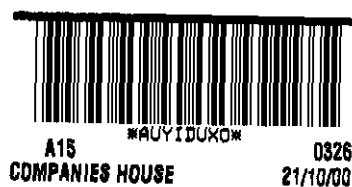


Dynacast International Limited
(formerly known as Pectin Limited)
Annual report
for the period ended 31 December 1999

Registered Number 3716334



Dynacast International Limited
(formerly known as Petcin Limited)
Annual report
for the period ended 31 December 1999

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Dynacast International Limited (formerly known as Petcin Limited)

Directors' report for the period ended 31 December 1999

The directors present their annual report and the audited financial statements for the 8.5 months ended 31 December 1999 ("the period").

Principal activities

The principal activity of the company is that of an investment holding company. The company was incorporated on 15 February 1999 and changed its name from Petcin Limited to Dynacast International Limited on 10 July 1999.

The group's principal activities comprise the manufacture and supply of precision engineered components using metal forming (diecasting) and plastic thermal injection moulding processes. The group has established an international supply capability with operations in North America, South America, Europe and Asia Pacific.

Review of business

On 14 April 1999, the company's subsidiary undertaking, Dynacast Investments Limited, acquired through various own subsidiary companies, the Dynacast International group of companies from Coats Viyella Plc. Following a strategic review of the business acquired it was considered in the best interests of the shareholders that the thermal plastic moulding and related assembly operations should be divested and that the management be focused on the growth opportunities within the die casting business. In accordance with the requirements of Financial Reporting Standard No. 2 'Accounting for subsidiary undertakings' and Financial Reporting Standard No. 7 'Fair value in acquisition accounting' it is not appropriate to consolidate the results of the subsidiary companies comprising the Plastics Division (see note 13) in the group accounts for the period and consequently the net assets are included on the balance sheet at the estimated net sale proceeds of £85 million, before repayment of debt, as a current asset investment for disposal.

Operating profit for the eight and a half months was £9.2 million after charging exceptional cost of £1.5 million for the strategic review and £0.7 million for the closure of Puerto Rico. Prospects for 2000 are favourable.

The directors consider the financial position of the group at the period end to be satisfactory.

Future developments

The disposal of the thermal plastic moulding operations will enable the group to focus on the diecasting business and actively pursue an acquisition strategy where significant benefits can be identified for rapid global expansion.

Dividends and transfers to reserves

The company has accrued £1,905,000 dividend payable in respect of the 5% cumulative redeemable preference shares.

Dynacast International Limited (formerly known as Pectin Limited)

Directors' report for the period ended to 31 December 1999 (continued)

After charging these dividends the group retained loss for the period was £9,165,000.

Research and development

The business currently has a relatively small research and development operation which focuses on proprietary machine building capabilities and process enhancement. This spans the metals range of aluminium, zinc and magnesium and takes advantage of the group's strong position in CAD technology.

Donations

No charitable or political donations were made during the period.

Land and buildings

The directors do not consider the difference between the market value and book value of land and buildings at the period end to be significant.

Share capital

Details of movements in share capital are set out in note 18 to the financial statements.

Directors

The directors who held office during the period were:

	Appointed	Resigned
Colin Cooke (Chairman)	21 May 1999	
David Speirs	21 May 1999	31 January 2000
James McLean	21 May 1999	15 March 2000
Bill Gillespie	1 January 2000	
Peter Catterall	25 October 1999	
Richard Munton	15 February 1999	
Brian Linden	15 February 1999	

Dynacast International Limited (formerly known as Petcin Limited)

Directors' report for the period ended to 31 December 1999 (continued)

Directors' interests in shares of the company

At the period end, the directors had the following interest in the share capital of the company:

	Ordinary shares of 10p each		5% cumulative Preference shares of £1 each	
	Number	£	Number	£
Peter Catterall	264	264	-	-
Richard Munton	526	526	-	-
Brian Linden	526	526	-	-

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities 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 the appropriate training is arranged. It is the policy of the group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability

Employee consultation

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial performance of their business units and of the group as a whole. Communication with all employees continues through the house newspaper and newsletters and briefing groups.

Dynacast International Limited (formerly known as Petcin Limited)

Directors' report for the period ended to 31 December 1999 (continued)

Policy and practice on payment of creditors

The company has no trade creditors. The group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction on the terms of a continuing trading relationship, ensuring that suppliers are made aware of the terms of payment, and to abide by the agreed terms of payment. The group's average creditor payment period at 31 December 1999 was 60 days.

Year 2000

The group undertook an extensive programme of Year 2000 preparation at all of its sites world-wide during the period. This covered investigation, certification, upgrade and, where necessary, replacement of equipment, IT systems and suppliers and was backed by site audits and contingency plans.

As a result of this programme, the group has not suffered any Year 2000 related incidents impacting the business at any site to date. Given this experience and the thorough preparation programme the group is confident that no problems will arise subsequently.

Euro

The group has not experienced and does not anticipate any significant adverse implications to its business as a result of the introduction of the Euro.

Statement of directors' responsibilities

Company law requires directors to prepare financial statements for each financial period that give a true and fair view of the company's and group's state of affairs at the end of the period and of the group's profit or loss for the period then ended. 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 that 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 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.

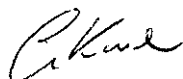
Dynacast International Limited (formerly known as Petcin Limited)

Directors' report for the period ended to 31 December 1999 (continued)

Auditors

The auditors, PricewaterhouseCoopers have indicated their willingness to continue in office, and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the board



Secretary

31 March 2000

Auditors' report to the members of Dynacast International Limited (formerly Petcin Limited)

We have audited the financial statements on pages 9 to 43 which have been prepared under the historical cost convention and the accounting policies set out on pages 15 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 6, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 affairs of the company and the group at 31 December 1999 and of the loss and cash flows of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
31 March 2000

Dynacast International Limited (formerly Petcin Limited)

Consolidated profit and loss account for the period ended 31 December 1999

	Note	£'000	£'000
Turnover	2		116,085
Cost of sales			(80,979)
Gross profit			35,106
Distribution costs			(5,831)
Administrative expenses		(12,423)	
Exceptional administrative expenses	4	(2,205)	
Total administrative expenses			(14,628)
Other operating income			138
Operating profit before goodwill amortisation			14,785
Goodwill amortisation			(5,563)
Operating profit			9,222
Net interest payable	3		(13,400)
Loss on ordinary activities before taxation	4		(4,178)
Tax on loss on ordinary activities	6		(2,880)
Loss on ordinary activities after taxation			(7,058)
Equity minority interests			(202)
Loss attributable to shareholders			(7,260)
Non-equity dividends	7		(1,905)
Retained loss for the period	19		(9,165)

All amounts in the above consolidated profit and loss account are in respect of acquisitions during the period which represents continuing operations at the period end.

There is no difference between the profit shown above and the historical cost equivalent.

As this is the first set of financial statements for the group, there are no comparative figures.

Dynacast International Limited (formerly Petcin Limited)

Statement of group total recognised gains and losses

	£'000
Loss for the financial period	(7,260)
Exchange adjustments offset in reserves	2,379
Total recognised losses for the period	<u>(4,881)</u>

Reconciliation of movements in group shareholders' funds

	£'000
Loss for the financial period	(7,260)
Dividends	(1,905)
Exchange gains	2,379
Proceeds of ordinary shares issued for cash (net of issue expenses) (note 18)	834
Proceeds of 5% redeemable preference shares issued for cash (net of issue expenses) (note 18)	53,800
Preference shares appropriations (note 7)	1,905
Net increase in shareholders' funds and balance at 31 December 1999	<u>49,753</u>

Dynacast International Limited (formerly known as Petcin Limited)

Balance sheets as at 31 December 1999

	Note	Group £'000	Company £'000
Fixed assets			
Intangible assets	8	151,505	-
Tangible assets	9	66,762	-
Investments	10	-	53,000
		<u>218,267</u>	<u>53,000</u>
Current assets			
Stock	11	11,220	-
Debtors	12	33,611	1,800
Investments	13	47,554	-
Cash at bank and in hand		21,981	-
		<u>114,366</u>	<u>1,800</u>
Creditors: amounts falling due within one year	14	<u>(45,535)</u>	<u>(166)</u>
Net current assets		<u>68,831</u>	<u>1,634</u>
Total assets less current liabilities		287,098	54,634
Creditors: amounts falling due after more than one year	15	(231,196)	-
Provisions for liabilities and charges	17	(5,496)	-
Net assets		<u>50,406</u>	<u>54,634</u>
Capital and reserves			
Called up share capital	18	53,900	53,900
Share premium account	19	734	734
Profit and loss account	19	(4,881)	-
Total shareholders' funds (including non-equity interests)		<u>49,753</u>	<u>54,634</u>
Equity minority interests		653	-
Capital employed		<u>50,406</u>	<u>54,634</u>

Dynacast International Limited (formerly known as Petcin Limited)

Balance sheets as at 31 December 1999 (continued)

Equity shares:

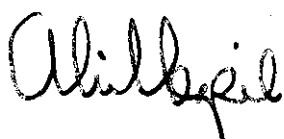
Equity shares	100	100
Share premium	734	734
Profit and loss account	(4,881)	-
Cumulative dividend due to non-equity interests	(1,905)	(1,905)
	<u>(5,952)</u>	<u>(1,071)</u>

Non equity - 5% cumulative preference shares:

Non equity shares	53,800	53,800
Cumulative dividend not yet declared	1,905	1,905
	<u>49,753</u>	<u>54,634</u>

The financial statements on pages 9 to 43 were approved by the board of directors on 31 March 2000 and were signed on its behalf by:

Director



Dynacast International Limited (formerly known as Petcin Limited)

Consolidated cash flow statement for the period ended 31 December 1999

	Note	£'000	£'000
Net cash inflow from operating activities	23		26,977
Returns on investments and servicing of finance			
Interest received		1,615	
Interest paid		(10,249)	
Issue costs of new bank loans		(7,025)	
Interest element of finance lease payments		(105)	
Dividends paid to minority interests		(575)	
Investment income		85	
Net cash outflow from returns on investments and servicing of finance			(16,254)
Taxation			(3,846)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,982)	
Sale of tangible fixed assets		515	
Repayment of inter group loans to subsidiaries excluded from consolidation		(4,454)	
Net cash outflow for capital expenditure and financial investment			(9,921)
Acquisitions			
Purchase of subsidiary undertakings	24	(310,924)	
Net cash acquired with subsidiary undertakings	24	5,733	
Net cash outflow for acquisitions			(305,191)
Net cash outflow before use of liquid resources and financing			(308,235)
Financing			
Issue of ordinary share capital		1,000	
Issue of 5% redeemable preference shares		53,800	
Expenses of share issue		(166)	
Capital element of finance lease payments	25	266	
Increase in borrowings	25	273,666	
Net cash inflow from financing			328,566
Increase in net cash			20,331

Dynacast International Limited (formerly known as Petcin Limited)

Consolidated cash flow statement

for the period ended 31 December 1999(continued)

	Note	£'000
Reconciliation to net debt		
Increase in net cash		(20,331)
Borrowings acquired with subsidiaries	24	5,396
Movement in borrowings	25	266,907
Other non-cash changes	25	(32,491)
Exchange adjustments		(2,024)
Net debt at 31 December 1999	25	<u>217,457</u>

Dynacast International Limited (formerly known as Pectin Limited)

Notes to the annual report for the period ended 31 December 1999

1 Principal accounting policies

Basis of preparation

These financial statements have been prepared, under the historical cost convention, and in accordance with applicable accounting standards. A summary of the more important accounting policies, is set out below.

Basis of consolidation

The consolidated profit and loss account and balance sheet include, with the exception of the Plastics Division and certain overseas companies, as set out below, the financial statements of the company and its subsidiary undertakings up to 31 December 1999. The results of the subsidiaries sold or acquired are included in the consolidated profit and loss account from the date control passes to the group. Intra group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to these assets and liabilities that arise after the group gained control of the subsidiary are charged or credited to the post acquisition profit and loss account.

In accordance with the provisions of Financial Reporting Standard No. 2 'Accounting for subsidiary undertakings', and Financial Reporting Standard No. 7 'Fair values in acquisition accounting', the results of the Plastics Division have not been consolidated on the grounds that it is intended to dispose of the Plastics Division within one year.

Period end date

The financial period end date of the group is 31 December, except for some overseas companies in respect of which the use of a different period end date does not have a material effect on the consolidated financial statements.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired.

For acquisition of a business, goodwill is capitalised in the period in which it arises and amortised over its estimated useful life of up to a maximum 20 years.

Tangible fixed assets

Fixed assets are shown at cost less accumulated depreciation. In the case of acquisitions the cost and accumulated depreciation of fixed assets in the subsidiary are shown in the group accounts rather than eliminating the accumulated depreciation.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

1 Principal accounting policies (continued)

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life as follows:

Freehold buildings	50 years
Plant and machinery (excluding motor vehicles)	3-12 years
Motor vehicles	2.5 years

Investments

Investments in subsidiary undertakings are stated at purchase cost of acquisition (including any incidental cost of acquisition) together with the amount of any loans advanced to those undertakings.

Where, in the opinion of the directors, there has been a diminution in the value of the investments, appropriate provisions are made and charged to the profit and loss account.

Capitalisation of finance costs

Finance costs are netted against the loan finance to which it relates. These costs, together with the interest expense, are allocated to the profit and loss account over the term of the loan finance facility at a constant rate on the carrying amount.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost comprises materials, labour and appropriate overhead expenses. Provisions are made as necessary for slow moving and obsolete stock.

Taxation including deferred taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax to the extent that it is probable that an actual asset or liability will crystallise.

Pension costs

Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

1 Principal accounting policies (continued)

Foreign currency

Assets and liabilities of overseas subsidiaries are translated into sterling at rates of exchange ruling at the balance sheet date and, their results and cash flows are translated at average rates of exchange applicable during the period. Exchange differences arising from the re-translation of opening assets and liabilities and of the profit and loss account to closing rate, in subsidiary companies, are taken to reserves.

Exchange gains and loss relating to trading transactions are included in the trading profit.

Exchange gains and losses arising on foreign currency borrowings used to hedge or finance the group's overseas equity investments are taken to reserves in accordance with SSAP20.

Leases

Fixed assets acquired under finance leasing contracts are recorded in the balance sheet as fixed tangible assets at their equivalent capital value and are depreciated over the useful life of the asset. The corresponding liability is recorded as a creditor and the interest element of the finance charge is charged to the profit and loss account over the primary lease period.

The cost of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Research and development expenditure

All expenditure is charged to the profit and loss account in the period in which it is incurred.

Turnover

Turnover, which excludes value added tax, sales between group companies and trade discounts, represents the value of goods and services supplied.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

2 Segmental reporting

	Turnover	(Loss)/ profit before taxation	Net assets
	£'000	£'000	£'000
Geographical analysis			
United Kingdom	11,922	(5,499)	1,414
Continental Europe	33,065	(3,144)	17,991
North America	55,721	3,592	18,616
South America	4,376	(744)	5,391
Asia Pacific and Africa	11,001	1,617	6,341
	<u>116,085</u>	<u>(4,178)</u>	<u>49,753</u>

The geographical analysis is based on the country in which the sales order is received. It is not considered to be materially different if based on the country in which the customer is located.

The whole of the turnover, loss before tax and net assets are in respect of the acquisitions during the period.

The directors' consider that the group operates in only one business segment, that of manufacture of precision components, and therefore segmental analysis has only been provided by geographical location.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

3 Interest and similar items

	£'000
Interest payable on bank loans and overdrafts	(10,104)
Amortisation of issue costs of bank loan	(759)
Interest payable on other loans	(4,047)
Interest payable on finance leases	(105)
Total interest and similar charges payable	(15,015)
Interest receivable	1,615
Net interest (payable)/receivable and similar items	(13,400)

Interest payable on other loans includes £5,223,000 relating to interest accrued on the multi currency deep discounted bonds held by shareholders and payable on redemption (note 16).

4 Loss on ordinary activities before taxation

	£'000
Loss before taxation is stated after charging:	
Depreciation of tangible fixed assets:	
Owned assets	5,691
Under finance leases	127
Amortisation of goodwill	5,563
Loss on disposal of fixed assets	114
Research and development - current period	1,240
Operating lease charges:	
Hire of machinery and equipment	603
Other operating lease rentals	1,129
Amounts payable to auditors:	
Audit fees: - company	65
- group	260
Non audit services	295

Dynacast International Limited (formerly known as Pectin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

Fees paid to PricewaterhouseCoopers for non-audit services in the UK which have been capitalised within goodwill or included as part of bank loan issue costs amounted to £176,000 and £1,111,000 respectively.

Included within the loss on ordinary activities before taxation are exceptional costs of £1,461,000 for consultancy and strategic review costs incurred during the period and £744,000 costs incurred in respect of the closure of the operating plant in Puerto Rico.

5 Staff costs

	£'000
Employee costs during the period amounted to:	
Wages and salaries	35,343
Social security costs	5,787
Other pension costs (note 22)	1,561
	<u>42,691</u>

The average monthly number of persons employed by the group during the period was as follows:

	Number
Direct	1,752
Indirect	337
Staff	336
	<u>2,425</u>

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

5 Staff costs (continued)

The employee costs shown above include the following remuneration in respect of the directors of the company who served during the period:

	£'000
Aggregate emoluments	<u>399</u>

Retirement benefits are accruing to two directors under the group's UK defined benefit pension scheme.

	£'000
Highest paid director	
Aggregate emoluments	181
Defined benefit pension scheme:	
Accrued pension at end of period	67
Accrued lump sum	902

During the period, two of the directors continued to participate in the defined benefit pension scheme operated by Coats Viyella Plc. There were no contributions payable by the group to this pension scheme in accordance with the sale and purchase agreement of the acquisition of the Dynacast International group of companies from Coats Viyella plc.

The group does, however, provide additional pension benefits by way of contributions to an unfunded pension scheme. These contributions are based on the advice of independent qualified actuaries and has taken into account the benefits accrued to the directors under the Coats Viyella plc pension scheme.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

6 Tax on profit on ordinary activities

	£'000
United Kingdom	
Current corporation tax at 30%	-
Overseas	
Current corporation taxes	3,785
Deferred tax (note 17)	(905)
	<u>2,880</u>

7 Dividends

	£'000
Non-equity dividends on 5% redeemable preference shares	<u>1,905</u>

In accordance with the provisions of Financial Reporting Standard No.4 "Capital Instruments", the company has appropriated through the profit and loss account preference share dividends for the period on the company's 5% cumulative redeemable preference shares of £53,800,000. However, as the company does not have sufficient distributable reserves in order to pay this preference share dividend, the amount has been credited back within the profit and loss account reserve (note 19).

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

8 Intangible fixed assets

	Goodwill
	£'000
Group	
Cost	
Additions (note 24)	157,068
At 31 December 1999	<u>157,068</u>
 Aggregate amortisation	
Charge for year	5,563
At 31 December 1999	<u>5,563</u>
 Net book value	
At 31 December 1999	<u>151,505</u>

The goodwill arising on the acquisition during the period is being amortised on a straight line basis over 20 years. The directors consider 20 years as the period over which the values of the underlying businesses acquired are expected to exceed the value of the underlying assets.

The company does not have any intangible assets.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

9 Tangible fixed assets

	Land and buildings £'000	Motor vehicles, Plant and machinery £'000	Total £'000
Group			
Cost			
Acquisition of subsidiaries	17,109	102,438	119,547
Exchange adjustments	(320)	(1,118)	(1,438)
Additions	330	5,652	5,982
Disposals	(30)	(1,256)	(1,286)
At 31 December 1999	17,089	105,716	122,805
Depreciation			
Acquisition of subsidiaries	4,428	47,343	51,771
Exchange adjustments	(109)	(780)	(889)
Charge for period	299	5,519	5,818
Disposals	(11)	(646)	(657)
At 31 December 1999	4,607	51,436	56,043
Net book value			
At 31 December 1999	12,482	54,280	66,762

Assets held under finance leases, capitalised and included in plant and machinery is as follows:

	£'000
Cost	3,979
Accumulated depreciation	(737)
Net book value	3,242

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

9 Tangible fixed assets (continued)

Analysis of net book value of land and buildings	£'000
Freehold	5,845
Leasehold:	
Over 50 years unexpired	1,150
Under 50 years unexpired	5,487
	<hr/>
	12,482

The company does not have any tangible fixed assets.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

10 Fixed asset investments

	Company £'000
Shares in group undertakings	
Additions in year	53,000
At 31 December 1999	<u>53,000</u>

The principal subsidiary undertakings of the company are summarised as follows:

Subsidiary companies	Nature of business	Country of incorporation
Dynacast Italia S.r.l	Precision diecasting and tooling	Italy
Dynacast de Mexico SA de CV	Precision diecasting and tooling	Mexico
Dynacast (Singapore) PTE	Precision diecasting and tooling	Singapore
Dynacast Investments Limited	Holding company, research and development	Great Britain
Dynacast Holdings Limited	Holding company	Great Britain
Dynacast UK Limited	Holding company	Great Britain
Dynacast (Northampton) Limited	Dormant company	Great Britain
Dynacast SA	Holding company	Spain
Dynacast Österreich GmbH	Precision diecasting and tooling	Austria
Dynacast Deutschland GmbH and KG	Precision diecasting and tooling	Germany
Dynacast France SA	Precision diecasting and tooling	France
Petcin France SA	Holding company	France
Dynacast do Brazil	Precision diecasting and tooling	Brazil
Dynacast Korea Limited	Precision diecasting and tooling	Korea
Dynacast Taiwan Limited	Precision diecasting and tooling	Taiwan
Sundaram Dynacast Limited	Precision diecasting and tooling	India
Dynacast Malaysia	Precision diecasting and tooling	Malaysia
Dynacast Canada Inc	Precision diecasting and tooling	Canada
Dynacast Loz d.o.o	Precision diecasting and tooling	Slovenia
Dynacast US Holdings Inc	Holding company	USA
Dynacast Inc	Precision diecasting and tooling	USA
Dynacast Manufacturing Inc	Precision diecasting and tooling	USA
Dynacast Teknik Dokum Sanayi Limited	Precision diecasting and tooling	Turkey
Bace Manufacturing Inc	Plastic thermal injection moulding	USA
Precision Engineering Company Inc	Plastic thermal injection moulding	USA
SPM Calgary Inc	Plastic thermal injection moulding	Canada

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

10 Fixed asset investments (continued)

<i>Subsidiary companies</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
Dynacast Manufactures Espana SA	Precision diecasting and tooling	Spain
Dynacast Verwaltung GmbH	Holding company	Germany
Dynacast Beteiligungs GmbH	Holding company	Germany

With the exception of Dynacast Investments Limited, all subsidiaries are indirectly owned by the company.

The financial year end of all the subsidiary undertakings coincides with that of the company, with the exception of Dynacast France SA and Petcin France SA, which due to statutory requirements concerning the annual accounting date, who have a 30th April year end. The last financial year end of Dynacast France SA and Petcin France SA was 30 April 1999.

The group owns the whole of the ordinary share capital of the above listed subsidiaries, with the exception of Dynacast Loz d.o.o (51%), Sundaram Dynacast Limited (49%) and Dynacast Korea Limited (90%).

The investment in Sundaram Dynacast Limited is accounted for as a subsidiary undertaking on the basis that the group provides all the technical and managerial expertise for the running of the business and consequently exercises dominant influence over its operating and financial policies.

11 Stocks

	Group £'000
Raw materials	2,711
Work-in-progress	4,314
Finished goods	4,195
	<hr/> 11,220 <hr/>

The company had no stocks.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

12 Debtors

	Group £'000	Company £'000
Amounts falling due within one year:		
Trade debtors	25,793	-
Amounts owed by subsidiary undertakings	-	1,800
Other debtors	1,762	-
Pension surplus (note 22)	1,041	-
Prepayments and accrued income	813	-
	29,409	1,800
Amounts falling due after more than one year:		
Pension surplus (note 22)	4,202	-
	33,611	1,800

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

13 Current asset investments

	Group £'000
Subsidiary undertakings held for resale:	
Acquired in the period, net of of inter group loans	46,655
Other	899
At 31 December 1999	<u>47,554</u>

The company had no current asset investments.

The Plastics Division acquired as part of the acquisition of the Dynacast International group of companies from Coats Viyella were identified for resale. This division is valued based on estimate of likely sales proceeds.

The Plastics Division comprises of the following companies:

- Bace Manufacturing Inc
- Precision Engineering Company Inc
- SPM Calgary Inc
- Plastics division of Dynacast de Mexico SA de CV
- Plastics division of Dynacast UK Limited

At 31 December 1999, a net amount of £13,306,000 was payable from this division to other group undertakings. There were no other material transactions between this division and other group undertakings; no dividends were received from this division since acquisition nor are receivable.

The pre-tax profit of the Plastics Division for the period ended 31 December 1999 amounted to £739,000 and the share capital and reserves of the subsidiary companies amounted to £12,397,000.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

14 Creditors: amounts falling due within one year

	Group £'000	Company £'000
Bank overdrafts (note 16)	1,650	-
Bank loans (note 16)	6,141	-
Trade creditors	17,774	-
Amounts owed to subsidiary undertakings	-	166
Finance leases (note 16)	451	-
Corporation tax payable	1,210	-
Other taxation and social security	2,122	-
Other creditors	3,792	-
Accruals and deferred income	12,395	-
	<u>45,535</u>	<u>166</u>

15 Creditors: amounts falling due after more than one year

	Group £'000
Debtenture loans:	
Multi currency deep discounted bonds	81,102
Bank loans	148,262
Finance leases	1,832
	<u>231,196</u>

See note 16 for further details on the above amounts. The company has no creditors falling due after more than one year.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

16 Loans and other borrowings

	Group £'000
Debenture loans:	
Multi currency deep discounted bonds	81,102
Bank loans	154,403
Overdrafts	1,650
Finance leases	2,283
	<u>239,438</u>

The company has no loans and other borrowings.

Bank loans are shown after deducting unamortised issue costs of £6,266,000 in accordance with Financial Reporting Standard No.4 "Capital Instruments".

In April 1999 the group agreed a committed banking credit facility that provides both a term loan facility and a revolving credit facility. Security was granted to the providers of the credit facility, by way of a fixed and floating charge over all the assets of the company and certain of its subsidiaries.

The bank loans, of £160,669,000 (before deduction of issue costs) at 31 December 1999, under the committed banking credit facility are at variable rates of interest which are calculated as the sum of variable interbank benchmark rates and fixed and variable margins. The interest rate payable on these loans is 5.5% to 8.5%. The group has entered into interest rate swaps and caps to hedge the variable interest cost associated with these bank loans.

Other bank loans and overdrafts are unsecured and carry interest at rates and margins prevailing in the country in which the loan is taken.

In April 1999, the group issued £74,181,000, Euro 173,641,000 and Canadian dollars 218,392,000, unsecured multi currency deep discounted bonds at an issue price of £77,600,000. The bonds are redeemable, at par, in 2009 and compounding interest at a rate of 7.5% to 10% is accrued.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

16 Loans and other borrowings (continued)

The maturity of the group and company's multi currency deep discounted bonds and bank loans and overdrafts is as follows:

	Group £'000
Amounts payable by instalments:	
In one year or less, or on demand	9,011
In more than one year, but not more than two years	10,442
In more than two years, but not more than five years	42,330
In more than five years	100,536
	<hr/> 162,319
Amount repayable otherwise than by instalments after more than five years	81,102
	<hr/> 243,421
Less unamortised issues costs	(6,266)
	<hr/> <u>237,155</u>

Finance leases are repayable as follows:

	Group £'000
Within one year	451
In more than one year, but not more than five years	1,307
After five years	525
	<hr/> <u>2,283</u>

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

17 Provisions for liabilities and charges

Group

	Retirement benefits £'000	Deferred taxation £'000	Total £'000
On acquisition (note 24)	2,469	3,769	6,238
Exchange adjustments	(81)	32	(49)
Charged/(credited) to profit and loss account	212	(905)	(693)
At 31 December 1999	<u>2,600</u>	<u>2,896</u>	<u>5,496</u>

The retirement benefits provision is in respect of benefits the group is required, under local statute, to provide to certain of its employees employed in a number of overseas group companies.

Deferred taxation

	Group £'000
Provision for deferred tax comprises:	
Accelerated capital allowances	1,742
Arising on pension surplus	2,313
Other short term timing differences	(1,159)
	<u>2,896</u>

The unprovided amount of deferred taxation for timing differences are as follows:

	Group £'000
Accelerated capital allowances	4,223
Other	(730)
	<u>3,493</u>

The company had no provisions for liabilities and charges.

The unprovided amounts exclude any taxation which would arise if the accumulated reserves of subsidiary undertakings were to be remitted.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

18 Called up share capital

	Company £'000
Authorised	
10,000,000 ordinary shares of 10p each	1,000
99,000,000 5% cumulative redeemable preference shares of £1 each	99,000
	<u>100,000</u>
Allotted, called up and fully paid	
1,000,000 ordinary shares of 10p each	100
53,800,000 5% cumulative redeemable preference shares of £1 each	53,800
	<u>53,900</u>

During the period, 1,000,000 ordinary shares of 10p each and 53,800,000 5% cumulative redeemable preference shares of £1 each were issued for cash. The nominal value of these shares and the consideration received was as follows:

	Nominal value £'000	Consideration received £'000
Ordinary shares of 10p each	100	1,000
5% cumulative redeemable preference shares of £1 each	53,800	53,800
	<u>53,900</u>	<u>54,800</u>

The expenses incurred in respect of shares issued amounted to £166,000 which have been written off to the share premium account (note 19).

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

18 Called up share capital (continued)

The 5% cumulative redeemable preference shares carry a fixed cumulative preferential dividend at a rate of 5% per annum, payable 2 annually. These shares are redeemable as follows:

Date of redemption	Shares to be redeemed
One year following the first date on which both the facilities and loan stocks have been repaid in full ('repayments date')	18.8 million
Two years following the repayment date	18.8 million
Three years following the repayment date	The balance outstanding

On winding up, the holders of the 5% redeemable preference shares have priority before all other classes of shares to receive repayment of capital plus any arrears of dividends. The holders have no voting rights, except in the following circumstances:

- the fixed dividend is six or more months in arrears.
- the company has not redeemed any preference shares which should have been redeemed.
- the business of the meeting includes the consideration of a resolution for the winding up of the company or for the appointment of an administrator or resolution adversely affecting any of the special rights and privileges attached to the preference shares.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

19 Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
Group			
Shares issued in the period	900	-	900
Retained loss for the period	-	(9,165)	(9,165)
Preference shares appropriations (note 7)	-	1,905	1,905
Share issue costs written off	(166)	-	(166)
Exchange movements	-	2,379	2,379
At 31 December 1999	734	(4,881)	(4,147)
Company			
Shares issued in the period	900	-	900
Retained loss for the period	-	(1,905)	(1,905)
Preference shares appropriations (note 7)	-	1,905	1,905
Share issue costs written off	(166)	-	(166)
At 31 December 1999	734	-	734

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. A loss for the financial period of £1,905,000 has been dealt with in the accounts of the parent company.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

20 Capital and other financial commitments

(a) Capital commitments

	Group £'000
Contracts placed for future capital expenditure not provided in the financial statements	<u>18</u>

The company had no capital commitments.

(b) Contingent liabilities

The company has given a guarantee in respect of bank borrowings of certain of its subsidiary undertakings, which amounted to £1,573,000 at 31 December 1999.

21 Operating lease commitments

At 31 December 1999 the group has lease agreements in respect of properties and plant and machinery for which the payments extend over a number of years. The company had no operating lease commitments.

	Property £'000	Plant and Machinery £'000	Total £'000
Annual commitments under non-cancellable operating leases expiring:			
Within one year	30	95	125
Within two to five years	78	515	593
After five years	1,438	4	1,442
	<u>1,546</u>	<u>614</u>	<u>2,160</u>

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

22 Pension schemes

The group has established a number of pension schemes around the world covering many of its employees. The main scheme is that in the USA. This is a funded scheme of a defined benefit type with assets held in separate trustee administered funds.

The total net pension cost of the group's USA scheme was £705,000. The cost is assessed in accordance with the advice of William M Mercer, Inc independently professionally qualified actuaries. The most recent actuarial valuation of the USA scheme was performed at 14 April 1999 using the projected unit credit method. The principal assumptions made by the actuaries were that investment returns would be 6.5% per annum and personable salaries would increase at 4.5% per annum.

At the date of the most recent actuarial assessment, the market value of the Scheme's assets totalled £19.9m and the actuarial value of those assets represented 143% of the benefits accrued to members after allowing for expected future increases in earnings.

The pension fund surplus arising on the USA Scheme, of £5,598,000, has been recognised as an asset within debtors following the fair value adjustments made on the acquisition of the precision components division from Coats Viyella (see note 24).

The UK employees of the group remain in the Coats Viyella plc group contributory defined pension scheme until 14 April 2000. The cost of providing benefits to the group's UK members within the Coats Viyella plc group pension scheme are borne by Coats Viyella plc and therefore there are no costs included in the profit and loss account, and there are no balances on the balance sheet in respect of this pension scheme.

Details of the actuarial valuation of the Coats Viyella plc group pension schemes are given in the accounts of Coats Viyella plc.

The group pension cost charge represents contributions payable by the group to the various pension schemes and amounted to £1,561,000.

At 31 December 1999, the pension accrual held on the group's balance sheet was £1,843,000.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

23 Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities

	£'000
Continuing operations	
Operating profit	9,222
Depreciation charge (net of profit/loss on disposals)	5,932
Goodwill amortisation	5,563
Increase in stocks	(1,140)
Decrease in debtors	790
Increase in creditors	6,479
Increase in provisions	131
Net cash inflow from operating activities	<u>26,977</u>

24 Acquisitions

On 14 April 1999, the company purchased via Dynacast Investments Limited, the precision components division from Coats Viyella plc for a consideration of £310,924,000, and this has been accounted for as an acquisition.

From the date of acquisition to 31 December 1999, the acquired group, excluding the Plastics Division, contributed to the whole of turnover, profit before and after interest, group net operating cash flows, paid in respect of interest, taxation and capital expenditure.

In its last financial year to 31 December 1998, per management accounts, the acquired group, excluding the Plastics Division, made a profit after tax and minority interest of £13,815,000. For the period since that date to the date of acquisition, the acquired group's management accounts, excluding the Plastics Division, show:

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

24 Acquisitions (continued)

	£'000
Turnover	46,558
Operating profit	2,598
Profit before taxation	2,205
Taxation and minority interests	(858)
Profit attributable to shareholders	1,347
Exchange adjustments	642
Total recognised gains for the period	1,989

The total adjustments required to book values of the assets and liabilities of the companies acquired in order to present the net assets of those companies at fair value and in accordance with group accounting principles are as follows:

	Book value £'000	Revaluation £'000	Assets for disposal £'000	Provisional fair value to the group £'000
Tangible fixed assets	69,839	(2,063)	-	67,776
Fixed asset investments	1	-	-	1
Stock	10,080	-	-	10,080
Debtors	29,157	5,598	-	34,755
Current asset investments	984	-	78,094	79,078
Cash	9,117	-	-	9,117
Creditors	(28,367)	(1,237)	-	(29,604)
Provisions	(2,469)	-	-	(2,469)
Taxation	(2,759)	(2,313)	-	(5,072)
Overdrafts	(3,384)	-	-	(3,384)
Loans	(5,396)	-	-	(5,396)
	76,803	(15)	78,094	154,882

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

24 Acquisitions (continued)

Minority interest	(1,026)
Net assets acquired	153,856
Goodwill	157,068
Consideration – satisfied by cash (including acquisition expenses of £6,259,000)	<u>310,924</u>

The book value of the assets and liabilities have been taken from the management accounts of the acquired group at 14 April 1999 (the date of acquisition) at actual exchange rates on that date. The fair value adjustments contain provisional amounts in respect of the sales proceeds for the Plastics Division, as indicated below, which will be finalised in the financial statements for the year ended 31 December 2000 when it is expected that the Plastics Division disposal will be completed.

Revaluation adjustments in respect of tangible fixed asset comprise the valuations of certain freehold properties and the write off of obsolete plant and machinery.

The revaluation adjustment to debtors includes establishing an asset of £5,598,000 to reflect the pension fund surplus arising from actuarial valuations, offset by various write-downs to reflect estimated realisable value of debtors. The adjustment to taxation represents the deferred tax liability arising on the pension fund surplus recognised.

The adjustments to creditors relate to liabilities that were not fully reflected in the balance sheet of the acquired group at the date of acquisition.

Assets for disposal of £78,094,000 are in respect of the Plastics Division acquired from Coats Viyella which were held for resale at the period end. The value assigned to this is based on provisional estimate of likely sales proceeds, net of intercompany loans, and any difference in actual proceeds received from this provisional estimate will directly impact the above provisional period end goodwill. The results of this division for the period have not been consolidated.

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

25 Reconciliation of movement in net debt

	Cash flow	Acquisition (excluding cash and overdrafts)	Other non-cash changes	Exchange movement	At 31 December
Cash in hand and at	21,981	-	-	-	21,981
Overdrafts	(1,650)	-	-	-	(1,650)
	20,331	-	-	-	20,331
Debt due after 1 year	(260,869)	(3,379)	32,491	2,393	(229,364)
Debt due within 1 year	(5,772)	-	-	(369)	(6,141)
Finance leases due after	(271)	(1,561)	-	-	(1,832)
Finance leases due	5	(456)	-	-	(451)
	<u>(246,576)</u>	<u>(5,396)</u>	<u>(32,491)</u>	<u>2,024</u>	<u>(217,457)</u>

Non-cash changes comprise of an accrual, £3,502,000 for the interest payable on the multi-currency deep discounted bonds and transfer of borrowings, £35,993,000, to the Plastics Division.

	£'000	£'000
Movement in borrowings		
Cash inflow		
Debts due within one year:		
Repayment of part of bank and other loans	(8,932)	
New secured bank loan	16,683	7,751
Debts due after one year:		
Repayment of part of bank and other loans	(656)	
New secured bank loan	188,971	
New multi currency deep discounted bond	77,600	265,915
Increase in borrowings		273,666
Issue costs of new bank loan		(7,025)
Capital element of finance lease		266
Cash inflow		266,907

Dynacast International Limited (formerly known as Petcin Limited)

Notes to the annual report for the period ended 31 December 1999 (continued)

26 Related party transactions

The company makes use of the exemption of Financial Reporting Standard No.8 "Related Party Transactions" not to disclose inter-group transactions. Cinven Limited is a related party by virtue of its management of shareholding in the company. At 31 December 1999, included within creditors is £106,000 representing fees payable to Cinven Limited and £106,000 fees were charged to the profit and loss account during the period.

27 Significant shareholdings

The directors' interest in the ordinary shares of the company are shown in the directors report.

The following were the shareholders in the company at 31 December 1999:

	Ordinary shares of 10p each Number	5% cumulative Preference shares of £1 each Number
Barclays UK Retirement fund Venture Limited Partnership	100,000	5,380,000
Coal Pension Venture Limited Partnership	190,000	10,760,000
Railway Pension Venture Capital Limited	100,000	5,380,000
Second Cinven Fund comprising nine separate Limited Partnerships	610,000	32,280,000

The directors have been told by Cinven Limited that the funds under the management of Cinven Limited are in their normal course of business of providing finance.