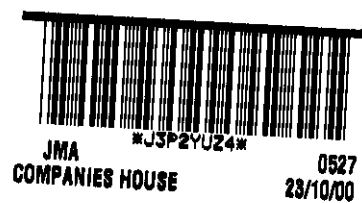


## **Akcros Chemicals Limited**

### **Directors' report and financial statements**

31 December 1999

Registered number 995767



## **Directors' report and financial statements**

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## **Directors' report**

The directors present their annual report and audited financial statements for the year ended 31 December 1999.

### **Principal activities**

The company is engaged in the manufacture and sale of PVC stabilisers and other speciality chemicals. It is part of a business unit within Akzo Nobel with companies in a number of countries worldwide also trading as Akcros and managed as a single entity.

### **Business review**

The company was formerly a 50% partner in an unincorporated business trading as Akcros Chemicals. On 1 October 1998, the company acquired the remaining 50% of the partnership. The results reported for 1998 comprise the net income from the partnership for the period to 30 September 1998, and the turnover and expenses of the company's trade in its own right from 1 October 1998 to 31 December 1998.

The results show the first full year's trading following the acquisition of 100 % of the former Akcros Chemicals partnership. The directors are satisfied with the company's performance and look forward to continuing development.

#### *Year 2000*

Millennium compliance testing was completed by the year end. Early indications are that no significant problems have arisen. This does not provide certainty that no such problems will arise and the Directors will continue to review this situation, although they anticipate no significant problems occurring. The achievement of Year 2000 compliance within the company has in many cases been integrated with the upgrading of systems for normal business improvement. The Directors do not believe it is possible to quantify separately the cost of Year 2000 compliance within total systems related expenditure.

#### *Economic and monetary union*

A large proportion of the company's trading is with other member states of the European Union. As such, the company welcomes the introduction of the Euro and is able to trade in Euros with any customers or suppliers who wish to do so. In accordance with Akzo Nobel policy, all internal reporting is in Euros from the start of 1999.

### **Proposed dividend**

The directors do not recommend the payment of a dividend (1998 : £nil).

### **Market value of land and buildings**

In the opinion of the directors, the market value of the land and buildings of the company is not materially different from the carrying value in the accounts.

## **Directors' report (Continued)**

### **Directors and directors' interests**

The directors who held office during the year were as follows:

M S Clark

M J Potter

K van Nierop (Chairman)

None of the directors held any interest in the shares of the company.

### **Employees**

The management communicates regularly with employees through regular team briefings and a periodic staff newsletter. This is supplemented by appropriate information regarding the wider Akzo Nobel group.

The company is committed to equality of opportunity for existing and prospective employees.

### **Political and charitable contributions**

The company made no political contributions during the year. Donations to UK charities amounted to £5,000 (1998: £2,794.)

### **Auditors**

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

By order of the board

M S Clark  
Secretary



1-5 Queens Road  
Hersham  
Surrey KT12 5NL

October 2000

## **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. 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 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 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.



St James' Square  
Manchester M2 6DS  
United Kingdom

## Report of the auditors to the members of Akcros Chemicals Limited

We have audited the financial statements on pages 5 to 16.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 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 with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature of 'KPMG' in dark ink.

KPMG  
Chartered Accountants  
Registered Auditors

23 October 2000

**Profit and loss account**  
for the year ended 31 December 1999

	<i>Note</i>	1999 £000	1998 £000
<b>Turnover</b>	2	<b>69,062</b>	18,521
Cost of sales		<b>(60,929)</b>	(15,803)
<b>Gross profit</b>		<b>8,133</b>	2,718
Distribution costs		<b>(761)</b>	(209)
Administrative expenses		<b>(13,737)</b>	(6,297)
Other operating (expenditure)/income		<b>(1,071)</b>	50
<b>Operating loss</b>	3	<b>(7,436)</b>	(3,738)
Adjustment to carrying value of investment		-	2,533
Interest payable and similar charges	6	<b>(1,144)</b>	(1,170)
<b>Loss on ordinary activities before taxation</b>		<b>(8,580)</b>	(2,375)
Taxation on loss on ordinary activities	7	<b>1,954</b>	(80)
<b>Loss on ordinary activities after taxation retained for the period</b>	15	<b>(6,626)</b>	(2,455)

There were no recognised gains or losses in the periods shown above other than those shown in the profit and loss account.

The comparative information provided for 1998 reflects only three month's trading.

The turnover and profits/losses for the periods shown above arise wholly from continuing operations.


There is no material difference between the company's results as reported and on an historical cost basis.

**Balance sheet**  
**at 31 December 1999**

	Note	1999 £000	1998 £000	1998 £000
<b>Fixed assets</b>				
Intangible assets	8	10,105		12,800
Tangible assets	9	16,778		17,235
		<u>26,883</u>		<u>30,035</u>
<b>Current assets</b>				
Stocks	10	7,099	7,929	
Debtors	11	15,376	13,651	
Cash at bank and in hand		8	3,996	
		<u>22,483</u>	<u>25,576</u>	
<b>Creditors:</b> amounts falling due within one year	12	<u>(32,403)</u>	<u>(55,593)</u>	
<b>Net current liabilities</b>			<u>(9,920)</u>	<u>(30,017)</u>
<b>Total assets less current liabilities</b>			<u>16,963</u>	<u>18</u>
<b>Provisions for liabilities and charges</b>	13		<u>(230)</u>	<u>(259)</u>
<b>NET ASSETS/(LIABILITIES)</b>			<u>16,733</u>	<u>(241)</u>
<b>Capital and reserves</b>				
Called up share capital	14	23,600		-
Profit and loss account	15	(6,867)		(241)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	15	<u>16,733</u>		<u>(241)</u>

These financial statements were approved by the board of directors on 17 October 2000 and were signed on its behalf by:

  
**K van Nierop**  
Director

  
**M J Potter**  
Director



## 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.

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 the company is a wholly owned subsidiary of Akzo Nobel nv, 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. The consolidated financial statements of Akzo Nobel nv, within which this company is included, can be obtained from the address given in note 18.

#### ***Goodwill and negative goodwill***

Goodwill on acquisition of a business is capitalised and amortised over 5 years.

#### ***Fixed assets and depreciation***

Depreciation is provided to write off the cost of tangible fixed assets on a reducing balance basis at the following rates

Freehold buildings	-	2.5 % per annum
Plant and machinery	-	12.5% to 40% per annum

No depreciation is provided on freehold land.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. 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.

## **Notes (Continued)**

### **Accounting policies (continued)**

#### **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.

#### **Pension costs**

The company participates in a pension scheme operated by the parent company and which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, and contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

#### **Research and development expenditure**

Expenditure on research and development is written off against profits in the year in which it is incurred.

#### **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 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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

#### **Turnover**

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

## Notes (continued)

### 2 Analysis of turnover

The turnover and result for the year are entirely attributable to the manufacture and sale of PVC stabilisers and other specialty chemicals.

	1999 £000	1998 £000
<i>Analysis of turnover by geographical market</i>		
UK	37,293	10,017
Rest of EU	24,172	6,542
Rest of world	7,597	1,962
	<hr/> 69,062	<hr/> 18,521
	<hr/> <hr/>	<hr/> <hr/>

The directors do not believe it is possible to give an analysis of profit/loss by geographic market.

### 3 Operating loss

	1999 £000	1998 £000
<i>Operating loss is stated after charging</i>		
Auditors' remuneration:		
Audit	37	45
Other services - fees paid to the auditor and its associates	7	-
Depreciation and other amounts written off tangible fixed assets	1,996	526
Hire of plant and machinery - rentals payable under operating leases	252	87
Research and development expenditure	1,802	475

### 4 Remuneration of directors

The Chairman, Dr K van Nierop is employed by the ultimate parent company, Akzo Nobel nv, a company registered in the Netherlands. The company paid a fee of £85,110 (1998 : £Nil) for these services and gave benefits of £13,071 for 1999 (1998 : £3,268).

The aggregate emoluments paid to the other directors by the company during the year were as follows:

	1999 £	1998 £
Salary/fees	71,500	5,424
Bonus	12,160	-
Benefits	23,025	-
Pension contributions	3,537	-
	<hr/> 110,222	<hr/> 5,424
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 5 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	
	1999	1998
Production	249	267
Administrative and management	159	175
	<hr/>	<hr/>
	408	442
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1999	1998
	£000	£000
Wages and salaries	10,102	2,575
Social security costs	1,033	257
Other pension costs	1,214	285
	<hr/>	<hr/>
	12,349	3,117
	<hr/>	<hr/>

### 6 Interest payable and similar charges

	1999	1998
	£000	£000
On bank loans and overdrafts	837	249
Interest to group companies	307	921
	<hr/>	<hr/>
	1,144	1,170
	<hr/>	<hr/>

## Notes (continued)

### 7 Taxation

	1999 £000	1998 £000
UK corporation tax at 30.25% (1998 : 31%)	(1,954)	-
Adjustment in respect of prior years	-	80
	<hr/> (1,954) <hr/>	<hr/> 80 <hr/>

### 8 Intangible assets

	Goodwill on acquisition of business £000
<b>Cost</b>	
At beginning and end of year	13,474
<b>Amortisation</b>	
At beginning of year	674
Charge for year	2,695
	<hr/> 3,369 <hr/>
At end of year	3,369
<b>Net book value</b>	
At 31 December 1999	10,105
	<hr/> 10,105 <hr/>
At 31 December 1998	12,800
	<hr/> 12,800 <hr/>

## Notes (continued)

### 9 Tangible fixed assets

	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Payments on account and assets in course of construction	Total
	£000	£000	£000	£000	£000
<b>Cost</b>					
At beginning of year	7,619	31,575	-	1,022	40,216
Additions	-	3,146	2	-	3,148
Disposals	-	(5,501)	-	-	(5,501)
Transfers between categories	-	280	663	(943)	-
At end of year	7,619	29,500	665	79	37,863
<b>Depreciation</b>					
At beginning of year	1,248	21,733	-	-	22,981
Charge for year	171	1,767	58	-	1,996
On disposals	-	(3,892)	-	-	(3,892)
Transfers between categories	-	(527)	527	-	-
At end of year	1,419	19,081	585	-	21,085
<b>Net book value</b>					
At 31 December 1999	6,200	10,419	80	79	16,778
At 31 December 1998	6,371	9,842	-	1,022	17,235

Land and buildings are entirely freehold.

The gross book value of land and buildings includes £153,000 (1998: £153,000) of non-depreciable assets.

## Notes (continued)

### 10 Stocks

	1999 £000	1998 £000
Raw materials and consumables	3,284	1,796
Finished goods and goods for resale	3,815	6,133
	<hr/> 7,099	<hr/> 7,929
	<hr/> <hr/>	<hr/> <hr/>

The estimated replacement cost of stock is not materially different from the amounts stated above.

### 11 Debtors

	1999 £000	1998 £000
Trade debtors	8,570	11,350
Amounts owed by group undertakings	4,780	2,301
Corporation tax	1,655	-
Other debtors	371	-
	<hr/> 15,376	<hr/> 13,651
	<hr/> <hr/>	<hr/> <hr/>

### 12 Creditors: amounts falling due within one year

	1999 £000	1998 £000
Bank loans and overdrafts	1,420	13,500
Trade creditors	5,699	7,038
Loans from other group undertakings	23,025	30,655
Amounts owed to other group undertakings	651	2,528
Taxation and social security	-	187
Corporation tax	-	490
Accruals and deferred income	1,838	1,195
	<hr/> 32,633	<hr/> 55,593
	<hr/> <hr/>	<hr/> <hr/>

The loans from other group undertakings includes £15m (1998: nil) that is non – interest bearing. The balance carries interest at 1% over bank base rate. All such loans are repayable on demand.

## Notes (continued)

### 13 Provisions for liabilities and charges

	Restructuring	Other provisions	Total
	£000	£000	£000
At beginning of year	-	259	259
Profit and loss account	1,565	742	2,307
Utilised during year	(1,565)	(771)	(2,336)
At end of year	-	230	230

The restructuring provision arose as a result of changes made to the Surfactants business.

Other provisions at the year end relate to committed redundancy costs.

### 14 Called up share capital

	1999 £	1998 £
<b>Authorised</b>		
Equity: Ordinary shares of £1 each	25,000,000	25,000,000
<b>Allotted, issued and fully paid</b>		
Equity: Ordinary shares of £1 each	23,600,100	100

The issued share capital was increased from £100 to £23,600,100 on 21<sup>st</sup> of December 1999 by the issue of 23,600,000 shares at par to the parent undertaking. The funds generated were used to repay a loan from another group undertaking. There were no expenses associated with the issue.



## Notes (continued)

### 15 Shareholders' funds

	Share Capital	Profit and loss account	Shareholders' funds
	£000	£000	£000
At beginning of year	-	(241)	(241)
Issue of shares	23,600	-	23,600
Loss for the year	-	(6,626)	(6,626)
At end of year	<u>23,600</u>	<u>(6,867)</u>	<u>16,733</u>

### 16 Commitments

- (a) Capital commitments at the end of the financial year for which no provision has been made were £427,445 (1998: £2,676,000)
- (b) Annual commitments under non-cancellable operating leases are as follows:

	1999		1998	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	30	-	120
In the second to fifth years inclusive	-	349	-	228
Over five years	-	-	-	-
	<u>-</u>	<u>379</u>	<u>-</u>	<u>348</u>

## **Notes (continued)**

### **17 Pensions**

The majority of the company's eligible employees are members of the Akzo Nobel UK Pension Scheme, a defined benefit scheme. The latest formal actuarial valuation of this scheme was carried out as at 5<sup>th</sup> April 1997. The principal actuarial assumptions used in this valuation were equivalent to a long term rate of return on investments of 9% per annum, salary increases of 6.5% per annum and dividend growth of 4.5% per annum.

The market value of the assets of the scheme at 5<sup>th</sup> April 1997 was £72.61 million and the actuarial value of the assets were sufficient to cover 105% of the benefits which had accrued to members at that date.

The total pension charge for the period was £1,220,696 (1998: £301,532 – three months ).

### **18 Ultimate parent company and parent undertaking of larger group of which the company is a member**

The company is a subsidiary undertaking of Akzo Nobel Chemicals Limited, which is registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Akzo Nobel nv, incorporated in the Netherlands. The consolidated accounts of this company may be obtained from Akzo Nobel Chemicals Limited, 1-5 Queens Road, Hersham, Surrey KT12 5NL. No other group accounts include the results of the company.