

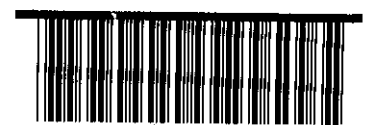
VANTICO HOLDING LIMITED

Report and Financial Statements

31 December 2002

**Deloitte & Touche LLP
Cambridge**

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REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P Bentley
P Hulme
P Thomas

SECRETARY

J A K Hair

REGISTERED OFFICE

Ickleton Road
Duxford
Cambridge
CB2 4QA

SOLICITORS

Allen & Overy
One New Change
London EC4M 9QQ

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Cambridge

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

ACTIVITIES

The company's principal activity is that of a holding company.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors consider both the result for the year and the year end position were as expected and do not envisage any changes to the company's activities in the coming year.

DIVIDENDS

The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year, none of whom had any interest in the shares of the company, are as follows:

J A K Hair (resigned 27 June 2003)

L Ferretti (resigned 27 June 2003)

P Bentley, P Hulme and P Thomas were appointed directors on 27 June 2003.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company 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;
- prepare the financial statements on a 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.

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Secretary



24 October 2003

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
VANTICO HOLDING LIMITED**

We have audited the financial statements of Vantico Holding Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors

Cambridge

27 October 2003

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Administrative expenses:			
Impairment of investment	6	(22,000)	-
Interest payable and similar charges	4	(9,367)	(7,560)
Interest receivable and similar income		242	856
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(31,125)	(6,704)
Tax on loss on ordinary activities	5	-	-
RETAINED LOSS FOR THE YEAR		(31,125)	(6,704)
Retained loss brought forward		(12,331)	(5,627)
Retained loss carried forward		(43,456)	(12,331)

All activities derive from continuing operations.

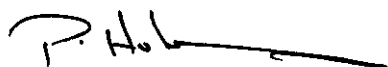
There are no recognised gains or losses for the current financial year and preceding financial year other than as stated in the profit and loss account.

BALANCE SHEET
31 December 2002

	Notes	2002 £'000	2001 £'000
FIXED ASSETS			
Investments	6	38,970	60,970
CURRENT ASSETS			
Debtors	7	33,962	33,962
CREDITORS: amounts falling due within one year	8	(15,343)	(9,025)
NET CURRENT ASSETS		18,619	24,937
TOTAL ASSETS LESS CURRENT LIABILITIES		57,589	85,907
CREDITORS: amounts falling due after more than year	9	(65,634)	(62,827)
NET ASSETS		(8,045)	23,080
CAPITAL AND RESERVES			
Called up share capital	10	35,411	35,411
Profit and loss account		(43,456)	(12,331)
EQUITY SHAREHOLDERS' FUNDS	11	(8,045)	23,080

These financial statements were approved by the Board of Directors on

24 October 2003



Signed on behalf of the Board of Directors

NOTES TO THE ACCOUNTS
Year ended 31 December 2002**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Investments in group undertakings

Investments are stated at cost less a provision for impairment where necessary. The company has taken advantage of the provisions of the Companies Act 1985 not to prepare consolidated financial statements since it is a wholly owned subsidiary of an undertaking registered in the European Union. The results, assets and liabilities of the company's subsidiary undertakings are included in the consolidated financial statements of the company's parent undertaking, Vantico Group SA.

Cash flow statement

As permitted by Financial Reporting Standard Number 1, the company has not prepared a cash flow statement as its parent undertaking, Vantico Group SA, has prepared consolidated financial statements which incorporate the results of the company and which include a consolidated cash flow statement.

Deferred taxation

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences arising are dealt with in the profit and loss account.

Deep discount bonds

The discounts at which the deep discount bonds were issued are amortised over the period from the issue date to the redemption date. The liability shown at the balance date is equivalent to the face value of the bonds less the unamortised discounts as at that date. The charge arising from the amortisation of this discount is included within "interest payable and similar charges" in the profit and loss account.

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors, who were the company's only employees, received no remuneration during the year or preceding year.

3. OPERATING LOSS

Auditors' remuneration for audit services was settled by another group company.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Bank interest payable	2,416	2,661
Interest payable to group companies	4,807	4,899
Other	2,144	-
	<u>9,367</u>	<u>7,560</u>

5. TAXATION

Tax on loss on ordinary activities

There is no tax charge for the year.

The tax assessed for the year differs from that resulting from the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2002 £'000	2001 £'000
Loss on ordinary activities before taxation	<u>(31,125)</u>	<u>(6,704)</u>
Tax at 30% thereon	(9,338)	(2,011)
Effects of:		
Expenses not deductible for tax purposes	6,600	174
Utilisation of tax losses	1,599	-
Other deferred tax movements	1,123	1,576
Group relief for nil payment	16	261
	<u>-</u>	<u>-</u>
Current tax charge for the year	-	-

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

5. TAXATION (continued)

Deferred taxation

At 31 December 2002, the company had potential deferred tax assets of £5.3 million (2001 - £2.1 million) of which none was recognised. These assets relate to trading losses, and would be recognised in the eventuality that it was more likely than not that the company was to make suitable taxable future profits against which these could be offset.

6. INVESTMENTS HELD AS FIXED ASSETS

	Investment in subsidiary undertaking £'000
Cost	
At 1 January 2002 and at 31 December 2002	60,970
Impairment	
At 1 January 2002	-
Charged in the year	22,000
At 31 December 2002	22,000
Net book value	
At 31 December 2002	38,970
At 31 December 2001	60,970

The company has one subsidiary undertaking, Vantico Limited, which is incorporated in England and Wales. Vantico Holding Limited holds all of the ordinary and "A" ordinary shares in this company, the principal activity of which is the development, manufacture and sale of performance polymers.

The directors have considered the carrying value of its investment in Vantico Limited and have conducted an impairment review. As a result, the carrying value of the investment has been reduced by £22 million.

7. DEBTORS

	2002 £'000	2001 £'000
Amounts owed by subsidiary undertaking	33,962	33,962

Debtors include £nil (2001 - £33,962,000) that fall due after more than one year.

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £'000	2001 £'000
Bank loan	-	260
Amounts owed to subsidiary undertaking (trading balance)	13,192	6,839
Amounts owed to group undertakings	2,136	1,896
Accruals	15	30
	15,343	9,025

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 £'000	2001 £'000
Bank loan	28,272	25,490
Amounts owed to group undertakings	37,362	37,337
	<u>65,634</u>	<u>62,827</u>

The bank loan is repayable in 2007 and carries interest at 12.25%. This loan is secured by fixed and floating charges over the company's assets.

The company has in issue to Vantico Group S.A., another group company, unsecured discounted loan stock 2010 of a nominal amount of £124,515,207 ("the notes"). The issue price and redemption value of these notes was £37,920,000. Issue costs of £557,749 (2001 - £583,078) have also been deducted from the carrying value of the debt and are being released to the profit and loss account over the term of the bonds.

Subsequent to the year end, the notes were redeemed by the capitalisation of the issue amount into equity of the company (see note 14). As a result, all obligations under these notes were extinguished.

Maturity statement

	2002 £'000	2001 £'000
In one year or less	-	260
In more than one year but not more than two years	-	260
In more than two years but not more than five years	28,272	780
In more than five years	37,362	61,787
	<u>65,634</u>	<u>63,087</u>

10. CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'000
Authorised, called up, allotted and fully paid		
35,410,654 ordinary shares of £1 each	<u>35,411</u>	<u>35,411</u>

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Retained loss for the year	(31,125)	(6,704)
Opening shareholders' funds	<u>23,080</u>	<u>29,784</u>
Closing shareholders' funds	<u>(8,045)</u>	<u>23,080</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002**12. RELATED PARTY TRANSACTIONS**

The company has not disclosed transactions with other group companies in accordance with the exemption available to wholly owned subsidiaries under the terms of the Financial Reporting Standard 8. There were no other related party transactions.

13. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Vantico International SA.

The ultimate parent undertaking and controlling party is Vantico Holding SA.

Vantico Group SA is the parent undertaking of the smallest and largest group to consolidate these financial statements, copies of which may be obtained from the Company Secretary at 25A Boulevard Royal, L-2449 Luxembourg.

Vantico International SA, Vantico Group SA and Vantico Holding SA are incorporated in Luxembourg.

14. EVENT OCCURRING AFTER THE END OF THE YEAR**Acquisition of Vantico Group S.A. by Huntsman Advanced Material LLC**

In 2002, Vantico Group S.A. and its subsidiaries ("the Group") - which include the company - experienced continued losses from operations and a decline in liquidity, which led the Group to announce its intent to effect a capital restructure. This capital restructuring was completed on 30 June 2003.

Under the terms of the restructuring, MatlinPatterson Global Opportunities Partners LP ("MatlinPatterson") and SISU Capital Fund Limited ("SISU") have agreed to advance bridge financing to a maximum amount of CHF 50 million (around £23.4 million).

Under the terms of the restructuring, on 16 May 2003, Huntsman Advanced Materials Holdings LLC (formerly Volcano Holdco 2 LLC) filed with the Luxembourg Stock Exchange an exchange offer. This exchange offer represents an offer to purchase for cash or exchange for units of Huntsman Advanced Materials Holdings LLC (an entity newly created to affect this transaction) the 12% Senior Notes due 2010 of Vantico Group S.A. The settlement for those holders of the 12% Senior Notes electing to take the cash alternative of €300 per €1,000 principal amount was met by funds provided by MatlinPatterson and SISU.

Approximately 73% of the 12% Senior Notes were held by MatlinPatterson and SISU representing an ad hoc committee of Senior Noteholders. This committee agreed to exchange its 12% Senior Notes for units of Huntsman Advanced Materials Holdings LLC, which resulted in them holding a majority of the equity upon completion of the restructuring.

In addition to the exchange offer, the restructuring of Vantico Group was executed by means of an equity private placement, equalization of bridge financing, debt financing and additional equity investment. The equity private placement raised approximately CHF 150 million through the sale of additional units. Debt financing represents the raising of USD 350 million of senior secured notes. The amount outstanding under the bridge financing facility was converted to additional units, supplemented with an additional equity investment, thereby providing CHF 50 million of equity, the maximum amount available under the bridge financing facility. MatlinPatterson, as the majority owner of Huntsman Advanced Materials LLC, completed the purchase of Vantico Group on 30 June 2003 and subsequently transferred its investment to the Huntsman group.

NOTES TO THE ACCOUNTS**Year ended 31 December 2002****14. EVENT OCCURRING AFTER THE END OF THE YEAR (continued)****Settlement of intercompany loan stock and further investment in subsidiary**

On 29 June 2003, Vantico Group S.A. transferred to Vantico International S.A. its interest in the unsecured loan stock 2010 issued by the company, and set out in note 9 above.

On 30 June 2003, Vantico International S.A. agreed to subscribe for 57,100,000 new ordinary shares of £1 each in the company at par. Consideration for this subscription consisted of the redemption of the unsecured loan stock 2010 at £37,920,000, the assignment to the company of £15,365,000 owed by Vantico Limited to Vantico International SA and capitalisation of amounts due to Vantico International SA of £3,815,000.

Furthermore, under the same deed of settlement, the company agreed to subscribe for 15,365,000 new ordinary "B" shares of £1 each in the share capital of the subsidiary company, Vantico Limited. This subscription was satisfied by the capitalisation of the £15,365,000 owed to the company by Vantico Limited following the above assignment.