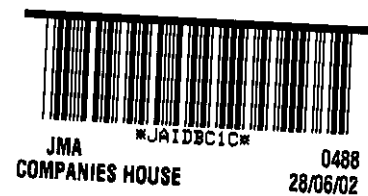


**Akcros Chemicals Limited**

**Directors' report and financial  
statements**

**Registered number 995767**

**31 December 2001**



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## **Directors' report**

The directors present their annual report and audited financial statements for the year ended 31 December 2001.

### **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**

Operating performance was broadly in line with expectations, although trading in the last quarter was hit by the global economic slowdown. A rationalisation programme was begun which is expected to secure the long term future of the company.

The company's activity in UVEB curing additives for the coatings industry was transferred to another Akzo Nobel group company, with the assets being sold at book value.

The net income is adversely affected by the full write off of goodwill on acquisition of the former Akcros Chemicals partnership (£7.4m), and provisions for rationalisation (£4.1m). The underlying business remains healthy and a return to profit is anticipated.

### **Proposed dividend**

The directors do not recommend the payment of a dividend (2000: £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 and directors' interests**

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

M S Clark  
M J Potter (resigned 31 May 2001)  
E C Mulholland (appointed 31 May 2001)  
K van Nierop

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, including those who are disabled or become disabled while employed.

## **Directors' report** *(continued)*

### **Political and charitable contributions**

The company made no political contributions during the year. Donations to UK charities amounted to £10,000 (2000: £6,000).

### **Auditors**

An elective resolution has been passed in accordance with Section 386 of the Companies Act 1985, dispensing with the requirement to appoint auditors annually.

KPMG have indicated to the directors that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly, KPMG resigned as auditors of the company with effect from 9 May 2002 and the directors appointed KPMG LLP to fill the vacancy arising. A resolution for the appointment of KPMG LLP as auditors of the company is to be proposed at the next general meeting at which accounts are laid before the meeting.

By order of the board

M S Clark  
Secretary



20 June 2002

1-5 Queens Road  
Hersham  
Surrey KT12 5NL

## 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

## **Independent report of the auditors to the members of Akcros Chemicals Limited**

We have audited the financial statements on pages 5 to 15.

### **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 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 transactions with the company is not disclosed.

### **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 the company's affairs as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG LLP*

**KPMG LLP**  
Chartered Accountants  
Registered Auditor

*24 June 2002*

**Profit and loss account**  
*for the year ended 31 December 2001*

	<i>Note</i>	<b>2001</b> <b>£000</b>	<b>2000</b> <b>£000</b>
<b>Turnover</b>	<i>2</i>	<b>34,334</b>	<b>52,518</b>
<b>Cost of sales</b>		<b>(33,986)</b>	<b>(49,253)</b>
		<hr/>	<hr/>
<b>Gross profit</b>		<b>348</b>	<b>3,265</b>
Distribution costs		<b>(2,360)</b>	<b>(3,363)</b>
Administrative expenses	<i>3</i>	<b>(12,268)</b>	<b>(7,805)</b>
Other operating income		<b>2,861</b>	<b>374</b>
		<hr/>	<hr/>
<b>Operating loss</b>	<i>4</i>	<b>(11,419)</b>	<b>(7,529)</b>
Restructuring costs	<i>14</i>	<b>(4,175)</b>	<b>-</b>
		<hr/>	<hr/>
Interest payable and similar charges	<i>7</i>	<b>(15,594)</b> <b>(1,265)</b>	<b>-</b> <b>(1,499)</b>
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		<b>(16,859)</b>	<b>(9,028)</b>
Tax on loss on ordinary activities	<i>8</i>	<b>2,995</b>	<b>2,727</b>
		<hr/>	<hr/>
<b>Loss on ordinary activities after taxation</b>	<i>16</i>	<b>(13,864)</b>	<b>(6,301)</b>
		<hr/>	<hr/>

There were no profits or losses in the year other than those shown in the profit and loss account.

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

**Balance sheet**  
*as at 31 December 2001*

	<i>Note</i>	<b>£000</b>	<b>2001 £000</b>	<b>£000</b>	<b>2000 £000</b>
<b>Fixed assets</b>					
Intangible assets	9		-		7,410
Tangible assets	10		12,431		15,154
			<hr/>		<hr/>
			12,431		22,564
<b>Current assets</b>					
Stocks	11	3,441		6,694	
Debtors	12	10,406		14,151	
Cash at bank and in hand		4		8	
			<hr/>	<hr/>	
		13,851		20,853	
<b>Creditors: amounts falling due within one year</b>	13	(25,874)		(31,121)	
			<hr/>	<hr/>	
<b>Net current liabilities</b>			(12,023)		(10,268)
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			408		12,296
<b>Provisions for liabilities and charges</b>	14		(3,840)		(1,864)
			<hr/>		<hr/>
<b>Net (liabilities)/assets</b>			(3,432)		10,432
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	15		23,600		23,600
Profit and loss account	16		(27,032)		(13,168)
			<hr/>		<hr/>
<b>Equity Shareholders' funds</b>	16		(3,432)		10,432
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 20 June 2002 and were signed on its behalf by:



**E C Mulholland**  
*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.

The company is reliant on the continued support and funding from its ultimate parent company.

#### ***Related party transactions***

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 21.

#### ***Cash flow statement***

The company has taken advantage of the exemption in FRS 1 (revised) and has not prepared a cash flow statement as its ultimate parent undertaking, Akzo Nobel nv, has prepared, in its consolidated financial statements, a consolidated cash flow statement dealing with the cash flows of Akcros Chemicals Limited.

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

Goodwill on acquisition of a business is capitalised and amortised over 5 years. The goodwill is subject to an annual impairment review to identify any diminution in value.

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

Depreciation is provided to write off the cost of tangible fixed assets on a straight line basis at the following rates:

Freehold buildings	-	2.5 % to 10% per annum
Plant and machinery	-	4% to 33% per annum
Fixtures, fittings and equipment	-	10% to 20% 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.

#### ***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.

## *Notes (Continued)*

### *Accounting policies (continued)*

#### *Post-retirement benefits*

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.

## **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.

	2001 £000	2000 £000
<i>Analysis of turnover by geographical market</i>		
UK	12,741	22,712
Rest of EU	16,269	23,447
Rest of world	5,324	6,359
	<hr/> 34,334 <hr/>	<hr/> 52,518 <hr/>

It is not possible to give an analysis of profit by geographic market.

## *Notes (Continued)*

### **3 Exceptional item**

Included within administration expenses is an exceptional write off of goodwill of £7.4m (see note 9).

### **4 Operating loss**

	2001 £000	2000 £000
<i>The operating loss is stated after charging</i>		
Auditors' remuneration:		
Audit	30	28
Other services - fees paid to the auditor and its associates	22	34
Depreciation and other amounts written off tangible fixed assets	1,473	2,077
Impairment / amortisation of intangible fixed assets	7,410	2,695
Hire of plant and machinery - rentals payable under operating leases	133	169
Research and development expenditure	529	365

### **5 Remuneration of directors**

The Chairman Dr K van Nierop is employed by the ultimate Parent company Akzo Nobel nv.

The company paid fees of £198,000 (2000: £75,000) for these services and provided benefits of £164,000 (2000: £23,809) for 2001.

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

	2001 £	2000 £
Salary	65,056	79,421
Bonus	-	12,160
Benefits	9,385	11,049
Pension contributions	2,749	3,725
	<u>77,190</u>	<u>106,355</u>

	Number of directors 2001 £	Number of directors 2000 £
Retirement benefits are accruing to the following number of directors under the pension scheme	<u>1</u>	<u>1</u>

## *Notes (Continued)*

### **6 Staff numbers and costs**

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

	<b>Number of employees</b>	
	<b>2001</b>	<b>2000</b>
Production	170	251
Administrative and management	89	113
	<hr/>	<hr/>
	<b>259</b>	<b>364</b>
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	<b>2001</b>	<b>2000</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	6,965	10,339
Social security costs	987	990
Other pension costs	810	1,185
	<hr/>	<hr/>
	<b>8,762</b>	<b>12,514</b>
	<hr/>	<hr/>

### **7 Interest payable and similar charges**

	<b>2001</b>	<b>2000</b>
	<b>£000</b>	<b>£000</b>
On bank loans and overdrafts	1170	5
Interest to group companies	95	1,494
	<hr/>	<hr/>
	<b>1,265</b>	<b>1,499</b>
	<hr/>	<hr/>

### **8 Taxation**

	<b>2001</b>	<b>2000</b>
	<b>£000</b>	<b>£000</b>
UK corporation tax at 30%	(2,995)	(2,320)
Adjustment in respect of prior years	-	(407)
	<hr/>	<hr/>
	<b>(2,995)</b>	<b>(2,727)</b>
	<hr/>	<hr/>

*Notes (continued)*

**9 Intangible assets**

	<b>Goodwill on acquisition of business £000</b>
<i>Cost</i>	
At beginning and end of year	13,474
<i>Amortisation</i>	
At beginning of year	6,064
Charge for year	-
Impairment	7,410
At end of year	-
<i>Net book value</i>	
At 31 December 2001	-
At 31 December 2000	7,410

**10 Tangible fixed assets**

	<b>Land and buildings</b>	<b>Plant and Machinery</b>	<b>Fixtures, fittings, tools and equipment</b>	<b>Payments on account And assets in course of Construction</b>	<b>Total</b>
	£000	£000	£000	£000	£000
<i>Cost</i>					
At beginning of year	7,598	28,751	659	366	37,374
Additions	-	329	-	308	637
Disposals	(266)	(6,822)	-	-	(7,088)
Transfers	-	652	-	(652)	-
At end of year	7,332	22,910	659	22	30,923
<i>Depreciation</i>					
At beginning of year	1,781	19,858	581	-	22,220
Charge for year	207	1,235	31	-	1,473
On disposals	(127)	(5,074)	-	-	(5,201)
At end of year	1,861	16,019	612	-	18,492
<i>Net book value</i>					
At 31 December 2001	5,471	6,891	47	22	12,431
At 31 December 2000	5,817	8,893	78	366	15,154

The gross book value of land and buildings includes £185,200 (2000: £185,200) of non-depreciable assets.

*Notes (continued)*

**11 Stocks**

	2001 £000	2000 £000
Raw materials and consumables	1,463	2,827
Finished goods and goods for resale	1,978	3,867
	<u>3,441</u>	<u>6,694</u>

**12 Debtors**

	2001 £000	2000 £000
Trade debtors	3,774	6,029
Amounts owed by group undertakings	1,040	2,516
Corporation tax	5,377	4,382
Other debtors	215	1,224
	<u>10,406</u>	<u>14,151</u>

**13 Creditors: amounts falling due within one year**

	2001 £000	2000 £000
Bank loans and overdrafts	-	1,065
Trade creditors	1,943	4,069
Loans from other group undertakings	21,786	23,406
Amounts owed to other group undertakings	825	1,046
Accruals and deferred income	920	1,535
Tax and social security	400	-
	<u>25,874</u>	<u>31,121</u>

The company participates in a cash pooling arrangement with certain other group companies. This arrangement allows the company to draw upon or credit amounts to a separately designated facility within the cash pool in the name of Akzo Nobel Ltd. The company operates the facility as if it were the company's own bank account, however, the company has no legal title. Accordingly, the amounts have therefore been included within amounts due from inter group companies rather than cash at bank. All partners to the arrangement are jointly and severally liable to the bank for any overdraft thereon. At the 31 December 2001, the overdraft was £19.8m. Therefore, included within amounts due to other group companies is £19.8m (2000: £15m) in respect of the company's share of the account.

**Notes (continued)**

**14 Provisions for liabilities and charges**

	<b>Restructuring provisions £000</b>
At beginning of year	1,864
Charge for the year	4,175
Utilised during year	(2,199)
	<hr/>
<b>At end of year</b>	<b>3,840</b>
	<hr/>

The increase in the re-structuring provision relates to the closure of plant, site reorganisation and severance payments that are part of an on-going cost reduction programme.

**15 Called up share capital**

	<b>2001 £</b>	<b>2000 £</b>
<i>Authorised</i>		
Equity: Ordinary shares of £1 each	<b>25,000,000</b>	25,000,000
	<hr/>	<hr/>
<i>Allotted, issued and fully paid</i>		
Equity: Ordinary shares of £1 each	<b>23,600,100</b>	23,600,100
	<hr/>	<hr/>

**16 Shareholders' funds**

	<b>Share Capital £000</b>	<b>Profit And loss Account £ 000</b>	<b>Shareholders' Funds £000</b>
At beginning of year	23,600	(13,168)	10,432
Loss for the year	-	(13,864)	(13,864)
	<hr/>	<hr/>	<hr/>
<b>At end of year</b>	<b>23,600</b>	<b>(27,032)</b>	<b>(3,432)</b>
	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 17 Commitments

- (a) Capital commitments at the end of the financial year for which no provision has been made were £16,000 (2000: £366,000)
- (b) Annual commitments under operating leases are as follows:

	2001 Other	2000 Other
	£000	£000
Operating leases which expire:		
Within one year	60	4
In the second to fifth years inclusive	94	119
Over five years	-	-
	<hr/> 154	<hr/> 123
	<hr/>	<hr/>

### 18 Contingent Liabilities

#### *Pension scheme*

On 1 October 1998, the partnership with Akros Services Limited (a wholly owned subsidiary of Elementis plc) was dissolved. As a result, the UK pension assets and liabilities of Akros employees were to be transferred into the Akzo Nobel UK Pension Scheme from the Elementis scheme.

The transfer of assets and liabilities from the Elementis scheme has not yet been completed. It is currently not known whether the final amount transferred will be sufficient to meet the liabilities in respect of the Akros employees. An amount of £16m has been transferred to date from the Elementis scheme, which is being treated as an on-account payment.

The company has guaranteed that it will fund any shortfall that may arise when the transfer of pension assets is finally completed.



**Notes (continued)**

**19 Pensions**

The company participates in the Akzo Nobel UK pension scheme ("the scheme") providing benefits based on final pensionable pay. The scheme is a multi-employer scheme in which the company is unable to identify its share of the underlying assets and liabilities and costs are recorded on a contribution basis.

The most recent independent actuarial valuation was at 31 March 2000. At this valuation the market value of the assets were sufficient to cover 111% of the benefits that had accrued to members at that date. The company is currently making contributions of 13.0% for members of the closed section and 10.0% for members of the open section. Based on this the current rate of contributions will continue until at least 31 December 2004.

The total pension charge for the period was £1,002,000 (2000 : £1,185,000).

**20 Post balance sheet events**

On 25 March 2002, as part of a group re-structuring exercise, 23,600,000 ordinary shares in the issued share capital of the company were transferred from Akzo Nobel Chemicals Holdings Limited to Akzo Nobel Chemicals Limited for a consideration of £1.00.

On 26 March 2002, 100 ordinary shares in the issued share capital of the company were transferred from Akzo Nobel Chemicals Holdings Limited to Launchexport Limited, a company within the Akzo Nobel group.

On 27 March 2002, the company increased its authorised share capital to £25,500,000 by the creation of 500,000 preference shares of £1.00 each which were allotted to Launchexport Limited.

On 28 March 2002, the company bought back the 23,600,000 ordinary shares of £1.00 each held by Akzo Nobel Chemicals Limited for consideration of £500,000. The shares were subsequently cancelled.

**21 Ultimate parent company**

At the year end, the company was a of subsidiary undertaking of Akzo Nobel Chemicals Holdings 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.