KALON LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2003

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 2003.

Principal activities and business review

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

The company is part of the SigmaKalon group of companies. TotalFinaElf SA disposed of the SigmaKalon group to Bain Capital on 28 February 2003.

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. Further margin pressure arises from the continuing concentration of the Retail market, following the acquisition by the Focus group of Great Mills and Wickes.

Results and dividends

The company's profit for the financial year was £11,146,000 (2002: £11,123,000). The directors declared and paid a dividend of £30,000,000 (2002: £nil) in respect of the year ended 31 December 2003.

Directors and their interests

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

P R Evans
M Stanworth (resigned 27 June 2003)
K Robinson (appointed 27 June 2003)

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 UK 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.

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 43 days of purchases (2002: 31 days).

Independent auditors

KPMG LLP resigned as auditors on 15 December 2003 and PricewaterhouseCoopers LLP were appointed as auditors in their place. A resolution to reappoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the Annual General Meeting.

On behalf of the Board

Keith Robin

Director
31 January 2005

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 2003

	Notes	**2003** **£000**	2002 £000
Turnover		**208,678**	202,160
Cost of sales	3	**(118,696)**	(113,834)
Gross profit		**89,982**	88,326
Net operating expenses	3	**(73,598)**	(71,363)
Other operating income		**842**	933
Operating profit	5	**17,226**	17,896
Other interest receivable and similar income	6	**526**	298
Interest payable and similar charges	7	**(71)**	(36)
Profit on ordinary activities before taxation		**17,681**	18,158
Taxation	8	**(6,535)**	(7,035)
Profit for the financial year		**11,146**	11,123
Dividends	9	**(30,000)**	-
(Sustained loss)/retained profit for the financial year	17	**(18,854)**	11,123

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 2003

	2003 **£000**	2002 £000
Profit for the financial year	**11,146**	11,123
Dividends	**(30,000)**	-
Net (reduction in)/addition to shareholders' funds	**(18,854)**	11,123
Opening shareholders' funds	**47,651**	36,528
Closing shareholders' funds	**28,797**	47,651

KALON LIMITED

BALANCE SHEET
AT 31 DECEMBER 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Intangible assets	10	**37,601**	40,737
Tangible assets	11	**13,712**	14,463
		51,313	55,200
Current assets			
Stocks	12	**20,819**	23,600
Debtors	13	**54,722**	105,364
Cash at bank and in hand		**7,136**	7,831
		82,677	136,795
Creditors: amounts falling due within one year	14	**(98,568)**	(137,229)
Net current liabilities		**(15,891)**	(434)
Total assets less current liabilities		**35,422**	54,766
Provisions for liabilities and charges	15	**(6,625)**	(7,115)
Net assets		**28,797**	47,651
Capital and reserves			
Called-up share capital	16	**350**	350
Profit and loss account	17	**28,447**	47,301
Equity shareholders' funds		**28,797**	47,651

These financial statements were approved by the Board of Directors on 31 January 2005 and signed on its behalf by:

Director

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2003

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.

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.

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.

2 Employees

a) Employment cost of employees:

	2003	2002
	£'000	£'000
Wages and salaries	**39,383**	38,745
Social security costs	**2,998**	2,751
Other pension costs	**3,228**	1,832
	45,609	43,328

b) The average monthly number of people employed by the company during the year was:

	2003	2002
	Number	Number
Production	**504**	567
Selling and distribution	**1,360**	1,291
Administration	**120**	126
	1,984	1,984

c) Directors' Emoluments:

	2003	2002
	£000	£000
Fees	**444**	350
Other emoluments (including pension contributions and benefits in kind)	**84**	57
	528	407

d) Directors' Pensions

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

	2003	2002
	Number	Number
Defined benefit scheme	**3**	2

e) Highest paid director

The remuneration of the highest paid director, including pension contributions of £43,000 (2002: £25,000), was £380,000 (2002: £247,000).

3 Cost of sales and net operating expenses

	2003	2002
	£'000	£'000
Cost of sales	**118,696**	113,834
Net operating expenses:		
Selling and distribution costs	**60,111**	53,809
Administrative expenses	**13,487**	17,554
Total net operating expenses	**73,598**	71,363

Included within administration expenses in 2003 is an exceptional charge of £785,000 (2002: £696,000) 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 period the company participated in two defined benefit pension schemes. In the year ended 31 December 2002 and 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

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.

The pension cost for the year was £3,228,000 (2002: £1,832,000). The difference between the charge for the year and the contributions paid is included in the balance sheet provision of £6,625,000 (2002: £7,115,000).

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 Plan. The Fund commenced on 28 February 2003 and current employees who were previously members of the TFE Plan were eligible to join from that date. Prior to this employees participated in the TFE 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 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 Ltd 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.

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 2003 was £3,228,000 (2002: £nil). The accounting provision at the end of the period is £6,625,000 (2002: £nil). The pension charge represented 12.8% of pensionable salary.

The Company has contributed at a rate of 14.4% of Pensionable Salary over 2003 and will continue to do so in 2004. Members contribute at rates as set out in the scheme rules.

(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 years ended 31 December 2001 and 2002 relate solely to the Kalon Pension Fund and for the year ended 31 December 2003 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.

SigmaKalon UK Pension Fund

A formal valuation of the SigmaKalon UK Pension Plan was carried out as at 28 February 2003. Additional valuations using full data were performed for the purposes of FRS 17 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.

4 Pensions and retirement indemnities (continued)

The principal assumptions used by the actuaries were:

	2003	2002	2001
	%	%	%
Rate of increase in salaries	**4.3**	4.0	4.0
Rate of increase in pensions in payment	**2.6**	2.5	2.5
Discount rate	**5.5**	5.5	6.0
Inflation assumption	**2.8**	2.5	2.5

The market value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the Balance Sheet date were:

	Long-term rate of return expected 31 December 2003	**Value at 31 December 2003**	Long-term rate of return expected 31 December 2002	Value at 31 December 2002	Long-term rate of return expected 31 December 2001	Value at 31 December 2001
	%	**£m**	%	£m	%	£m
Equities	**8.3**	**22.1**	8.0	42.5	8.0	71.1
Bonds	**5.0**	**9.6**	5.5	2.3	5.0	1.1
Corporate Government Bonds	**0.0**	**0.0**	4.5	11.0	5.0	0.0
Property	**0.0**	**0.0**	7.0	1.9	7.0	0.4
Cash	**3.8**	**0.8**	3.2	1.7	3.5	1.4
Total market value of assets		**32.5**		59.4		74.0
Present value of scheme liabilities		**(48.1)**		(103.3)		(80.4)
Deficit in the scheme		**(15.6)**		(43.9)		(6.4)
Deferred tax		**4.7**		13.2		1.9
Net pension liability		**(10.9)**		(30.7)		(4.5)

<u>Movement in deficit during the year:</u>

	2003	2002
	£m	£m
Deficit in scheme at beginning of year	**(43.9)**	(6.4)
Reduction in net pension liability **	**28.6**	-
Current service cost	**(3.0)**	(3.2)
Contributions paid	**3.2**	3.7
Other finance income	**(0.3)**	1.0
Actuarial loss	**(0.2)**	(39.0)
Deficit in the scheme at end of year	**(15.6)**	(43.9)

** This reflects the reduction in the net pension liability of the company under FRS 17 following the cessation of its participation in the TFE Plan and the commencement of its participation in the SigmaKalon UK Pension Plan.

4 Pensions and retirement indemnities (continued)

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating profit:

	2003 £m	2002 £m
Current service cost	3.0	3.2
Past service cost	-	-
	3.0	3.2

Analysis of amounts included in other finance income:

	2003 £m	2002 £m
Expected return on pension scheme assets	1.6	5.9
Interest on pension scheme liabilities	(1.9)	(4.9)
Other finance income/(cost)	(0.3)	1.0

Analysis of amount recognised in statement of total recognised gains and losses:

	2003 £m	2002 £m
Actual return less expected return on scheme assets	2.6	(23.4)
Experience gains and losses arising on scheme liabilities	1.6	(3.4)
Changes in assumptions underlying the present value of scheme liabilities	(4.4)	(12.2)
Actuarial gains/(loss) recognised in statement of total recognised gains and losses	(0.2)	(39.0)

4 Pensions and retirement indemnities (continued)

History of experience gains and losses:

	2003	2002
Difference between the actual and expected return on scheme assets:		
Amount (£m)	**2.6**	(23.4)
Percentage of scheme assets	**8.0%**	(39.3)%
Experience gains and losses on scheme liabilities:		
Amount (£m)	**1.6**	(3.4)
Percentage of the present value of scheme liabilities	**3.4%**	(3.3)%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£m)	**(0.2)**	(12.2)
Percentage of the present value of scheme liabilities	**(0.4)%**	(11.8)%

Analysis of reserves and net assets

If FRS 17 had been fully adopted in these financial statements, the profit and loss reserve and net assets would be reduced as follows:

	2003 £m	2002 £m
Profit and loss reserve excluding pension liability	27.7	47.3
SSAP 24 provision	6.5	7.1
Pension liability	(10.9)	(30.7)
Profit and loss reserve including pension liability	23.3	23.7

	2003 £m	2002 £m
Net assets excluding pension liability	28.1	47.7
SSAP 24 provision	6.5	7.1
Pension liability	(10.9)	(30.7)
Net assets including pension liability	23.7	24.1

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 2003 were £20,082 (2002 nil).

5 Operating profit

	2003 £000	2002 £000
Operating profit is arrived at after charging/ (crediting):		
Provision against amounts receivable from group undertakings	**785**	696
Depreciation of tangible fixed assets	**4,006**	3,829
Loss/(profit) on disposal of fixed assets	**9**	(50)
Amount written off intangible fixed assets	**3,136**	3,135
Auditors' remuneration - audit services	**88**	70
Hire of plant and machinery - operating leases	**1,281**	626
Hire of other assets – operating leases	**3,182**	2,984
Research and development costs	**825**	775

6 Other interest receivable and similar income

	2003 £000	2002 £000
Receivable from group undertakings	**526**	298

7 Interest payable and similar charges

	2003 £000	2002 £000
On bank loans, overdrafts and other borrowings	**71**	36

8 Tax on profit on ordinary activities

	2003 £000	2002 £000
UK Corporation tax:		
Current tax on income for the year	**6,369**	5,117
Adjustments in respect of prior years	**-**	270
Total current tax	**6,369**	5,387
Deferred tax (see note 15):		
Origination/ reversal of timing differences	**166**	1,648
Adjustments in respect of prior years	**-**	-
Total deferred tax	**166**	1,648
Tax on profit on ordinary activities	**6,535**	7,035

8 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the current year:

	2002 £000	2002 £000
Current tax reconciliation:		
Profit on ordinary activities before tax	**17,681**	18,158
Current tax at 30% (2002: 30%)	**5,305**	5,447
Effects of:		
Expenses not deductible for tax (primarily goodwill amortisation and provisions against amounts receivable from group undertakings)	**1,545**	1,318
Expenses deductible for tax only when cash payment made	**(315)**	(1,648)
Adjustment to tax charge in respect of previous periods	**-**	270
Total current tax charge (see above)	**6,535**	5,387

9 Dividends

	2003 £'000	2002 £'000
Final dividend paid of £85.71 per share (2002: £nil per share)	**30,000**	-

10 Intangible fixed assets

	Trademark licences £000	Purchased goodwill £000	Total £000
Cost			
At 1 January 2003 and at **31 December 2003**	**38**	**62,634**	**62,672**
Amortisation			
At 1 January 2003	11	21,924	21,935
Charge for the year	4	3,132	3,136
At 31 December 2003	**15**	**25,056**	**25,071**
Net book value			
At 31 December 2003	**23**	**37,578**	**37,601**
At 1 January 2003	27	40,710	40,737

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2003

11 Tangible fixed assets

	Short leasehold property £000	Plant and motor vehicles £000	Total £000
Cost			
At 1 January 2003	1,080	46,660	47,740
Additions	302	3,080	3,382
Disposals	(40)	(2,470)	(2,510)
At 31 December 2003	**1,342**	**47,270**	**48,612**
Depreciation			
At 1 January 2003	344	32,933	33,277
Charge for the year	32	3,974	4,006
Disposals	(13)	(2,370)	(2,383)
At 31 December 2003	**363**	**34,537**	**34,900**
Net book value			
At 31 December 2003	**979**	**12,733**	**13,712**
At 1 January 2003	736	13,727	14,463

The net book value of tangible fixed assets includes £nil (2002: £nil) in respect of finance leases and hire purchase agreements. Depreciation charged in the year on these assets amounted to £nil (2002: £47,000).

12 Stocks

	2003 £000	2002 £000
Raw materials and consumables	**5,146**	5,542
Work in progress	**701**	786
Finished goods	**14,972**	17,272
	20,819	23,600

13 Debtors

	2003 £000	2002 £000
Trade debtors	**23,086**	25,088
Amounts owed by group undertakings	**26,482**	68,468
Deferred tax asset	**1,541**	1,707
Other debtors	**575**	7,633
Prepayments	**3,038**	2,468
	54,722	105,364

Included within "Amounts owed by group undertakings" in 2002 was an amount of £68,320,000 which represented money on overnight deposit with a former fellow group company, TFE Finance Limited.

14 Creditors: amounts falling due within one year

	2003	2002
	£000	£000
Trade creditors	**16,217**	13,622
Amounts owed to group undertakings	**66,514**	112,931
Corporation tax payable	**6,399**	1,378
Other taxes and social security	**1,581**	1,152
Other creditors	**3,361**	3,323
Accruals and deferred income	**4,496**	4,823
	98,568	137,229

15 Provisions for liabilities and charges

Pensions:

	£000
At 1 January 2003	7,115
Profit and loss account charge	3,228
Contributions	(3,718)
At 31 December 2003	**6,625**

Deferred taxation:

	2003	2002
	£000	£000
Deferred tax asset at 1 January	**1,707**	3,355
Credit for the period	**(166)**	(1,648)
Deferred tax asset at 31 December	**1,541**	1,707

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

The deferred tax asset recognised can be analysed as follows:

	2003	2002
	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	**746**	845
Other timing differences	**(2,287)**	(2,552)
	(1,541)	(1,707)

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.

16 Called up share capital

	2003 £000	2002 £000
Authorised:		
65,000,000 ordinary shares of £1 each	**65,000**	65,000
Allotted, issued and fully paid:		
350,000 ordinary shares of £1 each	**350**	350

17 Profit and loss account

	£000
At 1 January 2003	47,301
Sustained loss for the year	(18,854)
At 31 December 2003	**28,447**

18 Commitments

	2003 £000	2002 £000
a) Future capital expenditure Contracted for, but not provided in the accounts	**149**	1,441

b) Leasing commitments

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

	2003 £000	2002 £000
Land and building leases expiring:		
within 1 year	**459**	152
between 1 and 2 years	**162**	444
between 2 and 5 years	**167**	776
beyond 5 years	**2,421**	1,489
	3,209	2,861
Plant and motor vehicles leases expiring:		
within 1 year	**264**	45
between 1 and 2 years	**267**	269
between 2 and 5 years	**837**	223
	1,368	537

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**

The ultimate shareholders of the SigmaKalon Group, TotalFinaElf SA, disposed of the SigmaKalon Group to Bain Capital on 28 February 2003.

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 669m 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.

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
31 January 2005