

## Half-year Report 2005/2006 **HOLLAND COLOURS**

### Better results HOLLAND COLOURS

- 21% better net result, exclusive IFRS corrections of extra ordinary costs.
- Sales growth in the focus markets 10%, total turnover +3%.
- Lower turnover in pigments, improved margins.

In the first half year 2005/2006, ending on September 30, a net result was realized of € 1.513 million, 21% above the first half year of 2004/2005 (€ 1.253) on a comparable basis. Restructuring costs of € 375 after tax were applied to the 2004/2005 result according to Dutch GAAP, but IFRS rules require these costs to be taken into the current book year as a consequence the net result ends up at € 1.138 million.

This result was realized at a 3% higher turnover, with a better gross margin. The percent gross margin increased by a different product mix and better margins in the pigments one percent point. The operating costs increased 5%, mainly as a result of additional costs of the restructuring. In the working capital mainly the raw material stocks increased.

The combined sales in the focus markets increased with 10% and now amounts to 73% of the total turnover (2004/2005: 68%). A strong development was realized in the Packaging market, at a stable picture in Silicones/Elastomers, and a small decrease in the Building and Construction market. The policy pursued in Pigments led to a decrease in turnover and margin improvement. By geography the sales in Europe increased 4%, the Division Americas grew 6%, the turnover in Asia decreased 26%, due to the loss of (non-profitable) pigment sales. The share in the turnover of new products amounted to 14%, mainly due to the strong growth of the Holcoprill sales. The turnover in Specialties decreased.

The Division Americas had a strong half-year. The results of the Division Asia and the Hungarian Pigment company also improved. The Division Europe had a weak first half year. The restructuring of this Division has been finished during which the pigment factory in Hungary was split off in a separate business unit.

The investments amounted to € 1.6 million. These consisted mainly of production installations in the new factory in the USA. The new ERP package has been taken into use by four operating companies, keeping the group wide implementation on schedule.

These half-year figures are the first made up according IFRS. The notes to the figures give more information.

### Prospects

In the second half of the financial year the results are normally lower than the first. This is a result of seasonality in the Building and Construction market. Furthermore, raw material costs remain under upward pressure due to supply constraints (especially in the USA as result of Katrina/Rita) and the continuing high metal and oil prices. In Western Europe customers are still confronted with slow demand. We expect that the positive trend in the results of the Division Americas and Asia will continue, but for the group as a whole it remains too early to issue concrete profit expectations for the full year.

The investments in the second half-year will be on the same level as in the first half-year.

Apeldoorn, November 4, 2005

## Half-year report 2005/2006 **HOLLAND COLOURS**

### Consolidated balance sheet

Based on IFRS

x € 1,000

	30-09-2005	31-03-2005	30-09-2004
<i>Non-current assets</i>			
Intangible fixed assets	835	800	617
Tangible fixed assets	22,235	21,983	21,535
Deferred income tax assets	788	814	1,155
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Non-current assets	<b>23,858</b>	<b>23,597</b>	<b>23,307</b>
<i>Current assets</i>			
Inventories	9,208	8,260	8,373
Receivables	12,912	11,926	11,914
Cash and cash equivalents	2,724	788	2,341
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Current assets	<b>24,844</b>	<b>20,974</b>	<b>22,628</b>
<b>Total assets</b>	<b>48,702</b>	<b>44,571</b>	<b>45,935</b>
<i>Equity</i>			
Group capital	21,900	20,804	20,653
<i>Liabilities</i>			
Pension obligations	2,033	2,033	2,194
Deferred income tax liabilities	341	268	324
Long-term liabilities	11,636	8,055	9,731
Short-term liabilities	12,792	13,411	13,033
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<b>Total equity and liabilities</b>	<b>48,702</b>	<b>44,571</b>	<b>45,935</b>

Please note that this is a translation of a half-year report in Dutch.  
In case of any inconsistency the Dutch version will prevail.

## Consolidated profit and loss account

Based on IFRS

x € 1,000

	01-04-2005 up till 30-09-2005	01-10-2004 up till 31-03-2005	01-04-2004 up till 30-09-2004
Turnover	32,864	27,194	31,993
Gross operating profit	15,755	13,011	14,955
Operating costs	13,119	11,742	12,662
Extraordinary costs	575	-	-
Operating profit	2,061	1,269	2,293
Financial charges	380	339	419
Taxation	543	480	626
Third party interests	-	(2)	(5)
<b>Net profit</b>	<b>1,138</b>	<b>452</b>	<b>1,253</b>
<i>Temporisation difference IFRS - Dutch GAAP<sup>1</sup></i>			
Extraordinary costs	575	(575)	-
Taxation on extraordinary costs	(200)	200	-
Effect on net profit	375	(375)	-
<b>Comparative net profit</b>	<b>1,513</b>	<b>77</b>	<b>1,253</b>
Average number of shares issued	860,351	860,351	860,351
Net profit per share in Euro	1.32	0.52	1.46

## Changes in shareholder's equity

Based on IFRS

x € 1,000

	01-04-2005 up till 30-09-2005	01-10-2005 up till 31-03-2005	01-04-2004 up till 30-09-2004
Opening balance	20,770	20,689	20,759
Adoption of IAS 32 / 39	26	-	-
Dividend	(860)	-	(1,204)
Exchange rate differences	789	(371)	(119)
Change in hedging reserve	3	-	-
Net profit	1,138	452	1,253
Closing balance	21,866	20,770	20,689

<sup>1</sup>) See also the explanatory notes and accounting principles.

## Consolidated statements of cash flows

Based on IFRS

x € 1,000

	01-04-2005 up till 30-09-2005	01-10-2004 up till 31-03-2005	01-04-2004 up till 30-09-2004
From:			
<b>Net profit</b>	1,138	452	1,253
Depreciation	1,534	1,505	1,534
Changes in provisions	98	125	(377)
Changes in working capital	(819)	(995)	121
Taxes	<u>(154)</u>	<u>(61)</u>	<u>70</u>
<b>Cash flow from operating activities</b>	1,797	1,026	2,601
Capital expenditure (net of disposals)	(1,337)	(2,428)	(1,628)
Exchange differences and other changes	<u>(483)</u>	<u>290</u>	<u>65</u>
<b>Cash flow from investing activities</b>	(1,820)	(2,138)	(1,563)
Payment of dividend	(860)	-	(1,204)
Proceeds from borrowings of long-term liabilities	3,329	-	-
Redemption payments	(738)	(659)	(1,009)
Exchange differences and other changes	<u>1,092</u>	<u>(461)</u>	<u>(233)</u>
<b>Cash flow from financing activities</b>	2,823	(1,120)	(2,446)
<b>Net cash flow</b>	2,800	(2,232)	(1,408)

## Segment reporting

### Segments 2005/2006

x € 1,000

	Europe including Africa and Middle East	North and South America	Asia	Other	Total
Turnover	19,234	11,786	1,844	-	<b>32,864</b>
Intersegmental transactions	778	92	28	-	<b>898</b>
Turnover including Intersegmental transactions	20,012	11,878	1,872	-	<b>33,762</b>
Operating profit	693	1,333	102	(67)	<b>2,061</b>
Assets	26,114	15,522	3,578	7,159	<b>48,702</b>
Liabilities	13,297	6,420	1,346	12,513	<b>26,802</b>
Investments	584	720	45	213	<b>1,562</b>
Depreciation	850	326	79	279	<b>1,534</b>
Average number of employees	228	97	78	29	<b>432</b>

	Focus markets	Specialties	Pigments	Total
Turnover	24,122	6,033	2,709	<b>32,864</b>

### Segments 2005/2006

x € 1,000

	Europe including Africa and Middle East	North and South America	Asia	Other	Total
Turnover	18,425	11,083	2,485	-	<b>31,993</b>
Intersegmental transactions	1,256	9	19	-	<b>1,284</b>
Turnover including Intersegmental transactions	19,681	11,092	2,504	-	<b>33,277</b>
Operating profit	1,072	960	47	214	<b>2,293</b>
Assets	26,835	13,794	3,354	8,550	<b>45,935</b>
Liabilities	13,906	6,306	1,440	8,327	<b>25,282</b>
Investments	645	605	190	304	<b>1,744</b>
Depreciation	933	339	72	233	<b>1,577</b>
Average number of employees	225	93	81	29	<b>428</b>

	Focus markets	Specialties	Pigments	Total
Turnover	21,887	6,636	3,470	<b>31,993</b>

Terms of transactions between companies forming part of different segments are determined on an arm's length basis.

## Explanatory notes

### 1. Accounting principles

#### **Introduction**

Until March 31, 2005 Holland Colours NV published its results on basis of the in the Netherlands accepted general accounting principles (Dutch GAAP). As from April 1, 2005 the consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). This half-year report has been drawn up in conformity with IFRS. The interim report is not according to IAS 34 – Interim Financial Reporting. This half-year report comprises figures over the year 2004/2005 which have been adjusted for the purpose of comparison.

Although the European Commission has by now ratified most IFRS standards, some standards have been published only recently, are still under discussion and subject to multiple interpretations. This implies that financial information on the impact of IFRS, based on current standards and interpretations, is still of a provisional nature. As a result, the figures to be included in the 2005/2006 annual accounts may differ from the information included in this interim report.

In addition to the obligatory exceptions to the retroactive adjustments of IFRS for financial instruments, hedge accounting and estimates, Holland Colours makes use of the following optional exemptions for its opening balance sheet, according to IFRS 1:

- Cumulative translation differences on foreign participations have been set at zero in the IFRS opening balance sheet.
- Cumulative actuarial differences in the valuation of the pension schemes have to be included in the pension provisions on April 1, 2004.

Based upon the current applicable standards and interpretations the following topics have an impact on the shareholder's equity and results of Holland Colours.

- Intangible assets
- Financial instruments
- Employee benefits
- Exchange differences loans

All amounts are in Euro thousand unless otherwise stated.

The information as presented in this half-year report is unaudited.

#### **Intangible fixed assets**

According to IFRS (product) development costs are capitalised as of this year in line with IAS 38. Results arising from impairment assessments will be transferred to the income statement. Development costs are amortised over their estimated useful lives, not exceeding five years.

#### **Financial instruments**

To reduce interest and foreign currency risks financial instruments are used within Holland Colours. The standards IAS 32 and IAS 39 'Financial Instruments' may be applied as of January 1, 2005. Holland Colours applies these standards as of April 1, 2005. Cash flow hedging is applied on interest rate contracts. As a result of applying IAS 39, a cash-flow hedge reserve has been taken up in the shareholder's equity. This reserve has been reduced by the deferred tax due on the balance. IAS 39 will not be applied on the comparative figures over the financial year 2004/2005, in line with the optional exemption in IFRS 1.

#### **Pension liabilities and employee benefits**

Holland Colours has a number of pension plans in accordance with local conditions and practices. The pension plan for employees in the Netherlands comprises of a pre-pension next to an old-age pension. In the transition arrangement for the pre-pension a conditional financing of the past years of service of the participants per January 1, 2002 has agreed upon. According to IAS 19, both arrangements are regarded as a Defined Benefit. Total obligation arising from these arrangements amount to € 1.5 million more than under Dutch GAAP which amount is included in the IFRS opening balance.

According to IAS 19 the liability for future employee benefits has been included in the balance sheet. This has a limited effect on the shareholder's equity and results.

#### **Exchange differences loans**

According to IAS 21 the majority of the inter-company loans given to subsidiaries of the Holland Colours Group do not qualify any longer as an extension of the net investment in such an entity. As a result of which exchange differences arising from these loans are charged to the profit and loss statement.

### **Shareholder's equity**

The adjustments to the shareholder's equity to comply with IFRS are as follows:

x € 1,000

	31-03-2005	30-09-2004	01-04-2004
<b>Shareholders equity based on Dutch GAAP</b>	<b>21,639</b>	<b>21,616</b>	<b>21,760</b>
Intangible assets	170	155	139
Employee benefits	(1,039)	(1,088)	(1,140)
Exchange differences loans	-	6	-
<b>Total net effect</b>	<b>(869)</b>	<b>(927)</b>	<b>(1,001)</b>
<b>Shareholders equity based on IFRS</b>	<b>20,770</b>	<b>20,689</b>	<b>20,759</b>

### **Profit and loss account**

The adjustments to the net profit to comply with IFRS are as follows:

x € 1,000

	01-04-2005 up till 30-09-2005	01-10-2004 up till 31-03-2005	01-04-2004 up till 30-09-2004
<b>Net profit based on Dutch GAAP</b>	<b>1,303</b>	<b>106</b>	<b>1,197</b>
Intangible assets	31	15	16
Employee benefits	101	49	52
Timing difference reorganisation charge	375	375	-
Exchange differences loans	(105)	(93)	(12)
<b>Total net effect</b>	<b>402</b>	<b>346</b>	<b>56</b>
<b>Net profit based on IFRS</b>	<b>1,705</b>	<b>452</b>	<b>1,253</b>

### **Timing reorganisation charge**

As a result of the reorganisation of the Division Europe, which took place in the period between ending of the financial year 2004/2005 and completion of the annual report over the same year, a provision was made at that moment of net € 375 for the expected reorganisation charges which in line with Dutch GAAP was charged to the income statement of 2004/2005. According to IFRS such a reorganisation charge can be only recognised in the income statement when the main features of the plan are published and the implementation started before the end of a financial year. Consequently, as a result of the application of IFRS per April 1, 2005 the provision retrospectively increased the 2004/2005 results and was charged to the 2005/2006 income statement.

### **Deferred tax assets / liabilities**

The deferred taxes arising from the pension obligations, other employee benefits and financial instruments have been accounted for.

## **2. Dividend**

The general meeting of shareholders set the dividend at € 1.00 per share. As per July 4, 2005 € 860,351 was paid as cash dividend and has been booked against the general reserve.

## **3. Outstanding shares**

The number of outstanding shares as per September 30, 2005 was 860,351 shares of € 2.27.

### **Obligations not reflected in the balance-sheet**

The product liability claim lodged two years ago against Holland Colours Americas Inc. has been settled legally and with insurers.

The other liabilities not reflected in the balance sheet as included in the annual report 2004/2005 have not changed substantially in the first half-year of 2005/2006.

## Key figures

Based on IFRS

x € 1,000

	01/04/05 up till 30/09/05	01/10/04 up till 31/03/05	01/04/04 up till 30/09/04
Turnover	32,864	27,194	31,993
Operating profit	2,061	1,269	2,293
Net profit	1,138	452	1,253
Investments	1,562	2,392	1,744
Employees (annual average fte)	432	431	428
Shareholder's equity	21,866	20,770	20,689
Working capital	13,849	12,898	11,824
Invested capital	39,642	36,470	36,311
Return in %			
on equity	10.4%	4.4%	12.1%
on invested capital	10.4%	7.2%	12.5%
Solvency	44.9%	46.6%	45.0%
Current ratio	1.9	1.6	1.7



## Profile

Holland Colours NV was founded in 1979 in Apeldoorn, the Netherlands and is active in the business-to-business market of colouring systems for plastics. Continuity in the interests of all stakeholders is the principal objective of the company. Holland Colours has a strong corporate culture, characterized by entrepreneurship, respect and social involvement. The company is listed at Euronext NV in Amsterdam. All the employees are indirect Shareholders.

Holland Colours strives to occupy a leading global market position in a selected number of markets, so-called focus markets, based on innovative technology and service. Holland Colours is currently active via twelve locations of its own and a network of agents. Roughly 90% of the total Group production is achieved via four principal production locations in the Netherlands, USA, Hungary and Indonesia. The company is organised into three Divisions: Europe, including Africa/Middle-East (58% of the Group turnover), the Americas (35%) and Asia (7%).

Holland Colours does business with over 2000, frequently multinational, clients in over seventy countries. In this way, over two million tons of plastic products are coloured annually. The three focus markets for Holland Colours are:

- Plastic Building and Construction materials
- Plastic Packaging
- Silicones / Elastomers

The corporate objectives are:

1. Growth in turnover in the focus markets by 5 to 10% per year;
2. Return on investment (ROI) of at least 10%;
3. Growth in the profit per share.

In the financial year 2004/2005, a turnover of €59 million was realized with an average of 431 employees.

## Important dates:

Publication annual results 200/2006: May 24, 2006

Annual General Meeting of Shareholders: June 28, 2006

## HOLLAND COLOURS NV

PO Box 720 | 7300 AS Apeldoorn | The Netherlands

T +31 (0)55 366 31 43 | F +31 (0)55 366 29 81

info@hollandcolours.com

www.hollandcolours.com