

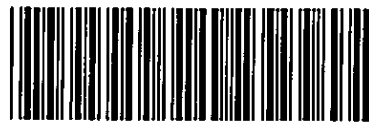
NP Automotive Coatings (Europe) Limited

**Directors' report and financial
statements**

Registered number 2651443

31 December 2006

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities

The principal activity of the company continues to be the manufacture and sale of specialised paints used in the motor industry. The company now manufactures paints for an extensive range of automotive parts in both the plastics and metal based categories. Advanced computer techniques coupled with the company's recognised expertise in this field enables it to enjoy the reputation of being acknowledged specialists in automotive coatings.

The directors are of the opinion that future prospects remain good and they are considering further opportunities for investment and expansion into new related activities.

Business review

In common with many suppliers to the UK motor industry we are constantly under pressure to reduce our prices. In order to maintain our market share we are absorbing such pressures by making efficiencies in the manufacturing process, localising raw materials and controlling our overhead expenditure. The company's underlying policy continues to be to give customer satisfaction, deliver quality products, good service and to continually strive to improve the company's performance.

The directors consider the state of the company's affairs to be satisfactory and expect the current level of business to continue in the foreseeable future.

Proposed dividend

The directors do not recommend the payment of a dividend (2005 £Nil)

Directors and directors' interests

The directors who held office during the year were as follows

T Sasamura (appointed 1 July 2006)
T Kimura
T Fujita
Y Okude (resigned 30 June 2006)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Directors' report *(continued)*

Employees

The company places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Political and charitable contributions

The company made no political or charitable contributions during the year (2005 £nil)

Disclosure of Information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



T Fujita
Managing Director

Britannia Trade Park
Radway Road
Swindon
Wiltshire
SN3 4ND

2007

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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



KPMG LLP

Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Independent auditors' report to the members of NP Automotive Coatings (Europe) Limited

We have audited the financial statements of NP Automotive Coatings (Europe) Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

**Independent auditors' report to the members of NP Automotive Coatings
(Europe) Limited *(continued)***

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

15 May 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 £000	2005 £000
Turnover	2	8,616	8,832
Cost of sales		(7,282)	(6,957)
Gross profit		1,334	1,875
Administrative expenses		(2,791)	(2,847)
Amounts written-off fixed assets	3	-	(1,400)
Operating loss		(1,457)	(2,372)
Other interest receivable and similar income		5	3
Interest payable and similar charges	7	(241)	(615)
Loss on ordinary activities before taxation	4	(1,693)	(2,984)
Tax on loss on ordinary activities	8	-	-
Loss for the financial year	16	(1,693)	(2,984)

There were no recognised gains or losses other than the loss for the period. All items relate to continuing operations.

Balance sheet
at 31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Tangible assets	9	5,634	5,885
Investments	10	7	7
		<u>5,641</u>	<u>5,892</u>
Current assets			
Stocks	11	2,777	3,493
Debtors	12	1,121	1,040
Cash at bank and in hand		283	367
		<u>4,181</u>	<u>4,900</u>
Creditors: amounts falling due within one year	13	<u>(2,338)</u>	<u>(3,157)</u>
Net current assets		<u>1,843</u>	<u>1,743</u>
Total assets less current liabilities		<u>7,484</u>	<u>7,635</u>
Creditors: amounts falling due after more than one year	14	<u>(6,891)</u>	<u>(9,349)</u>
Net assets/ (liabilities)		<u>593</u>	<u>(1,714)</u>
Capital and reserves			
Called up share capital	15	22,000	18,000
Profit and loss account	16	(21,407)	(19,714)
Equity shareholders' funds/ (deficit)		<u>593</u>	<u>(1,714)</u>

These financial statements were approved by the board of directors on 14 May 2007 and were signed on its behalf by



Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2006

	<i>Note</i>	2006 £000	2005 £000
Retained loss for financial period	16	(1,693)	(2,984)
New share capital subscribed	15	4,000	-
Opening shareholders' funds		(1,714)	1,270
Closing shareholders' funds/ (deficit)		593	(1,714)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, which have been applied consistently

The financial statements have been prepared on a going concern basis as the ultimate holding company, Nippon Paint Co Limited, has agreed to fully support financially the operations of the company in order to ensure its ability to continue as a going concern for the foreseeable future. Furthermore, during the year, additional share capital of £4,000,000 was issued to the immediate parent company Nippon Paint (Europe) Limited and the company's loan facility was increased from £10 million to £12 million and extended to 30 June 2009

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As 100% of the voting rights are controlled within the group headed by Nippon Paint Co Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Nippon Paint Company Limited, Japan, within which this company is included, can be obtained from the address given in note 19

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Freehold buildings	-	30 years
Plant and machinery	-	15 years
Fixtures and fittings	-	5 years
Motor vehicles and short life assets	-	3 years

No depreciation is provided on freehold land or assets in the course of construction

Residual value is calculated on prices prevailing at the date of acquisition

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 rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

2 Analysis of turnover

	2006 £000	2005 £000
<i>By geographical market</i>		
United Kingdom	7,753	8,110
Europe	773	719
Rest of the World	90	3
	<hr/>	<hr/>
	8,616	8,832
	<hr/>	<hr/>

Notes (continued)

3 Amounts written-off fixed assets

	2006 £000	2005 £000
Fixed asset impairment	-	1,400

During the prior year, the company carried out an impairment review on the carrying value of its tangible fixed assets. This resulted in an impairment loss of £1,400,000 being recognised.

4 Loss on ordinary activities before taxation

	2006 £000	2005 £000
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration		
Audit	21	20
Other services - fees paid to the auditor and its associates	5	5
Depreciation and other amounts written off fixed assets		
Owned	335	364
Leased	7	4
Hire of plant and machinery - rentals payable under operating leases	8	8
Hire of other assets - operating leases	83	80

5 Remuneration of directors

	2006 £000	2005 £000
Directors' emoluments	134	186
Company contributions to money purchase pension schemes	-	3
	134	189

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £134,000 (2005 £86,000). The highest paid director received contributions to money purchase pension schemes of £nil (2005 £Nil).

Notes (continued)

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees	
	2006	2005
Production	21	19
Administration	31	30
	<u>52</u>	<u>49</u>

The aggregate payroll costs of these persons were as follows

	2006 £000	2005 £000
Wages and salaries	1,829	1,769
Social security costs	144	132
Other pension costs	88	76
	<u>2,061</u>	<u>1,977</u>

7 Interest payable and similar charges

	2006 £000	2005 £000
On bank loans and overdrafts	488	491
Amounts payable to group undertakings	20	23
Finance charges payable in respect of finance leases and hire purchase contracts	5	3
Net exchange (gains)/losses	(272)	98
	<u>241</u>	<u>615</u>

Notes (continued)

8 Taxation

a) Analysis of charge in the period

No taxation has been charged in the current or prior periods

b) Factors affecting the tax charge for the current period

The current tax charge for the period differs from the standard rate of corporation tax of 30% (2005 30%) The differences are explained below

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(1,693)	(2,984)
	<hr/>	<hr/>
Current tax at 30 % (2005 30%)	(508)	(895)
<i>Effects of</i>		
Expenses not deductible for tax purposes	1	2
Movement in other short term timing differences	-	(29)
Depreciation for period in excess of capital allowances	41	467
Unutilised tax losses and trade charges carried forward to future periods	466	455
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/>	<hr/>

Trading losses of approximately £12,279,388 (2005 £10,891,811) and unrelieved trade charges of £2,090,268 (2005 £1,867,388) are available for carry forward for offset against future taxable profits arising from the same trade

The amounts of unrecognised net deferred taxation assets are as follows

	2006 £000	2005 £000
Timing differences relating to tangible fixed assets	1,808	1,897
Other timing differences	51	49
Tax effect of losses and unrelieved trade charges carried forward	4311	3,827
	<hr/>	<hr/>
Total current tax and tax on loss on ordinary activities	6,170	5,773
	<hr/>	<hr/>

The asset has not been recognised within these financial statements The asset will only be recognised when it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset

Notes (continued)

9 Tangible fixed assets

	Freehold land £000	Freehold buildings £000	Assets in the course of construction £000	Plant and machinery £000	Fixtures and equipment £000	Motor vehicles £000	Total £000
Cost							
At beginning of year	1,357	5,446	619	6,272	321	33	14,048
Additions	-	-	4	77	10	-	91
Disposals	-	(20)	-	(143)	-	-	(163)
Transfers	-	-	(311)	311	-	-	-
At end of year	1,357	5,426	312	6,517	331	33	13,976
Depreciation							
At beginning of year	-	3,114	-	4,753	263	33	8,163
Charge for year	-	123	-	200	19	-	342
On disposals	-	(20)	-	(143)	-	-	(163)
At end of year	-	3,217	-	4,810	282	33	8,342
Net book value							
At 31 December 2006	1,357	2,209	312	1,707	49	-	5,634
At 31 December 2005	1,357	2,332	619	1,519	58	-	5,885

Included in the fixed assets above are leased assets with net book value of £88,000 (2005 £96,000). The depreciation on these assets was £7,000 (2005 £4,000).

Notes (continued)

10 Fixed asset investments

	Investments other than loans £000
<i>Shares</i>	
<i>Cost</i>	
At beginning and end of year	7
	<hr/>
<i>Provisions</i>	
At beginning and end of year	-
	<hr/>
<i>Net book value</i>	
At 31 December 2006	7
	<hr/>
At 31 December 2005	7
	<hr/>

11 Stocks

	2006 £000	2005 £000
Raw materials, consumables and good in transit	1,921	2,653
Finished goods and goods for resale	856	840
	<hr/>	<hr/>
	2,777	3,493
	<hr/>	<hr/>

In the opinion of the directors, there is no significant difference between the replacement cost of stocks and their balance sheet value

12 Debtors

	2006 £000	2005 £000
Trade debtors	957	893
Amounts due from related companies	31	20
Prepayments and other debtors	133	127
	<hr/>	<hr/>
	1,121	1,040
	<hr/>	<hr/>

Notes (continued)

13 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Obligations under finance leases and hire purchase contracts	16	21
Trade creditors	169	236
Amounts owed to ultimate parent company	-	21
Amounts owed to group undertakings	1,782	2,245
Taxation and social security	90	99
Other creditors	5	36
Accruals	276	499
	<u>2,338</u>	<u>3,157</u>

14 Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Bank loans and overdrafts	6,850	9,300
Obligations under finance leases and hire purchase contracts	41	49
	<u>6,891</u>	<u>9,349</u>

The company's £6,850,000 (2005 £9,300,000) medium term loan is unsecured and bears interest at normal commercial rates. The loan is repayable in full on 30 June 2009 and is part of a total facility of up to £12,000,000. This facility is guaranteed by a letter of support, provided to the bank from the ultimate parent company, Nippon Paint Co. Limited.

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2006 £000	2005 £000
Within one year	16	21
In the second to fifth year	41	49
	<u>57</u>	<u>70</u>

Notes (continued)

15 Called up share capital

	2006 £000	2005 £000
<i>Authorised</i>		
Equity ordinary shares of £1 each	25,000	20,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Equity ordinary shares of £1 each	22,000	18,000
	<hr/>	<hr/>

16 Reserves

	Profit and loss account £000
At beginning of year	(19,714)
Retained loss for the year	(1,693)
	<hr/>
At end of year	(21,407)
	<hr/>

17 Commitments

- (a) There were no Capital commitments at the end of the financial year (2005 £nil)
- (b) Annual commitments under non-cancellable operating leases are as follows

	2006 £000	2005 £000
Operating leases which expire		
Within one year	12	31
In the second to fifth years inclusive	75	57
After five years	4	-
	<hr/>	<hr/>
	91	88
	<hr/>	<hr/>

Notes (continued)

18 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £88,000 (2005 £76,000)

There were no outstanding or prepaid contributions at either the beginning or end of the financial year

19 Ultimate parent company and parent undertaking of larger group of which the company is a member

The immediate holding company and the smallest group in which the company's results are consolidated is Nippon Paint (Europe) Limited which is incorporated in Great Britain

The largest group in which the results of the company are consolidated is that headed by Nippon Paint Co Limited, incorporated in Japan. The consolidated accounts of these groups are available to the public and may be obtained from 1 - 2, 2 Chome, Oyodo - Kita, Kita-Ku, Osaka 531, Japan