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Zeon Chemicals Europe Limited

Report and Accounts

31 DECEMBER 1999

 ERNST & YOUNG



Zeon Chemicals Europe Limited

Registered No. 02343599

DIRECTORS

T Maruyama

SECRETARY

K S Gallon

AUDITORS

Ernst & Young
One Bridewell Street
Bristol
BS1 2AA

BANKERS

HSBC plc
33 Holton Road
Barry
South Glamorgan

The Dai-Ichi Kangyo Bank Ltd
DKB House
24 King Williams Street
London

The Bank of Tokyo - Mitsubishi Limited
Finsbury Circus House
12-15 Finsbury Circus
London

SOLICITORS

Lane & Partners
15 Bloomsbury Square
London

REGISTERED OFFICE

15 Bloomsbury Square
London

DIRECTORS' REPORT

The directors presents his report and accounts for the year ended 31 December 1999.

RESULTS AND DIVIDENDS

The trading profit for the year after taxation amounted to £473,000 (1998: £941,000).

The director does not recommend the payment of a dividend.

PRINCIPAL ACTIVITIES

The principal activities during the year continued to be the manufacture and sale of synthetic rubber.

REVIEW OF BUSINESS

The company continued to expand the core activities of the business. The strength of sterling caused sales to decline to £23,686,000 (1998: £24,661,000). Sales volume, however, increased and the directors are encouraged by the increased sales volume achieved.

FUTURE DEVELOPMENTS

The directors intend to continue to develop the product and market range of the business.

FIXED ASSETS

The changes in fixed assets during the year are summarised in notes 9 and 10 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

Mr T Maruyama (appointed 30 June 1999)

Mr N Hada (resigned 30 June 1999)

None of the directors had any interest in the shares of the company.

YEAR 2000

We have in no way been affected by system downtime or have had any production jeopardised during the year to date as a result of Year 2000. Our mission critical systems are SAP based which use the Julian calendar for calculation of dates.

Following the successful rollover of the leap year, we anticipate no further problems worthy of note for Year 2000 related incidents, but will as a matter of course continue to keep our eyes on any developments as advised by our suppliers and manufacturers and closely monitor the situation as the year progresses.

CREDITOR PAYMENT POLICY AND PRACTICE

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 1999, the company had an average of 62 days outstanding in trade creditors.

DIRECTORS' REPORT

AUDITORS

A resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board


Secretary

5 May 2000

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; 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.

REPORT OF THE AUDITORS
to the members of Zeon Chemicals Europe Limited

We have audited the accounts on pages 7 to 16 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 5 the company director is responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

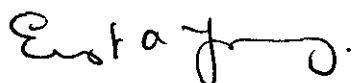
Basis of opinion

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 affairs of the company as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor
Bristol

Date 5 May 2000.

Zeon Chemicals Europe Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1999

	Notes	1999 £000	1998 £000
TURNOVER	2	23,686	24,661
Cost of sales		18,966	19,777
		4,720	4,884
Distribution costs		1,101	1,114
Administration expenses		2,934	2,832
		4,035	3,946
OPERATING PROFIT	3	685	938
Income from group company		87	122
Interest receivable	5	150	286
Interest payable	6	(33)	(53)
		204	355
PROFIT ON ORDINARY ACTIVITIES BEFORE FOREIGN EXCHANGE LOSS		889	1,293
Foreign exchange loss	7	(284)	(313)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		605	980
Tax charge on profit on ordinary activities	8	132	39
RETAINED PROFIT FOR THE FINANCIAL YEAR		473	941

STATEMENT OF MOVEMENTS ON RESERVES

	<i>Profit and loss account £000</i>
At 1 January 1999	(5,108)
Profit for year	889
Exchange loss	(284)
Tax charge on profit on ordinary activities	(132)
At 31 December 1999	(4,635)

There are no recognised gains or losses other than the profit for the year.

Zeon Chemicals Europe Limited

BALANCE SHEET

at 31 December 1999

	Notes	1999 £000	1998 £000
FIXED ASSETS			
Tangible assets	9	11,010	10,619
Investments	10	357	357
		11,367	10,976
CURRENT ASSETS			
Stocks	11	5,962	5,042
Debtors	12	3,941	3,876
Cash at bank and in hand		2,836	2,961
		12,739	11,879
CREDITORS: amounts falling due within one year	13	2,992	1,984
NET CURRENT ASSETS		9,747	9,895
TOTAL ASSETS LESS CURRENT LIABILITIES		21,114	20,871
CREDITORS: amounts falling due after more than one year			
Loans	14	2,429	2,664
PROVISIONS FOR LIABILITIES AND CHARGES	15	20	15
		18,665	18,192
CAPITAL AND RESERVES			
Called up share capital	19	23,300	23,300
Profit and loss account		(4,635)	(5,108)
	20	18,665	18,192

T. Mayom Director

05 MAY 2000 Date

ERNST & YOUNG

NOTES TO THE ACCOUNTS

at 31 December 1999

1 ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and capital work in progress. Depreciation rates are calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	over 50 years
Leasehold land and buildings	over the lease term
Plant and machinery	over 5 to 20 years

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value as follows:

Cost incurred in bringing each product to its location and condition:

Raw materials and goods for resale	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Research and development

Research and development expenditure is written off as incurred.

Deferred taxation

Deferred taxation is provided on 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 estimated that tax will be payable.

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 translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Pensions

Zeon Chemicals Europe Limited operates a defined benefit pension scheme. Contributions are made by the company and the employees to a separately administered fund. Contributions to these funds are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees.

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

1 ACCOUNTING POLICIES (continued)

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Cash flow statement

The company has taken advantage of FRS 1 (Revised) and not prepared a cash flow statement.

2 TURNOVER

Turnover comprises the invoice value of goods and services supplied by the company stated net of value added tax, and is attributable to one continuing activity.

The geographical split of turnover can be analysed as follows:

	1999 £000	1998 £000
United Kingdom	13,807	14,312
Other European Countries	8,388	8,085
Rest of the World	1,491	2,264
	<u>23,686</u>	<u>24,661</u>

3 OPERATING PROFIT

a) This is stated after charging:

	1999 £000	1998 £000
Auditors' remuneration - audit services	25	24
Auditors' remuneration - non audit services	22	9
Depreciation of owned assets	1,179	1,154
Plant hire	31	22
	<u></u>	<u></u>

b) Directors' remuneration

	1999 £000	1998 £000
Emoluments	69	65
	<u></u>	<u></u>

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

4 STAFF COSTS

	1999 £000	1998 £000
Wages and salaries	2,676	2,594
Social security costs	244	239
Other pension costs	278	284
	<u>3,198</u>	<u>3,117</u>

The average weekly number of employees during the year was made up as follows:

	1999 No	1998 No
Office management	17	16
Production	53	54
Research and development	18	18
	<u>88</u>	<u>88</u>

5 INTEREST RECEIVABLE

	1999 £000	1998 £000
Bank interest receivable	150	286
	<u>150</u>	<u>286</u>

6 INTEREST PAYABLE

	1999 £000	1998 £000
Amounts payable to parent undertakings:		
Other loans wholly repayable within five years	33	53
	<u>33</u>	<u>53</u>

7 FOREIGN EXCHANGE LOSS

	1999 £000	1998 £000
Unrealised exchange loss on loan	284	313
	<u>284</u>	<u>313</u>

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

Based on the profit for the year:

	1999 £000	1998 £000
UK corporation tax at 33%	45	39
Adjustment in respect of prior years	87	-
	<u>132</u>	<u>39</u>

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

9 TANGIBLE FIXED ASSETS

	<i>Land & buildings freehold £000</i>	<i>Short leasehold £000</i>	<i>Plant & machinery £000</i>	<i>Capital work in progress £000</i>	<i>Total £000</i>
Cost or valuation:					
At 1 January 1999	594	1,871	15,214	559	18,238
Additions	-	708	1,086	1,236	3,030
Disposals	-	-	-	(1,460)	(1,460)
At 31 December 1999	594	2,579	16,300	335	19,808
Depreciation:					
At 1 January 1999	70	463	7,086	-	7,619
Provided during year	8	109	1,062	-	1,179
At 31 December 1999	78	572	8,148	-	8,798
Net book value:					
At 31 December 1999	516	2,007	8,152	335	11,010
At 1 January 1999	524	1,408	8,128	559	10,619

10 INVESTMENTS

	<i>1999 £000</i>	<i>1998 £000</i>
Fixed asset investments	357	357

Included in fixed asset investments is £330,000 relating to an 18.5% holding in Zeon Europe GmbH's issued ordinary share capital.

11 STOCKS

	<i>1999 £000</i>	<i>1998 £000</i>
Raw materials	1,199	1,018
Work in progress	39	12
Finished goods	4,724	4,012
	5,962	5,042

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

12 DEBTORS

	1999 £000	1998 £000
Trade debtors	3,807	3,543
Amounts owed by related companies	51	15
Other debtors	20	47
Prepayments and accrued income	63	271
	<u>3,941</u>	<u>3,876</u>

13 CREDITORS: amounts falling due within one year

	1999 £000	1998 £000
Trade creditors	50	63
Amounts owed to parent undertaking	179	138
Amounts owed to related company	666	150
Other taxes and social security costs	55	49
Other creditors	256	570
Accruals	1,652	1,027
Corporation tax payable	134	2
	<u>2,992</u>	<u>1,984</u>

14 LOANS

	1999 £000	1998 £000
Not wholly repayable within five years: 1.375% repayable on 29 March 2003	<u>2,429</u>	<u>2,664</u>

The loans are all denominated in Japanese Yen.

Analysis of changes in loan financing during the current and previous years:

	1999 £000	1998 £000
At 1 January	2,664	3,795
Repaid during the year	(519)	(1,444)
Effect of foreign exchange rate changes	284	313
At 31 December	<u>2,429</u>	<u>2,664</u>

NOTES TO THE ACCOUNTS

at 31 December 1999

15 PROVISIONS FOR LIABILITIES AND CHARGES

The movement in the provision for the rectification of the premises upon termination of the 10 year lease expiring 2006 during the current and previous years are as follows:

	1999 £000	1998 £000
At 1 January	15	10
Charge for the year	5	5
At 31 December	<u>20</u>	<u>15</u>

16 DEFERRED TAX

No provision has been made in the accounts for deferred taxation as no liability is expected to crystallise in the near future. Deferred tax balances are as follows:

	1999 £000	1998 £000
Capital allowances in advance of depreciation	476	1,641
Other timing differences	(69)	(59)
Less: losses carried forward (restricted)	(407)	(1,582)
	<u>-</u>	<u>-</u>

17 PENSION COMMITMENTS

The company operates a defined benefit pension scheme which is funded by the payment of contributions to a separately administered trust fund. In addition the company operates an unfunded arrangement for certain employees working overseas.

The pension cost of the scheme is determined with the advice of a qualified actuary on the basis of triennial valuations. The most recent valuation was carried out as at 31 December 1998 using the Projected Unit method, together with the following main assumptions:

Retirement return from investments	7.5% per annum
Post-retirement return from investments	6.5% per annum
Salary increase	5.5% per annum
Increases to pension in payment	3% per annum
Dividend growth rate	4.25% per annum

The valuation showed that the market value of the schemes assets at 31 December 1998 amounted to £11,797,675 (including AVC's valued at £49,987) and the actuarial value of the assets was sufficient to cover 103% of the benefits that had accrued to members, after allowing for the effect of future increases in their earnings. The contributions of the company and scheme members will remain at 13.5% and 5.5% of pensionable payroll respectively.

The surplus has been spread forward over the expected service lives of the scheme membership as a variation. The pension expense for the year ending 31 December 1999 was £278,000 (1998: £284,000).

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

17 PENSION COMMITMENTS (continued)

Company contributions of £280,000 (1998: £265,000) were paid during the year. The provision for pension costs at the end of the year was £174,000 (1998: £176,000).

18 CAPITAL COMMITMENTS

The company had contracted for capital commitments but not provided for in the accounts of £16,151 (1998: £428,801) at 31 December 1999.

19 OBLIGATIONS UNDER LEASES

The company leases a number of assets under operating leases. The minimum annual rentals payable under these leases are as follows:

	<i>Land and Buildings</i>		<i>Other</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>		
Operating leases which expire:				
Within one year	-	-	18	27
In two to five years	85	85	84	64
	85	85	102	91
	<hr/>	<hr/>	<hr/>	<hr/>

20 SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	23,300	23,300	23,300	23,300
	<hr/>	<hr/>	<hr/>	<hr/>

21 RECONCILIATION OF SHAREHOLDERS' FUNDS

	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>
At 1 January	18,192	17,251
Profit for the financial year	473	941
At 31 December	<hr/> 18,665 <hr/>	<hr/> 18,192 <hr/>

NOTES TO THE ACCOUNTS

at 31 December 1999

22 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under FRS8 as a subsidiary undertaking which is more than 90% controlled by the ultimate parent undertaking.

23 ULTIMATE PARENT UNDERTAKING

The directors regard Nippon Zeon Co Limited, a company incorporated in Japan, as being the ultimate parent undertaking. Group accounts are prepared by Nippon Zeon Co Limited, copies of which can be obtained from 2-6-1 Marunouchi, Chiyoda-Ku, Tokyo 100, Japan.