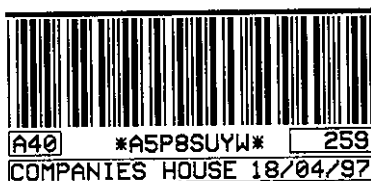


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Thermofil Polymers (UK) Ltd**Annual report
for the year ended 31 December 1996**

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Directors and advisers

Executive directors

Managing Director	E Herwig
Deputy Managing Director	Y Nagasawa
	T Fukuda
	J I Davies
	S Nomoto
	E Gaaloul
	M C Hughes

Secretary and registered office

J D Archard
New Lane
Havant
Hampshire
PO9 2NQ

Registered auditors

Coopers & Lybrand
5 Town Quay
Southampton
Hampshire
SO14 2HJ

Bankers

Barclays Bank plc

Sanwa Bank Limited

National Westminster Bank plc

Directors' report for the year ended 31 December 1996

The directors present their report and the audited financial statements for the year ended 31 December 1996.

Principal activities

The profit and loss account for the year is set out on page 6.

The principal activity of the company, thermoplastic compounding, remains unchanged from last year.

Review of business and future developments

The directors are pleased to report that after breaking-even last year, continuing careful attention to internal costs and customers' requirements has enabled the company to trade profitably during 1996, for the first time since its formation in 1991. The company is now well positioned to build on this success and investment programmes that commenced during 1996 will continue into 1997, in order to further enhance our levels of customer service and internal efficiency, and thus ensure the company's profitability is maintained.

Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 1996.

Research and development activities

The company is committed to research and development activities in order to secure its position in the market. Expenditure in the year is set out in note 7.

Fixed assets

Freehold land and buildings were revalued to their open market value as 31 December 1994.

Directors

The directors of the company who held office during the year and at 31 December 1996 were:

E Herwig		
Y Nagasawa		(appointed 27 November 1996)
T Fukuda		(appointed 27 June 1996)
J I Davies		
S Nomoto		
E Gaaloul		
M C Hughes		
T Okuno	Chairman	(Resigned 27 June 1996)
T Nomura		(Resigned 27 November 1996)

Mr T Okuno and Mr T Fukuda are resident in Japan and Mr E Gaaloul is resident in France.

Directors' interests

No directors held beneficial interests in the shares of the company, or other United Kingdom group companies, at 31 December 1996 or at any time during the year.

Charitable and political contributions

The contributions made by the company during the year for political and charitable purposes were:

	£
For political purposes	-
For charitable purposes	284
	<hr/>
	284
	<hr/>

Taxation status

The company was not a close company as defined by the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

Statement of directors' responsibilities

The directors are required by UK Company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1996. The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The company passed an Elective Resolution on 13 December 1991 to dispense with the obligation to appoint an auditor annually. In the absence of a notice proposing that the appointment be terminated, the auditors, Coopers & Lybrand, will be deemed to be re-appointed for the next financial year.

By order of the board



J D Archard
Secretary

26 March 1997

Report of the auditors to the members of Thermofil Polymers (UK) Ltd

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 1996 and of its profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

**Coopers & Lybrand
Chartered Accountants and Registered Auditors**

Southampton

[] 3 April 1997

**Profit and loss account
for the year ended 31 December 1996**

	Notes	1996 £	1995 £
Turnover	2	22,815,502	20,435,232
Cost of sales		(19,060,099)	(18,102,795)
		<hr/>	<hr/>
Gross profit		3,755,403	2,332,437
Other operating expenses	3	(2,366,801)	(1,862,740)
		<hr/>	<hr/>
Operating profit		1,388,602	469,697
Interest payable and similar charges	6	(281,291)	(366,335)
		<hr/>	<hr/>
Profit on ordinary activities	7	1,107,311	103,362
Amount receivable/(payable to) from holding company in respect of group relief	8	25,707	(25,860)
		<hr/>	<hr/>
Profit for the financial year	18	1,133,018	77,502
		<hr/> <hr/>	<hr/> <hr/>

The results for both years are derived from continuing operations.

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

**Balance sheet
at 31 December 1996**

	Notes	1996 £	1995 £
Fixed assets			
Intangible assets	9	8,181	10,217
Tangible assets	10	7,903,728	7,507,439
		<u>7,911,909</u>	<u>7,517,656</u>
Current assets			
Stocks	11	2,910,682	2,785,285
Debtors: amounts falling due after one year	12	-	5,830
Debtors: amounts falling due within one year	12	4,865,427	4,180,651
Cash at bank and in hand		4,635	4,425
		<u>7,780,744</u>	<u>6,976,191</u>
Creditors: amounts falling due within one year	13	(7,944,233)	(7,149,525)
Net current liabilities		<u>(163,489)</u>	<u>(173,334)</u>
Total assets		<u>7,748,420</u>	<u>7,344,322</u>
Creditors: amounts falling due after more than one year	14	(2,300,000)	(3,028,920)
Net assets		<u>5,448,420</u>	<u>4,315,402</u>
Capital and reserves			
Called up share capital	17	5,300,002	5,300,002
Revaluation reserve	18	1,623,050	1,623,050
Profit and loss account	18	(1,474,632)	(2,607,650)
Equity shareholders' funds		<u>5,448,420</u>	<u>4,315,402</u>

The financial statements on pages 6 to 19 were approved by the board of directors on 26 March 1997 and were signed on its behalf by:



Y Nagasawa
Director



E Herwig
Director

Notes to the financial statements for the year ended 31 December 1996

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Fixed assets

Fixed assets are recorded at original cost or valuation less accumulated depreciation and any permanent diminution in value. Cost comprises direct expenditure incurred together with any incidental expenses of acquisition.

Expenditure on new capital projects which have not been commissioned by the accounting date is classified as capital work in progress and is transferred to the appropriate fixed asset account on completion of commissioning.

Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal asset lives used for this purpose are:

Freehold buildings (including temporary constructions)	5 - 20 years
Plant and machinery	5 - 15 years
Fixtures, fittings and equipment	5 - 15 years
Computers (included as equipment)	5 years

Profits or losses on disposal are included in the trading results for the period. Freehold land is not depreciated.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated at the rates ruling when the transactions are made. Any differences on translation are dealt with as part of the trading result for the year.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Finished goods are stated at cost of production including works overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business, after allowing for the cost of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods supplied.

Research and development

All expenditure on development or pure and applied research is written off as incurred.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension costs

The company operates a defined benefit pension scheme which is contracted out of the state scheme. The scheme is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rate. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

The company provides no other post retirement benefits to its employees.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. There are no assets held under finance leases.

Revaluation reserve

Net surpluses arising as a result of incorporating property valuations in the accounts are taken to the revaluation reserve. On disposal of a property the revaluation surplus or deficit thereon is transferred to retained profit.

Cash flow statement

The company is a wholly owned subsidiary of a UK company which prepares a consolidated cash flow statement dealing with the cash flows of the group. As a consequence the company has taken advantage of the exemptions of FRS1 not to publish a cash flow statement.

2 Turnover

The analysis by geographical area of the company's turnover by destination is set out below:

	1996 £	1995 £
Geographical segment		
United Kingdom	20,774,599	17,519,401
Europe	1,973,388	2,799,785
Other	67,515	116,046
	<u>22,815,502</u>	<u>20,435,232</u>

3 Other operating expenses

	1996 £	1995 £
Distribution costs	1,096,009	904,434
Administrative expenses	1,270,792	958,306
	<u>2,366,801</u>	<u>1,862,740</u>

4 Directors' emoluments

	1996 £	1995 £
Fees	10,558	7,500
Other emoluments (including pension contributions and benefits in kind)	173,314	120,210
	<u>183,872</u>	<u>127,710</u>

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	1996 £	1995 £
The Chairman	Nil	Nil
	<u>Nil</u>	<u>Nil</u>
The highest paid director	70,686	66,500
	<u>70,686</u>	<u>66,500</u>

The number of directors (including the chairman and the highest paid director) who received fees and other emoluments (excluding pension contributions) in the following ranges was:

	1996 Number	1995 Number
£0 to £5,000	6	4
£45,001 to £50,000	1	-
£50,001 to £55,000	1	1
£65,001 to £70,000	-	1
£70,001 to £75,000	1	-
	<u>1</u>	<u>-</u>

5 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	1996 Number	1995 Number
Production	68	66
Selling and distribution	10	8
Administration	17	19
Research and development	11	11
	<u>106</u>	<u>104</u>

	1996 £	1995 £
Staff costs (for the above persons)		
Wages and salaries	2,160,129	1,896,023
Social security costs	170,108	149,273
Other pension costs (see note 16)	177,447	155,332
	<u>2,507,684</u>	<u>2,200,628</u>

6 Interest payable and similar charges

	1996 £	1995 £
On bank overdraft and other loans:		
Repayable within 5 years, not by instalments	<u>281,291</u>	<u>366,335</u>

£173,221 (1995: £194,583) of this amount related to interest payable on loans from group companies.

7 Profit/(loss) on ordinary activities

	1996 £	1995 £
Profit on ordinary activities is stated after crediting:		
Profit/(Loss) on disposal of tangible fixed assets	4,277	(150)
And after charging:		
Depreciation charge for the year:		
Intangible fixed assets	6,278	5,596
Tangible fixed assets	793,706	720,865
Research and development expenditure	375,846	267,225
Auditors' remuneration for:		
Audit	21,300	20,500
Other services to the company	3,200	3,000
Hire of other assets - operating leases	126,572	110,871

8 Amount receivable/(payable to) from holding company in respect of group relief

No tax is payable in the year due to group relief payable from the holding company. Payment is receivable/(due to) from the holding company in respect of group relief, for losses surrendered at 33% (1995: 33%). This may be analysed as:

	1996 £	1995 £
Current year	24,973	(25,340)
Prior year	734	(520)
	25,707	(25,860)

9 Intangible fixed assets

	Trade marks £	Patents £	Total £
Cost			
At 1 January 1995	17,509	10,950	28,459
Additions	4,242	-	4,242
	<u>21,751</u>	<u>10,950</u>	<u>32,701</u>
At 31 December 1996			
Depreciation			
At 1 January 1996	10,092	8,150	18,242
Charge for year	4,088	2,190	6,278
	<u>14,180</u>	<u>10,340</u>	<u>24,520</u>
At 31 December 1996			
Net book value			
At 31 December 1996	<u>7,571</u>	<u>610</u>	<u>8,181</u>
Net book value			
At 31 December 1995	<u>7,417</u>	<u>2,800</u>	<u>10,217</u>

10 Tangible fixed assets

	Freehold Land and buildings £	Plant, machinery and equipment £	Capital work in progress £	Total £
Cost or valuation				
At 1 January 1996	3,701,514	5,687,034	392,367	9,780,915
Additions	-	-	1,190,718	1,190,718
Disposals	-	(30,493)	-	(30,493)
Transfers	106,711	574,080	(680,791)	-
At 31 December 1996	3,808,225	6,230,621	902,294	10,941,140
Depreciation				
At 1 January 1996	65,596	2,207,880	-	2,273,476
Charge for year	70,871	722,835	-	793,706
Eliminated in respect of disposals	-	(29,770)	-	(29,770)
At 31 December 1996	136,467	2,900,945	-	3,037,412
Net book value				
At 31 December 1996	3,671,758	3,329,676	902,294	7,903,728
At 31 December 1995	3,635,918	3,479,154	392,367	7,507,439
Cost or valuation at 31 December 1996 is represented by:				
Valuation in 1994	3,610,000	-	-	3,610,000
Cost	198,225	6,230,621	902,294	7,331,140
	3,808,225	6,230,621	902,294	10,941,140

Land and buildings were valued for the purpose of the 1994 financial statements at open market value for existing use. These valuations were made by Hellier Langstone, a firm of independent Chartered Surveyors.

If land and buildings had not been revalued they would have been included at the following amounts:

	1996	Land and buildings 1995
Cost	2,619,300	2,512,589
Aggregate depreciation based on cost	(434,237)	(328,171)
Net book value based on cost	2,185,063	2,184,418
Provision for permanent diminution in value	(206,860)	(206,860)
Net book value	1,978,203	1,977,558

Depreciation has not been charged on freehold land, which is stated at its revalued amount of £2,650,000 (1995: £2,650,000).

11 Stocks

	1996 £	1995 £
Raw materials and consumables	1,670,603	1,509,053
Work in progress	228,011	92,353
Finished goods and goods for resale	1,012,068	1,183,879
	<u>2,910,682</u>	<u>2,785,285</u>

12 Debtors

	1996 £	1995 £
Amounts falling due after more than one year		
Prepayments and accrued income	-	5,830
	<u>-</u>	<u>5,830</u>
Amounts falling due within one year		
Trade debtors	4,097,167	3,623,319
Amounts owed by group undertakings:		
Parent or fellow subsidiary undertakings	648,675	442,612
Other debtors	11,990	1,314
Prepayments and accrued income	107,595	113,406
	<u>4,865,427</u>	<u>4,180,651</u>

13 Creditors: amounts falling due within one year

	1996 £	1995 £
Bank overdraft	1,546,978	2,706,229
Trade creditors	5,242,799	3,889,411
Amounts owed to group undertakings	593,306	253
PAYE and social security costs	66,608	57,871
Other creditors	247,434	332,070
Accruals	247,108	163,691
	<u>7,944,233</u>	<u>7,149,525</u>

The bank overdraft is unsecured and repayable on demand. However the bank holds a letter of intent, as a form of guarantee, from the ultimate holding company Nippon Steel Chemical Co., Ltd and a fellow shareholder, the Nichimen Corporation.

14 Creditors: amounts falling due after more than one year

	1996 £	1995 £
Amounts owed to group undertakings	<u>2,300,000</u>	<u>3,028,920</u>

The loan facility with the parent company expires on the 31st December 1999, at which time it may be renewed. Full or part repayment may be made earlier by mutual agreement.

Interest is calculated on a monthly basis on the agreed balance at the beginning of the month using the base rate plus 0.75%.

15 Deferred taxation

The company has a deferred taxation asset at 31 December 1996 of £203,579 (1995: £616,789) which is not recognised in these accounts. This asset arises mainly from deferred capital allowances. A potential liability to deferred taxation arising on the revaluation of land and buildings of £268,965 at 31 December 1996 (1995: £262,272) has not been provided as in the opinion of the directors the liability will not crystallise in the foreseeable future.

16 Pension and similar obligations

The company operates a defined benefit pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund.

The total pension cost for the company was £177,447 (1995: £155,332). The pension cost is assessed in accordance with the advice of an independent qualified actuary using the Projected Unit method.

The latest actuarial valuation was at 6 April 1995. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It is assumed that the investment return would be 9% per annum, that salary increases would average 7% per annum and that future pensions would increase at the rate of 5% per annum (3% per annum for the Guaranteed Minimum Pension element).

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £3,289,171 and the actuarial value of the assets was sufficient to cover 100% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at 10% and 3% of pensionable salary respectively.

17 Called up share capital

	1996 £	1995 £
Authorised		
8,000,000 ordinary shares of £1 each	8,000,000	8,000,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
5,300,002 ordinary shares of £1 each	5,300,002	5,300,002
	<u> </u>	<u> </u>

18 Reserves

	Revaluation Reserve £	Profit and loss account £
At 1 January 1996	1,623,050	(2,607,650)
Profit for the year	-	1,133,018
	<u> </u>	<u> </u>
At 31 December 1996	1,623,050	(1,474,632)
	<u> </u>	<u> </u>

19 Capital commitments

	1996 £	1995 £
Future capital expenditure		
Contracted but not provided for	22,381	93,428
	<u> </u>	<u> </u>

20 Financial commitments

At 31 December 1996 the group had annual commitments under non-cancellable operating leases as follows:

	1996 £	1995 £
Expiring within one year	12,488	5,066
Expiring between two and five years inclusive	81,823	51,267
Expiring in over five years	-	-
	<u>94,311</u>	<u>56,333</u>

21 Reconciliation of movements in shareholders' funds

	1996 £	1995 £
Opening shareholders' funds	4,315,402	4,237,900
Profit for the financial year	<u>1,133,018</u>	<u>77,502</u>
Closing shareholders' funds	<u>5,448,420</u>	<u>4,315,402</u>

22 Ultimate and immediate parent companies

The directors regard Nippon Steel Chemical Co., Ltd, a company registered in Japan, as the ultimate parent company and NS & N (UK) Ltd, a company registered in England and Wales, as the immediate parent company. According to the register kept by the company, NS & N (UK) Ltd has a 100% interest in the equity capital of Thermofil Polymers (UK) Ltd at 31 December 1996.