

KALON LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004



COMPANY NO: 436135

KALON LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2004.

Principal activities and business review

The principal activity of the company remains that of the manufacture and distribution of decorative products.

The markets in which the company operates are very competitive. There are four major suppliers of paint to the UK market, one of which is located overseas. The displaced UK manufacturing capacity has intensified price competition, as the UK-based manufacturers have sought to maintain production economies of scale. Given the highly competitive nature of the market place, the directors are satisfied with the financial performance of the company for the year.

Results and dividends

The company's profit for the financial year was £12,159,000 (2003: £11,146,000). The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2004 (2003: £30,000,000).

Directors and their interests

The directors of the company who served during the year were as follows:

P R Evans
K Robinson

None of the directors who held office at the end of the financial year had any disclosable interest in the shares or share options of the company or any group company except as disclosed below.

Mr P Evans is also a director of an intermediate parent undertaking, SigmaKalon (BC) UK Limited. His beneficial interest in the shares of group companies is shown in those accounts. Mr K Robinson is also a director of the immediate parent company, Kalon Investment Company Limited. His beneficial interest in the shares of group companies is shown in those accounts.

Research and development

The board places a high priority on research and technological innovation, which serves the needs of customers. The cost of such work is disclosed in note 5 to the accounts.

KALON LIMITED

Employment policies

Employees or their representatives are provided with information and consulted on matters which are, in the opinion of the directors, of concern to them as employees and likely to affect their interests. It is the policy of the company to support the employment of disabled people wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the company, as well as generally through training and career development.

Health and safety at work has always been of prime concern. Continuous efforts are made to improve existing measures and to stimulate interest in safety in each employee.

Payment policy

The company agrees terms and conditions which include payment details with its suppliers. Payment is made in accordance with those terms and conditions, provided the supplier has also complied with them. The company had trade creditors outstanding at the year end representing 48 days of purchases (2003: 43 days).

Independent auditors

A resolution to reappoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the Annual General Meeting.

On behalf of the Board



Director

18 August 2005

KALON LIMITED

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements 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 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;
- 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KALON LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 £'000	2003 £'000
Turnover		206,252	208,678
Cost of sales	3	(116,785)	(118,696)
Gross profit		89,467	89,982
Net operating expenses	3	(71,377)	(73,598)
Other operating income		328	842
Operating profit	5	18,418	17,226
Other interest receivable and similar income	6	790	526
Interest payable and similar charges	7	(67)	(71)
Profit on ordinary activities before taxation		19,141	17,681
Taxation	8	(6,982)	(6,535)
Profit for the financial year		12,159	11,146
Dividends	9	-	(30,000)
Retained profit/(sustained loss) for the financial year	17	12,159	(18,854)

All of the above activities are derived from continuing operations.

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

The company had no recognised gains and losses other than the profits and losses above and therefore no separate statement of total recognised gains and losses has been presented.

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2004**

	2004 £'000	2003 £'000
Profit for the financial year	12,159	11,146
Dividends	-	(30,000)
Net addition to/(reduction in) shareholders' funds	12,159	(18,854)
Opening shareholders' funds	28,797	47,651
Closing shareholders' funds	40,956	28,797

KALON LIMITED

BALANCE SHEET AT 31 DECEMBER 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	10	34,462	37,601
Tangible assets	11	<u>13,988</u>	<u>13,712</u>
		<u>48,450</u>	<u>51,313</u>
Current assets			
Stocks	12	21,646	20,819
Debtors	13	37,004	54,722
Cash at bank and in hand		<u>4,249</u>	<u>7,136</u>
		<u>62,899</u>	<u>82,677</u>
Creditors: amounts falling due within one year	14	<u>(64,326)</u>	<u>(98,568)</u>
Net current liabilities		<u>(1,427)</u>	<u>(15,891)</u>
Total assets less current liabilities		<u>47,023</u>	<u>35,422</u>
Provisions for liabilities and charges	15	<u>(6,067)</u>	<u>(6,625)</u>
Net assets		<u>40,956</u>	<u>28,797</u>
Capital and reserves			
Called-up share capital	16	350	350
Profit and loss account	17	<u>40,606</u>	<u>28,447</u>
Equity shareholders' funds		<u>40,956</u>	<u>28,797</u>

These financial statements were approved by the Board of Directors on 18 August 2005 and signed on its behalf by:

Director



KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

1 Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards in the United Kingdom and under the historical cost accounting rules.

Under Financial Reporting Standard 1 (Revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent undertaking, SigmaKalon Luxco S.C.A., has prepared consolidated accounts which include the accounts of the company for the year and which contain a consolidated cash flow statement, and which are publicly available.

As the company is a wholly owned subsidiary of SigmaKalon Luxco S.C.A., the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with companies that form part of the group. The consolidated financial statements of SigmaKalon Luxco S.C.A., within which this company is included, disclose this information, and can be obtained from 5, Parc d'Activité am Syrdall, L - 5365 Munsbach, Luxembourg.

b) Turnover

Turnover represents the invoiced value of sales net of value added tax in the normal course of business and is recognised upon despatch of goods sold.

c) Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation. The cost of fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets on a straight-line basis over their estimated useful lives.

The estimated useful lives of assets are as follows:

Short leasehold properties	-	By reference to the unexpired portion of the lease
Plant and motor vehicles	-	3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account.

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

d) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In establishing cost, stocks and work in progress at the end of the year are taken to represent latest purchases or production.

On this basis, cost comprises:

Raw materials	- purchase price
Work in progress and finished goods	- raw materials, direct labour and attributable production overheads

Net realisable value is based on estimated selling price after taking into account all further costs expected to be incurred on completion and disposal.

e) Taxation

The charge for taxation is based on the result for the period. In accordance with FRS 19, deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is recognised in respect of tax losses to the extent that they are regarded as recoverable on the basis that it is regarded as 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 assets and liabilities recognised have not been discounted.

f) Research and development

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

g) Pensions and retirement indemnities

The company participates in a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. 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.

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

h) Goodwill

Purchased goodwill representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired. The goodwill is written off over the period in which economic benefit from the acquisition is derived. Goodwill is currently being amortised over 20 years which is, in the directors' opinion, its useful economic life.

Any impairment in the value of goodwill below depreciated historical cost is charged to the profit and loss account.

i) Intangible fixed assets

Intangible fixed assets purchased separately from a business are capitalised at their cost. Concessions, patents, licences and trademarks purchased by the company are amortised to nil by equal annual instalments over their useful economic lives. Trademark licences are currently being amortised over 10 years which is, in the directors' opinion, their useful economic life.

Any impairment in the value of intangible fixed assets below depreciated historical cost is charged to the profit and loss account.

j) Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The assets are depreciated in accordance with the group's normal accounting policy. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term on a straight-line basis.

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the lease.

k) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the Balance Sheet date and the gains or losses on translation are included in the profit and loss account.

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

2 Employees

	2004 £'000	2003 £'000
a) Employment cost of employees:		
Wages and salaries	40,055	39,383
Social security costs	3,219	2,998
Other pension costs	2,862	3,228
	<u>46,136</u>	<u>45,609</u>

	2004 Number	2003 Number
b) The average monthly number of people employed by the company during the year was:		
Production	479	504
Selling and distribution	1,303	1,360
Administration	120	120
	<u>1,902</u>	<u>1,984</u>

c) Directors' Emoluments:		
	2004 £'000	2003 £'000
Fees	338	444
Other emoluments (including pension contributions and benefits in kind)	52	84
	<u>390</u>	<u>528</u>

d) Directors' Pensions

The number of directors who were members of pension schemes was as follows:

	2004 Number	2003 Number
Defined benefit scheme	<u>2</u>	<u>3</u>

e) Highest paid director

The remuneration of the highest paid director, including pension contributions of £22,000 (2003: £43,000), was £279,000 (2003: £380,000).

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

3 Cost of sales and net operating expenses

	2004 £'000	2003 £'000
Cost of sales	<u>116,785</u>	<u>118,696</u>
Net operating expenses:		
Selling and distribution costs	59,268	60,111
Administrative expenses	<u>12,109</u>	<u>13,487</u>
Total net operating expenses	<u>71,377</u>	<u>73,598</u>

Included within administration expenses in 2004 is an exceptional charge of £86,000 (2002: £785,000) relating to the write-down of an inter-company receivable balance.

4 Pensions and retirement indemnities

The company has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) are those required by that standard. FRS 17 'Retirement Benefits' was issued in November 2000, however, full disclosure is not currently mandatory for the company but transitional disclosures are required from the year ended 31 December 2001. These disclosures, to the extent not given in (a), are set out in (b).

(a) SSAP 24

During the comparative period the company participated in two defined benefit pension schemes. Until 28 February 2003, the company participated in the TotalFinaElf UK Pension Plan. Following the sale of the SigmaKalon group by TotalFinaElf SA to Bain Capital, the SigmaKalon UK Pension Fund was established.

TotalFinaElf UK Pension Plan

The individual pension schemes within the TotalFinaElf Holdings UK Limited group were amalgamated into one group scheme, the TotalFinaElf UK Pension Plan (the "TFE Plan") which included the Kalon Pension Fund the assets of which were kept separate from those of the company.

The pension cost of the TFE Plan was assessed in accordance with the advice of an independent qualified actuary, Bacon & Woodrow, using the projected unit method. The principal assumptions used to calculate the pension cost for 2002 and 2003 are:

Investment return	5.9% pa
Increase in earnings	4.4% pa
Pension increases	2.9% pa

KALON LIMITED

4 Pensions and retirement indemnities (continued)

The latest actuarial valuation of the Kalon Pension Fund was at 5 April 2000. At 5 April 2000 the market value of the assets of the Kalon Pension Fund was £89,034,000, which represented 115% of the value of accrued benefits allowing for assumed future increases in earnings on the basis of the assumptions adopted for that valuation.

SigmaKalon UK Pension Fund

With effect from 28 February 2003, the Company began to participate in a funded defined benefit pension scheme in the UK (the SigmaKalon UK Pension Fund).

The Fund was set up following the sale of the share capital of the Company by TotalFinaElf which meant that the Company could no longer participate in the TFE UK Pension Plan. The Fund commenced on 28 February 2003 and current employees who were previously members of the TFE UK Pension Plan were eligible to join from that date. Prior to this employees participated in the TFE UK Pension Plan. A bulk transfer payment, calculated in accordance with the provisions of the sale and purchase agreement, of £27.3 million was paid by the TFE UK Pension Plan to the Fund in June 2003 in respect of the employees' accrued pension rights transferred to the Fund.

The SigmaKalon UK Pension Fund's first formal valuation was carried out as at 28 February 2003. The market value of the assets at the valuation date was £24.5m and the smoothed market value of the assets at the valuation date was £25.2 million. This smoothed asset value represented 79% of the benefits that had accrued to members, after allowing for expected future increases in earnings. This represented a deficit of £6.6 million. The company is paying additional contributions over a 7-year period to remove the deficit.

Around 96% of the liabilities of the SigmaKalon UK Pension Fund relate to members employed by Kalon Limited. These disclosures have been prepared based on the estimated assets and liabilities relating to members employed by Kalon Limited only.

The assets of the scheme are held separately from the company. Contributions to the plan 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 periodic valuations using the projected unit method.

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

4 Pensions and retirement indemnities (continued)

The assumptions which will 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. For the purposes of calculating these pension costs, it has been assumed that the investment returns would be 6.4% per annum, that salary increases would average 3.9% per annum and future pensions would increase at the rate of 2.4% per annum (for increases in line with the retail prices index up to 5% per annum, with other increases being calculated in a consistent manner).

The pension charge for the year to 31 December 2004 was £2,862,000 (2003 £3,228,000). The accounting provision at the end of the period is £6,067,000 (2003 £6,625,000).

The Company has contributed at a rate of 14.4% of Pensionable Salary over 2004 and will continue to do so in 2005. Members contribute at rates as set out in the scheme rules.

The company also pays contributions to a Group Personal Pension ('GPP') in respect of certain employees. The company's contributions to the GPP in the year up to 31 December 2004 were £139,428 (2003 £20,082).

(b) FRS 17 additional disclosures

The additional disclosures regarding the company's defined benefit pension schemes required under the transitional provisions of FRS 17 Retirement Benefits are set out below.

It should be noted that the disclosures below for the year ended 31 December 2002 relate solely to the Kalon Pension Fund and for the years ended 31 December 2003 and 2004 relate solely to the SigmaKalon UK Pension Plan.

TotalFinaElf UK Pension Plan

The actuarial valuation of the TFE Plan described above was updated as at 31 December 2003 by a qualified actuary using revised assumptions that were consistent with the requirements of FRS 17. Investments have been valued for this purpose at market value.

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

4 Pensions and retirement indemnities (continued)

SigmaKalon UK Pension Fund

The Company participates in a defined benefit pension scheme in the UK (the SigmaKalon UK Pension Fund).

A formal valuation was carried out as at 28 February 2003. Additional valuations using full data were performed as at 31 December 2003 for the purposes of FRS 17 and these have been updated to 31 December 2004 by a qualified independent actuary. Around 96% of the liabilities of the SigmaKalon UK Pension Fund relate to members employed by Kalon Limited. These disclosures have been prepared based on the assets and liabilities of the fund as a whole.

The major assumptions used by the actuary were:

	2004	2003	2002
Discount rate	5.40%	5.50%	5.50%
Rate of increase in salaries	3.90%	4.30%	4.00%
Rate of increase in future pensions in payment – where relating to increases in the Retail Prices Index (RPI) with a maximum of 5% pa.	2.70%	2.60%	2.50%
Rate of increase in deferred pensions	2.90%	2.80%	2.50%
Inflation assumption	2.90%	2.80%	2.50%

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected	Value at	Long term rate of return expected	Value at	Long term rate of return expected	Value at
	2004		2003		2002	
	%	£'000	%	£'000	%	£'000
Equities	7.5	27,287	8.3	22,148	8.3	42,583
Bonds	4.9	11,905	5.2	9,553	5.0	2,319
Government Bonds	-	-	-	-	4.5	11,002
Property	-	-	-	-	7.0	1,903
Cash	4.8	84	3.8	773	3.2	1,665
Total market value of assets		39,276		32,474		59,472
Present value of scheme liabilities		(52,118)		(48,104)		(103,387)
Deficit in the scheme		(12,842)		(15,630)		(43,915)
Deferred taxation		3,853		4,689		13,175
Net pension liability		(8,989)		(10,941)		(30,740)

KALON LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004****4 Pensions and retirement indemnities (continued)**Movement in deficit during the year:

	2004	2003
	£'000	£'000
Deficit in scheme at beginning of year	(15,630)	(15,364)
Current service cost	(3,902)	(2,976)
Contributions paid	3,420	3,229
Other finance income	(250)	(308)
Actuarial loss	3520	(211)
Deficit in the scheme at end of year	<u>(12,842)</u>	<u>(15,630)</u>

The following amounts at 31 December 2004 and 31 December 2003 were measured in accordance with the requirements of FRS 17.

If the above amounts had been recognised in the financial statements, the Company's net assets and profit and loss reserve at 31 December 2004 and 31 December 2003 would be as follows:

	2004	2003
	£'000	£'000
Net assets excluding pension asset	40,956	28,797
SSAP 24 provision (net of a deferred tax asset recognised at a rate of 30%)	4,247	4,638
Pension liability	<u>(8,989)</u>	<u>(10,941)</u>
Net assets including pension asset	<u>36,214</u>	<u>22,494</u>
Profit and loss reserve excluding pension asset	40,606	28,447
SSAP 24 provision (net of a deferred tax asset recognised at a rate of 30%)	4,247	4,638
Pension liability	<u>(8,989)</u>	<u>(10,941)</u>
Profit and loss reserve including pension asset	<u>35,864</u>	<u>22,144</u>

The following amounts would have been recognised in the performance statements in the year to 31 December 2004 and the 10 months to 31 December 2003 under the requirements of FRS 17:

	2004	2003
	£'000	£'000
Operating Profit		
Current Service Cost	3,902	2,976
Past Service Cost	-	-
Total Operating Charge	<u>3,902</u>	<u>2,976</u>

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

4 Pensions and retirement indemnities (continued)

	2004 £'000	2003 £'000
Other Finance Income		
Expected return on pension scheme assets	2,517	1,602
Interest on Pension Scheme Liabilities	(2,767)	(1,910)
Net return	(250)	(308)
Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension scheme assets	711	2,589
Experience Gains and Losses Arising on the Scheme Liabilities	2,076	1,624
Changes in assumptions underlying the present value of the scheme liabilities	733	(4,424)
Actuarial gain recognised in STRGL	3,520	(211)

The Company is currently contributing 14.4% of Pensionable Salary. The next formal actuarial valuation of the SigmaKalon UK Pension Fund will be carried out no later than as at 28 February 2006 and contributions will be reviewed at that time.

Details of experience gains and losses for the three years to 31 December 2004

	2004	2003	2002
Difference between the expected and actual return on scheme assets:			
Amount (£'000)	711	2,589	(23.4)
Percentage of scheme assets	1.8%	8.0%	(39.3)%
Experience gains and losses on scheme liabilities:			
Amount (£'000)	2,076	1,624	(3.4)
Percentage of the present value of the scheme liabilities	4.0%	3.4%	(3.3)%
Total amount recognised in the statement of total recognised gains and losses:			
Amount (£'000)	3,520	(211)	(12.2)
Percentage of the present value of the scheme liabilities	6.8%	-0.4%	(11.8)%

The company also pays contributions to a Group Personal Pension ('GPP') in respect of certain employees. The company's contributions to the GPP in the period up to 31 December 2004 were £139,428 (2003 £20,082).

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

5 Operating profit

	2004 £'000	2003 £'000
Operating profit is arrived at after charging:		
Provision against amounts receivable from group undertakings	86	785
Depreciation of tangible fixed assets	3,503	4,006
Loss on disposal of fixed assets	15	9
Amount written off intangible fixed assets	3,139	3,136
Auditors' remuneration - audit services	65	88
Hire of plant and machinery - operating leases	1,271	1,281
Hire of other assets – operating leases	3,477	3,182
Research and development costs	872	825

6 Other interest receivable and similar income

	2004 £'000	2003 £'000
Receivable from group undertakings	790	526

7 Interest payable and similar charges

	2004 £'000	2003 £'000
On bank loans, overdrafts and other borrowings	67	71

8 Tax on profit on ordinary activities

	2004 £'000	2003 £'000
<u>UK Corporation tax:</u>		
Current tax on income for the year	6,407	6,369
Adjustments in respect of prior years	326	-
Total current tax	6,733	6,369
<u>Deferred tax (see note 15):</u>		
Origination/ reversal of timing differences	249	166
Adjustments in respect of prior years	-	-
Total deferred tax	249	166
Tax on profit on ordinary activities	6,982	6,535

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

8 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the current year:

	2004 £'000	2003 £'000
Current tax reconciliation:		
Profit on ordinary activities before tax	19,141	17,681
Current tax at 30% (2003: 30%)	5,742	5,305
<u>Effects of:</u>		
Expenses not deductible for tax (primarily goodwill amortisation and provisions against amounts receivable from group undertakings)	1,130	1,545
Adjustments in respect of prior years	326	-
Expenses deductible for tax only when cash payment made	(465)	(315)
Total current tax charge (see above)	6,733	6,535

It is expected that a high effective tax rate will recur in the future largely as a result of non-deductible amortisation of goodwill.

9 Dividends

	2004 £'000	2003 £'000
Final dividend paid of £Nil per share (2003: £85.71 per share)	-	30,000

10 Intangible fixed assets

	Trademark licences £'000	Purchased goodwill £'000	Total £'000
Cost			
At 1 January 2004 and at 31 December 2004	38	62,634	62,672
Amortisation			
At 1 January 2004	15	25,056	25,071
Charge for the year	4	3,135	3,139
At 31 December 2004	19	28,191	28,210
Net book value			
At 31 December 2004	19	34,443	34,462
At 1 January 2004	23	37,578	37,601

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

11 Tangible fixed assets

	Short leasehold property £'000	Plant and motor vehicles £'000	Total £'000
Cost			
At 1 January 2004	1,342	47,270	48,612
Additions	-	3,848	3,848
Disposals	(2)	(861)	(863)
At 31 December 2004	1,340	50,257	51,597
Depreciation			
At 1 January 2004	363	34,537	34,900
Charge for the year	30	3,473	3,503
Disposals	(2)	(792)	(794)
At 31 December 2004	391	37,218	37,609
Net book amount			
At 31 December 2004	949	13,039	13,988
At 1 January 2004	979	12,733	13,712

The net book amount of tangible fixed assets includes £ nil (2003: £ nil) in respect of finance leases and hire purchase agreements. Depreciation charged in the year on these assets amounted to £nil (2003: £nil).

12 Stocks

	2004 £'000	2003 £'000
Raw materials and consumables	5,195	5,146
Work in progress	866	701
Finished goods	15,585	14,972
	21,646	20,819

13 Debtors

	2004 £'000	2003 £'000
Trade debtors	23,762	23,086
Amounts owed by group undertakings	8,369	26,482
Deferred tax asset	1,292	1,541
Other debtors	126	575
Prepayments	3,455	3,038
	37,004	54,722

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

14 Creditors: amounts falling due within one year

	2004	2003
	£'000	£'000
Trade creditors	16,729	16,217
Amounts owed to group undertakings	27,213	66,514
Corporation tax payable	11,461	6,399
Other taxes and social security	1,590	1,581
Other creditors	4,006	3,361
Accruals and deferred income	3,327	4,496
	<u>64,326</u>	<u>98,568</u>

15 Provisions for liabilities and charges

Pensions:

	£'000
At 1 January 2004	6,625
Profit and loss account charge	2,862
Contributions	<u>(3,420)</u>
At 31 December 2004	<u>6,067</u>

Deferred taxation:

	2004	2003
	£'000	£'000
Deferred tax asset at 1 January	1,541	1,707
Profit and loss account	<u>(249)</u>	<u>(166)</u>
Deferred tax asset at 31 December	<u>1,292</u>	<u>1,541</u>

The deferred tax asset is included within debtors (see note 13).

The deferred tax asset recognised can be analysed as follows:

	2004	2003
	£'000	£'000
Difference between accumulated depreciation and amortisation and capital allowances	597	746
Other timing differences	<u>(1,889)</u>	<u>(2,287)</u>
	<u>(1,292)</u>	<u>(1,541)</u>

A deferred tax asset has been recognised as the directors consider that based on the anticipation of future taxable earnings it is more likely than not that the asset will be recovered.

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

There are no further unrecognised deferred tax assets or unprovided deferred tax liabilities other than those stated above at either year end.

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

16 Called up share capital

	2004 £'000	2003 £'000
Authorised:		
65,000,000 ordinary shares of £1 each	<u>65,000</u>	<u>65,000</u>
Allotted, issued and fully paid:		
350,000 ordinary shares of £1 each	<u>350</u>	<u>350</u>

17 Profit and loss account

	£'000
At 1 January 2004	28,447
Profit for the year	12,159
At 31 December 2004	<u>40,606</u>

18 Commitments

	2004 £000	2003 £000
a) Future capital expenditure		
Contracted for, but not provided in the accounts	<u>383</u>	<u>149</u>
b) Leasing commitments		

The annual commitment under operating leases are analysed according to the period in which each lease expires, as follows:

	2004 £'000	2003 £'000
Land and building leases expiring:		
within 1 year	259	459
between 1 and 2 years	218	162
between 2 and 5 years	1,108	167
beyond 5 years	<u>1,839</u>	<u>2,421</u>
	<u>3,424</u>	<u>3,209</u>
Plant and motor vehicles leases expiring:		
within 1 year	295	264
between 1 and 2 years	428	267
between 2 and 5 years	<u>738</u>	<u>837</u>
	<u>1,461</u>	<u>1,368</u>

KALON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2004

19 Ultimate parent undertaking

The directors regard SigmaKalon Luxco S.C.A., a company incorporated and registered in Luxembourg, as the ultimate parent company by virtue of its 100% interest in the equity share capital of the company and which prepares consolidated financial statements. Copies of the ultimate parent's consolidated financial statements may be obtained from 5, Parc d'Activité am Syrdall, L – 5365 Munsbach, Luxembourg.

The directors regard Bain Capital, a company registered in the United States of America, as the ultimate controlling party of the company.

20 Contingent liabilities

Following the acquisition and group restructuring the company is now party to cross-guarantees given by the new group in respect of the Senior debt facility agreement of Euro 769m and the Mezzanine facility agreement of Euro 100m entered into to fund the acquisition. As a result of this a proportion of the total debt is secured under a fixed and floating charge against the assets of the company. In the opinion of the directors, no loss will arise in connection with these matters.

KALON LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KALON LIMITED

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

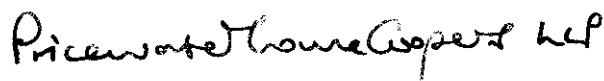
Basis of audit opinion

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 at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
23 August 2005