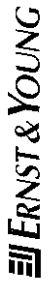


2343599

Zeon Chemicals Europe Limited

Report and Accounts

31 DECEMBER 1998

 ERNST & YOUNG



Zeon Chemicals Europe Limited

Registered No. 02343599

DIRECTORS

N Hada

SECRETARY

K S Gallon

AUDITORS

Ernst & Young
Southgate House
Wood Street
Cardiff

BANKERS

Midland Bank 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

Zeon Chemicals Europe Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The trading profit for the year after taxation amounted to £943,000 (1997: £1,890,000).

The directors do 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 £24,661,000 (1997: £24,933,000). 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 at 31 December 1998 were as follows:

Mr M Tomita (resigned 29 June 1998)

Mr N Hada (appointed 29 June 1998).

Mr Hada had no interests in the share capital of the company at 31 December 1998.

YEAR 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A company-wide programme, designed to address the impact of the Year 2000 on our business has been commissioned by the Board and is under way. Resources have been allocated and the Board receives regular reports on progress.

A significant risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact of our business of Year 2000 related failures by our significant suppliers (including computer bureaux) and customers. In appropriate cases we have initiated formal communication with these other parties.

Zeon Chemicals Europe Limited

DIRECTORS' REPORT

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

Much of the cost of implementing the action plans will be subsumed into the recurring activities of the departments involved.

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

Zeon Chemicals Europe 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;
- 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 8 and 10.

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.

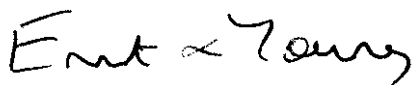
Basis of opinion

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 affairs of the company as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Cardiff

23 APRIL 1999

Zeon Chemicals Europe Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
TURNOVER	2	24,661	24,933
Cost of sales		19,777	19,747
		4,884	5,186
Distribution costs		1,114	1,049
Administration expenses		2,832	2,871
		3,946	3,920
OPERATING PROFIT	3	938	1,266
Income from group company		122	-
Interest receivable	5	286	298
Interest payable	6	53	74
		355	224
PROFIT ON ORDINARY ACTIVITIES BEFORE FOREIGN EXCHANGE GAIN		1,293	1,490
Foreign exchange (loss)/gain	7	(313)	280
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		980	1,770
Tax charge/(credit) on profit on ordinary activities	8	39	(120)
RETAINED PROFIT FOR THE FINANCIAL YEAR		941	1,890

STATEMENT OF MOVEMENTS ON RESERVES

	<i>Profit and loss account £000</i>
At 1 January 1998	(6,049)
Profit for year	1,254
Exchange loss	(313)
At 31 December 1998	(5,108)

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

Zeon Chemicals Europe Limited

BALANCE SHEET at 31 December 1998

	Notes	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	9	10,619	9,893
Investments	10	357	357
		<u>10,976</u>	<u>10,250</u>
CURRENT ASSETS			
Stocks	11	5,042	5,185
Debtors	12	3,876	3,739
Cash at bank and in hand		2,961	4,920
		<u>11,879</u>	<u>13,844</u>
CREDITORS: amounts falling due within one year	13	1,999	3,048
		<u>9,880</u>	<u>10,796</u>
NET CURRENT ASSETS			
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>20,856</u>	<u>21,046</u>
CREDITORS: amounts falling due after more than one year			
Loans	14	2,664	3,795
		<u>18,192</u>	<u>17,251</u>
CAPITAL AND RESERVES			
Called up share capital	19	23,300	23,300
Profit and loss account		(5,108)	(6,049)
	20	<u>18,192</u>	<u>17,251</u>

N. Hada

Director

23.04.99

Date

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

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 1998

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.

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:

	1998 £000	1997 £000
United Kingdom	14,312	14,909
Other European Countries	8,085	7,611
Rest of the World	2,264	2,413
	<u>24,661</u>	<u>24,933</u>

3 OPERATING PROFIT

a) This is stated after charging:

	1998 £000	1997 £000
Auditors' remuneration - audit services	24	24
Auditors' remuneration - non audit services	9	13
Depreciation of owned assets	1,154	1,075
Plant hire	22	23
	<u></u>	<u></u>

b) Directors' remuneration

	1998 £'000
Emoluments	65
	<u></u>

4 STAFF COSTS

	1998 £000	1997 £000
Wages and salaries	2,594	2,582
Social security costs	239	213
Other pension costs	284	223
	<u>3,117</u>	<u>3,018</u>

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

4 STAFF COSTS (continued)

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

	<i>1998</i> <i>No</i>	<i>1997</i> <i>No</i>
Office management	16	17
Production	54	54
Research and development	18	17
	<u>88</u>	<u>88</u>

5 INTEREST RECEIVABLE

	<i>1998</i> <i>£000</i>	<i>1997</i> <i>£000</i>
Bank interest receivable	286	298
	<u>286</u>	<u>298</u>

6 INTEREST PAYABLE

	<i>1998</i> <i>£000</i>	<i>1997</i> <i>£000</i>
Amounts payable to parent undertakings: Other loans wholly repayable within five years	53	74
	<u>53</u>	<u>74</u>

7 FOREIGN EXCHANGE GAIN

	<i>1998</i> <i>£000</i>	<i>1997</i> <i>£000</i>
Unrealised exchange (loss)/gain on loan	(313)	280
	<u>(313)</u>	<u>280</u>

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

Based on the profit for the year:

	<i>1998</i> <i>£000</i>	<i>1997</i> <i>£000</i>
UK corporation tax at 33%	39	-
Adjustment in respect of prior years	-	(120)
	<u>39</u>	<u>(120)</u>

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

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 1998	594	1,489	13,742	533	16,358
Additions	-	382	1,472	26	1,880
At 31 December 1998	594	1,871	15,214	559	18,238
Depreciation:					
At 1 January 1998	62	389	6,014	-	6,465
Provided during year	8	74	1,072	-	1,154
At 31 December 1998	70	463	7,086	-	7,619
Net book value:					
At 31 December 1998	524	1,408	8,128	559	10,619
At 1 January 1998	532	1,100	7,728	533	9,893

10 INVESTMENTS

	<i>1998 £000</i>	<i>1997 £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>1998 £000</i>	<i>1997 £000</i>
Raw materials	1,018	901
Work in progress	12	93
Finished goods	4,012	4,191
	5,042	5,185

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

12 DEBTORS

	1998 £000	1997 £000
Trade debtors	3,543	3,300
Amounts owed by related companies	15	-
Other debtors	47	152
Prepayments and accrued income	271	287
	<u>3,876</u>	<u>3,739</u>

13 CREDITORS: amounts falling due within one year

	1998 £000	1997 £000
Trade creditors	63	165
Amounts owed to parent undertaking	138	27
Amounts owed to related company	150	1,039
Other taxes and social security costs	49	93
Other creditors	570	683
Accruals	1,027	1,041
Corporation tax payable	2	-
	<u>1,999</u>	<u>3,048</u>

14 LOANS

	1998 £000	1997 £000
Not wholly repayable within five years: 1.5% repayable on 29 March 2003	<u>2,664</u>	<u>3,795</u>

The loans are all denominated in Japanese Yen.

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

	1998 £000	1997 £000
At 1 January 1998	3,795	4,994
Repaid during the year	(1,444)	(919)
Effect of foreign exchange rate changes	313	(280)
At 31 December 1998	<u>2,664</u>	<u>3,795</u>

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

15 DEFERRED TAX

No provision has been made in the accounts for deferred taxation as no liability is expected to crystallise in the near future. The maximum potential liability is as follows:

	1998 £000	1997 £000
Capital allowances in advance of depreciation	1,641	1,606
Other timing differences	(59)	(107)
Less: losses carried forward (restricted)	(1,582)	(1,499)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

16 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 utilised 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 1995 using the Projected Unit method, together with the following main assumptions:

Rate of interest	9% per annum
Salary increase	7% per annum
Increases to pension in payment	4½% per annum
Dividend growth rate	4½% per annum

The valuation showed that the market value of the schemes assets at 31 December 1995 amounted to £7,304,000, and the actuarial value of the assets was sufficient to cover 105% of the benefits that accrued to members, after allowing for the effect of future increases in their earnings.

Following changes brought in by the Budget on 2nd July 1997, pension schemes are no longer able to reclaim the Advance Corporation Tax (ACT) credits on UK equity dividends. An assessment of the impact of this change was carried out as at 1st July 1997, which suggested that the actuarial value of the assets then broadly matched the benefits that had accrued to the members. The results of this assessment have been reflected in the pension expense for the year ending 31 December 1998. The next full actuarial valuation is due as at 31st December 1998.

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 31st December 1998 was £284,000 (1997: £223,000).

Company contributions of £265,000 (1997: £233,000) were paid during the year. The provision for pension costs at the end of the year was £176,000 (1997: £157,000).

17 CAPITAL COMMITMENTS

The company had contracted for capital commitments but not provided for in the accounts of £428,801 (1997: £1,160,464) at 31 December 1998.

Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

18 OBLIGATIONS UNDER LEASES

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

	1998 £000	1997 £000
Operating leases which expire:		
Within one year	27	11
In two to five years	64	17
	<u>91</u>	<u>28</u>

19 SHARE CAPITAL

	1998 £000	Authorised 1997 £000	1998 £000	Allotted, called up and fully paid 1997 £000
Ordinary shares of £1 each	23,300	23,300	23,300	23,300

20 RECONCILIATION OF SHAREHOLDERS' FUNDS

	1998 £000	1997 £000
At 1 January	17,251	15,361
Profit for the financial year	941	1,890
At 31 December	<u>18,192</u>	<u>17,251</u>



Zeon Chemicals Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

21 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.

22 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