

Dynacast International Limited
Annual report
for the year ended 31 December 2005

Registered Number 3716334



Dynacast International Limited

Directors' report for the year ended 31 December 2005

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities and review of business

The company's principal activity during the year was that of an intermediate holding company.

The directors consider the financial position of the company at the year end to be satisfactory. The company will continue to act as a holding company. The directors of Melrose PLC, the ultimate parent company, have confirmed that they will continue to provide such support as may be necessary to enable the company to meet its obligations as they fall due and to continue to trade for one year from the date of this report.

Dividend and transfers to reserves

The retained loss for the year after taxation deducted from reserves amounted to £9,527,479 (2004: £2,608,000). The directors do not recommend the payment of an ordinary dividend (2004: nil).

Directors and their interests

The directors who held office during the year were:

G P Martin (Appointed 20 July 2005)
A G Peart (Appointed 25 May 2005)
S A Peckham (Appointed 25 May 2005)
J C Miller (Alternate – appointed 15 July 2005)
D A Roper (Alternate – appointed 15 July 2005)
S J Newman (Resigned 25 May 2005)
G D Koral (Resigned 4 August 2005)
S G Moberley
M A Stacey
P A C Catterall (Resigned 25 May 2005)
R J Munton (Resigned 25 May 2005)

None of the directors hold any beneficial interest in shares in the Company.

The interests of GP Martin, DA Roper, JC Miller, SA Peckham in shares in the ultimate holding company, Melrose PLC, are disclosed in the accounts of that company. The other directors' interests in the shares of Melrose PLC are:

	At 31 December 2005		At 31 December 2004	
	Ordinary Shares of £0.0001	Convertible B Shares of £1.00	Ordinary Shares of £0.0001	Convertible B Shares of £1.00
A G Peart	82,043	2,957	32,043	2,957
S G Moberley	1,787,709	nil	nil	nil
M A Stacey	700,291	nil	nil	nil

The directors have the benefit of 'qualifying third party indemnity provisions' for the purposes of sections 309a to 309c of the Companies Act 1985.

Enhanced business review

The company has elected not to present additional directors report disclosures as permitted by the small company exemptions of section 246(4)(a) of the Companies Act 1985.

Dynacast International Limited

Directors' report for the year ended 31 December 2005 (continued)

Auditors

The directors will place a resolution before the annual general meeting to re-appoint Deloitte & Touche LLP as auditors for the ensuing year.

Statement of directors' responsibilities

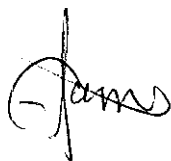
The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d) 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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.

By order of the board



GE Barnes

Secretary

30/10/06

Dynacast International Limited

Independent auditors' report to the members of Dynacast International Limited

We have audited the financial statements of Dynacast International Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 20. 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 auditors' 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 annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. 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 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 or material inconsistencies with the financial statements.

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.

Dynacast International Limited

Independent auditors' report to the members of Dynacast International Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

30/10/06

Dynacast International Limited

Profit and loss account for the year ended 31 December 2005

		2005	2004
	Notes	£'000	£'000
Administrative income/(expenses)	2	(10)	-
Other operating income - exceptional	3	35,387	-
Operating profit		35,377	-
Loss on disposal of investment	4	(41,000)	-
Other interest receivable and similar income	5	38	158
Interest payable and similar charges	6	(3,990)	-
(Loss)/profit on ordinary activities before taxation		(9,575)	158
Tax on (loss)/profit on ordinary activities	8	48	(47)
(Loss)/profit on ordinary activities after taxation		(9,527)	111
Dividends	9	-	(2,719)
Loss deducted from reserves	15	(9,527)	(2,608)

Statement of total recognised gains and losses

		2005	2004
	Notes	£'000	£'000
Loss deducted from reserves	15	(9,527)	(2,608)
Preference share dividend credited to reserves	9	-	2,719
Total recognised gains and losses		(9,527)	111

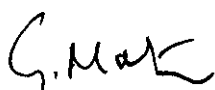
All activities derive from continuing activities.

Dynacast International Limited

Balance sheet as at 31 December 2005

		2005	2004
	Notes	£'000	£'000
Fixed assets			
Investments	10	-	25,000
Current assets			
Cash at bank and in hand		-	1
Debtors: amounts falling due after one year	11	21,000	2,700
Creditors: amounts falling due within one year	12	(37,018)	(47)
Net current assets		<u>(16,018)</u>	<u>2,654</u>
Total assets less current liabilities		<u>(16,018)</u>	<u>27,654</u>
Creditors: amounts falling due after more than one year.	13	(35,583)	-
Net assets		<u>(51,601)</u>	<u>27,654</u>
Capital and reserves			
Called-up share capital	14	116	54,499
Share premium accounts	15	865	865
Own shares held	15	-	(154)
Profit and loss account (deficit)	15	(52,582)	(27,556)
Equity shareholders' funds	16	<u>(51,601)</u>	<u>27,654</u>

The financial statements on pages 4 to 13 were approved by the board of directors on and were signed on its behalf by:



GP Martin
Director

30.10.06

Dynacast International Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

1 Principal accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding period other than as described below.

Changes in accounting policies

FRS 25 requires that financial instruments be classified in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. Previously, the company's preference share capital had been classified as equity, however, under the definitions stipulated in FRS 25, such amounts fall under the definition of a financial liability. The accounting standard applies only to the current period onwards and accordingly, prior year figures have not been restated. This change in accounting policy has accordingly had no effect on operating profit but has had the effect of reclassifying preference share capital as at 31 December 2005 from equity to liabilities.

Accounting Convention

The Financial Statements have been prepared under the historical costs accounting rules and comply with Companies Act 1985 and with applicable United Kingdom accounting standards.

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 an impairment in the value of the investments, appropriate provisions are made for impairment and charged to the profit and loss account.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

The charge for taxation is based on the profit 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 taxation is provided on all timing differences in accordance with FRS19, 'Accounting for Deferred taxation'. Deferred tax assets are recognised to the extent they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

2 Administrative expenses

Fees paid to the auditors for non-audit services in the UK were £Nil (2004: Nil). All auditors' remuneration is borne by a fellow group company.

3 Other operating income - exceptional

This relates to a debt waiver by Dynacast Investments Limited.

Dynacast International Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

4 Loss on disposal of investment

This relates to the loss on transfer of the investment in Dynacast Investments Limited to Melrose UK Holdings Limited.

5 Other interest receivable and similar income

	2005	2004
	£'000	£'000
Group interest receivable	38	158
	<u>38</u>	<u>158</u>

6 Interest payable and similar charges

	2005	2004
	£'000	£'000
Group interest payable	1,271	-
Dividend on 5% cumulative redeemable preference shares of £1 each	2,719	-
	<u>3,990</u>	<u>-</u>

7 Directors and employees

The company has no employees for either year and the directors were remunerated by a fellow group undertaking.

8 Tax on loss on ordinary activities

	2005	2004
(a) Analysis of (credit)/charge in year		
<i>Current tax</i>		
UK corporation tax charge at 30% (2004: 30%)	-	47
UK corporation tax adjustments in respect of previous periods	(48)	-
	<u>(48)</u>	<u>47</u>

Dynacast International Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

8 Tax on loss on ordinary activities (continued)

(b) Factors affecting tax (credit)/charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £'000	2004 £'000
(Loss)/profit on ordinary activities before tax	<u>(9,575)</u>	<u>158</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	(2,873)	47
<i>Effects of:</i>		
Disallowed expenses	3	-
Exceptional items disallowed	1,684	-
Group relief surrendered (at nil tax rate)	370	-
Adjustment in respect of prior period	(48)	-
Expense not deductible- preference dividend	816	-
	<u>(48)</u>	<u>47</u>

9 Non equity dividends

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Non equity dividends on 5% redeemable preference shares	-	2,719
	<u>-</u>	<u>2,719</u>

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Notes to the financial statements for the year ended 31 December 2005 (continued)

10 Investments

	Shares in subsidiary undertakings
	£'000
Cost	
At 31 December 2004	53,000
Additions	37,000
Disposals	(90,000)
At 31 December 2005	-
Amounts written off	
At 31 December 2004	28,000
Impairment	41,000
Disposals	(69,000)
At 31 December 2005	-
Net book value	
At 31 December 2005	-
At 31 December 2004	25,000

The addition during the period relates to a further capital contribution to an existing subsidiary, Dynacast Investments Limited.

The disposal during the period relates to the transfer of investment in Dynacast Investments Limited to Melrose UK Holdings Ltd for £21,000,000 on 2 August 2005.

11 Debtors

Amounts falling due after one year:

	2005	2004
	£'000	£'000
Amounts owed by group undertakings	21,000	2,700

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Notes to the financial statements for the year ended 31 December 2005 (continued)

12 Creditors: amounts falling due within one year

	2005	2004
	£'000	£'000
5% cumulative redeemable preference shares of £1 each (see note 14)	18,800	-
Cumulative preference dividends not paid	18,218	-
Accruals and deferred income	-	47
	<u>37,018</u>	<u>47</u>

13 Creditors: amounts falling due after more than one year

	2005	2004
	£'000	£'000
5% cumulative redeemable preference shares of £1 each (see note 14)	<u>35,583</u>	<u>-</u>

14 Called up share capital

	2005	2004
	£'000	£'000
<u>Authorised</u>		
15,000,000 management shares of £0.0001 each at 1 January 2005	2	2
1,212,121 ordinary shares of 10p each	121	121
54,648,484 5% cumulative preference shares of £1 each	-	54,648
At 31 December 2005	<u>123</u>	<u>54,771</u>
<u>Allotted, called up and fully paid</u>		
11,031,071 management shares of £0.0001 each	1	1
1,145,860 ordinary shares of 10p each	115	115
54,383,440 cumulative preference shares of £1 each	-	54,383
	<u>116</u>	<u>54,499</u>

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Notes to the financial statements for the year ended 31 December 2005 (continued)

14 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 bi-annually. These shares are redeemable at par as follows:

Holders of Ordinary shares are entitled to attend and vote at general meetings.

Except with the consent or sanction of the holders of the Preference shares, holders of Ordinary shares are not entitled to receive any dividend unless and until all of the Preference shares have been redeemed, such redemption to be in three annual amounts commencing one year following repayment in full of both the Facilities made available to the Company and the Loan Stock. Subject thereto, each Ordinary share shall rank equally for any dividend paid thereon.

Holders of Management Shares are not entitled to attend and vote at general meetings.

Except with the consent or sanction of the holders of the Ordinary Shares and Preference Shares, holders of Management Shares are not entitled to receive any dividend. Subject thereto, each Management Share shall rank equally for any dividends paid thereon.

On a return of capital, surplus assets are to be applied in the order of priority:

- a) in paying arrears of Fixed Dividend to holders of Preference Shares
- b) in paying pro rata (i) the Issue Price of Preference Shares and (ii) the Issue Price of Management Shares together with any declared but unpaid dividend
- c) in distributing the balance amongst holders of Ordinary Shares.

The Board may, with the approval of the holders of not less than 75% of the Ordinary shares, serve a written notice at any time, requiring the Management Shareholders to offer for sale such number of shares to such person as specified in the notice at a price equal to the Issue Price of the Management Shares.

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 ('repayment 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 and the management shares rank pari-passu and have priority before all other classes of shares to receive repayment of capital plus any arrears of dividends. The holders of the management shares have no voting rights. The holders of the 5% redeemable preference shares 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.

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Notes to the financial statements for the year ended 31 December 2005 (continued)

15 Reserves

	Share Premium £'000	Own Shares £'000	Profit and Loss £'000	Total Reserves £'000
At 1 January 2005	865	(154)	(27,556)	(26,845)
Own shares disposed of	-	154	-	154
Loss transferred from reserves	-	-	(9,527)	(9,527)
Restatement of cumulative preference dividends prior to 1 January 2005	-	-	(15,499)	(15,499)
At 31 December 2005	865	-	(52,582)	(51,717)

16 Reconciliation of movement in shareholders' funds

	2005 £'000	2004 £'000
Own shares sold	154	1
Profit/(loss) for the year	(9,527)	(16,889)
Preference shares restated to liabilities (see note 1)	(69,882)	-
Shareholders funds as at 1 January 2005	27,654	44,542
Shareholders funds at 31 December 2005	(51,601)	27,654

17 Contingent liabilities

The company has no contingent liabilities as at 31 December 2005 (2004: 75,323,000).

18 Related party transactions

As permitted by paragraph 3(a) of FRS 8, the company has taken advantage of the exemption for 90% subsidiaries not to disclosure related party transactions with fellow group entities.

Dynacast International Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

19 Cash flow statement

The company is a wholly-owned subsidiary of Melrose UK Holdings Ltd and is included in the consolidated financial statements of Melrose PLC which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No. 1 (Revised) "Cash flow Statements".

20 Ultimate parent undertaking and controlling party

The immediate and ultimate parent undertaking and controlling party is Melrose PLC which is the only undertaking to consolidate these financial statements.

Copies of Melrose PLC's consolidated financial statements can be obtained from the Company Secretary at Arden Road, Alcester, Warwickshire, B49 6HN.