' remuneration - audit services	12,813	11,700
- other	6,527	17,326
Depreciation of owned assets	78,424	38,299
Amortisation of intangible fixed assets	881	9,512
Operating lease rentals		
- land and buildings	80,595	69,157
- plant and machinery	57,665	47,050
	<u></u>	<u></u>

4 DIRECTORS' REMUNERATION

	<i>Year ended 30 November 1997 £</i>	<i>11 months ended 30 November 1996 £</i>
Emoluments	68,245	77,624
Company contributions to group personal pension plans	5,580	3,662
	<u>73,825</u>	<u>81,286</u>

Guardsman UK Limited

NOTES TO THE ACCOUNTS

at 30 November 1997

4 DIRECTORS' REMUNERATION (CONTINUED)

The amounts in respect of the highest paid director are as follows:

	<i>Year ended 30 November 1997 £</i>	<i>11 months ended 30 November 1996 £</i>
Emoluments	68,245	56,958
Company contributions paid to group personal pension plans	5,580	3,662

5 STAFF COSTS

	<i>Year ended 30 November 1997 £</i>	<i>11 months ended 30 November 1996 £</i>
Wages & salaries	755,798	592,862
Social security costs	65,838	51,570
Other pension costs	37,735	20,189
Temporary staff	33,672	28,427
	893,043	693,048

	<i>Year ended 30 November 1997 No.</i>	<i>11 months ended 30 November 1996 No.</i>
Average number of employees during the period:		
Administration	9	9
Sales	36	23
Warehouse	2	2
	47	34

6 INTEREST RECEIVABLE

	<i>Year ended 30 November 1997 £</i>	<i>11 months ended 30 November 1996 £</i>
Bank deposit interest	47,456	39,211

Guardsman UK Limited

NOTES TO THE ACCOUNTS

at 30 November 1997

7 **TAXATION**

The taxation charge is made up as follows:

	<i>Year ended 30 November 1997 £</i>	<i>11 months ended 30 November 1996 £</i>
Based on the profit for the period:		
Corporation tax at 31%/33%	253,075	256,195
Deferred taxation	(33,958)	118,428
Prior year corporation tax over provided	(3,922)	(86,937)
	<u>215,195</u>	<u>287,686</u>

8 **INTANGIBLE FIXED ASSETS**

Cost	£
At 1 December 1996 and 30 November 1997	41,500
Amortisation	
At 1 December 1996	40,619
Provided during the period	881
At 30 November 1997	41,500
Net book value	
At 30 November 1997	Nil
Net book value	
At 1 December 1996	881

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

Guardsman UK Limited
NOTES TO THE ACCOUNTS
at 30 November 1997

9 TANGIBLE FIXED ASSETS

	<i>Leasehold improvements</i>	<i>Furniture</i>	<i>Plant and Equipment</i>	<i>Total</i>
	£	£	£	£
Cost				
At 1 December 1996	81,102	77,928	251,758	410,788
Additions	-	21,197	52,561	73,758
Disposals	-	-	-	-
At 30 November 1997	81,102	99,125	304,319	484,546
Depreciation				
At 1 December 1996	15,824	37,972	101,694	155,490
Charge for the period	8,220	8,610	61,594	78,424
Disposals	-	-	-	-
At 30 November 1997	24,044	46,582	163,288	233,914
Net book value				
At 30 November 1997	57,058	52,543	141,031	250,632
Net book value				
At 1 December 1996	65,278	39,956	150,064	255,298

10 STOCKS

	<i>30 November 1997</i>	<i>30 November 1996</i>
	£	£
Raw materials and consumables	89,272	39,163
Finished goods and goods for resale	131,669	118,985
	220,941	158,148

11 DEBTORS

	<i>30 November 1997</i>	<i>30 November 1996</i>
	£	£
Trade debtors	1,679,761	1,274,466
Prepayments and accrued income	145,680	99,185
Other debtors	7,703	8,164
Corporation tax repayable	31,250	136,863
Loan to parent undertaking	900,000	-
Amounts receivable from parent undertaking	146,453	-
	2,910,847	1,518,678

Guardsman UK Limited
 NOTES TO THE ACCOUNTS
 at 30 November 1997

12 **CREDITORS: amounts falling due within one year**

	30 November 1997 £	30 November 1996 £
Trade creditors	266,504	414,204
Amount payable to parent undertaking	-	74,385
Other taxes and social security costs	68,236	56,632
Corporation tax	93,220	168,695
Deferred tax	-	33,958
Accruals and deferred income	1,381,972	716,818
Warranty claims accrual	234,763	287,495
	<u>2,044,695</u>	<u>1,752,187</u>

13 **CREDITORS: amounts falling due after more than one year**

	30 November 1997 £	30 November 1996 £
Warranty claims accrual	726,903	121,655
Deferred income	80,156	250,172
	<u>807,059</u>	<u>371,827</u>

14 **PROVISION FOR LIABILITIES AND CHARGES**

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

	Year ended 30 November 1997 £	11 months ended 30 November 1996 £
Deferred taxation:		
Balance at 1 December/1 January	(33,958)	84,470
Transferred to the profit & loss account in respect of the current period	33,958	(118,428)
	<u>Nil</u>	<u>(33,958)</u>

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

	Provided		Not provided	
	1997 £	1996 £	1997 £	1996 £
Capital allowances in advance of depreciation	-	39,441	27,066	-
Other timing differences	-	(5,483)	(43,707)	-
	<u>Nil</u>	<u>33,958</u>	<u>(16,641)</u>	<u>Nil</u>

Guardsman UK Limited
 NOTES TO THE ACCOUNTS
 at 30 November 1997

15 SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>No</i>	<i>No</i>	<i>£</i>	<i>£</i>
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 (1996: £nil).

17 OPERATING LEASES

At 30 November 1997, the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Other</i>		<i>Land and buildings</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Operating leases which expire:				
Within one year	7,291	2,542	2,704	-
Between two and five years	38,474	44,074	79,500	112,000
	45,765	46,616	82,204	112,000

18 RECONCILIATION OF SHAREHOLDERS' FUNDS

	<i>Share capital</i>	<i>Profit & loss account</i>	<i>Total</i>
	<i>£</i>	<i>£</i>	<i>£</i>
At 1 January 1996	2,000	1,035,334	1,037,334
Profit for the period	-	453,780	453,780
Dividend	-	(350,000)	(350,000)
At 1 December 1996	2,000	1,139,114	1,141,114
Profit for the year	-	515,511	515,511
Dividend	-	(750,000)	(750,000)
At 30 November 1997	2,000	904,625	906,625

Guardsman UK Limited

NOTES TO THE ACCOUNTS

at 30 November 1997

19 ULTIMATE PARENT COMPANY

The largest and smallest group in which the results of Guardsman 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.

20 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.