

**Centrotec Hochleistungskunststoffe**  
**Aktiengesellschaft**  
**Marsberg**

**Issuing Prospectus/  
Company Report  
1998**



# Issuing Prospectus/Company Report

for the admission of

**DM 6,000,000**

composed of 1,200,000 ordinary bearer shares  
with a par value of DM 5.00 per share  
carrying dividend rights for fiscal year 1998  
(from January 1, 1998)

Nos. 000 001 – 1 200 000

Securities Code Number 540 750

of

**Centrotec Hochleistungskunststoffe Aktiengesellschaft**  
Marsberg

to the Geregelter Markt (Second Trading Segment)  
and to Trading on the  
Neuer Markt  
of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange)

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**CENTROTEC HOCHLEISTUNGSKUNSTSTOFFE AG AT A GLANCE**

<b>Three-year Overview</b>	Dec. 31, 95	Dec. 31, 96	Dec. 31, 97	Change 1997 to 1996	pro-forma Oct. 31, 98
	DM thousand	DM thousand	DM thousand	%	DM thousand
<b>Selected Data from the Consolidated Statement of Income</b>					
Sales	18,343	19,328	22,484	16.3	22,019
Cost of materials	9,818	9,895	11,210	13.3	11,248
Personnel expenses	4,626	5,006	5,171	3.3	4,958
Depreciation of fixed assets	871	422	444	5.2	554
Result from ordinary operations	122	286	1,398	388.8	2,338
Net income	113	128	1,005	685.2	1,480
Cash Flow <sup>1)</sup>	962	482	1,431	196.9	2,024
DVFA earnings per share (in DM) <sup>2)</sup>	0.34	0.11	1.07	872.7	1,65
<b>Selected Data from the Consolidated Balance Sheet</b>					
Fixed assets	4,023	4,207	4,271	1.5	5,139
Current assets	5,959	7,031	7,015	- 0.2	16,230
Equity	- 6,493	- 6,365	- 5,360	- 15.8	3,620
<i>(thereof: equity of all consolidated companies)</i>	4,227	4,301	5,243	21.9	15,208
<i>(thereof: effects of consolidation) <sup>3)</sup></i>	- 10,720	- 10,666	- 10,603	- 0.6	- 11,588
Provisions	401	391	1,121	186.7	2,998
Liabilities	16,074	17,212	15,525	- 9.8	15,185
Total assests	16,475	17,603	16,646	- 5.4	21,803
<b>Group Structural Data <sup>4)</sup></b>					
<i>Group sales:</i>					
Centroplast Kunststoffzeugnisse GmbH & Co. . .	17,749	17,776	19,214	8.1	18,405
Centrotherm Abgastechnik GmbH. . . . .	594	1,552	3,270	110.7	3,613
<b>Average number of employees</b>	71	73	76	4.1	87

1) Net income & depreciation & profit/loss on the disposal of assets

2) Based on an authorized share capital of DM 6,000 thousand or 1,200,000 shares

3) The effects of consolidation mainly include the consolidating entries of the previous years recognized in income and concern the amortization of hidden reserves or goodwill exposed as part of capital consolidation.

4) Figures for Group structural data are adjusted for the effects of consolidation

## RISK FACTORS

Before deciding to buy shares, prospective investors should read and consider carefully all the specific risk factors described below in conjunction with the other information presented in this Prospectus when evaluating Centrotec Hochleistungskunststoffe AG (hereinafter also referred to as “the Company”, “Centrotec”, or, together with its subsidiaries, “the Centrotec Group”) and its business activities. This Prospectus contains expectations that involve risks and uncertainties. The actual earnings of the Company may differ considerably from anticipated developments. Factors that may either cause such divergences or contribute to them include, but are not necessarily limited to, those items listed below or discussed elsewhere in this Prospectus.

In addition to general business risks, risks exist, in particular due to the following factors: trends in research and development, cyclical factors influencing business trends in the plastics processing industry, the dependence of the Company on individual markets and suppliers, the financing of planned business growth for the Centrotec Group, exchange rate fluctuations, the dependence of the Centrotec Group on specific individuals and on its organization, patents and guarantees, lack of a public market for the shares, the fixing of the sales price, as well as share price volatility.

### General business risks

The general business development of the Centrotec Group is dependent on a variety of external factors, and the likelihood of their occurring, and the effects on the net worth, financial situation, and earnings of the Company can only be estimated with difficulty. These include, among other things, the following:

- The Centrotec Group focuses on a high-margin niche in the plastics processing market. Consequently, sales growth is limited to subsections of the overall market, which means that it may not be possible to exploit chances in the mass sectors.
- As part of the process of globalization, major customer groups are establishing production facilities in Eastern Europe, Asia, and South America. In light of this development, suppliers must decide whether they will follow their clients abroad or be crowded out by other companies. Although the majority of sales are made to companies that are not expected to move their production facilities abroad, risks for the Group arising through the relocation of production facilities abroad by major clients and the consequent development of new markets cannot be ruled out.
- With regard to the Centrotec Group's growth plans, it may be necessary to acquire other enterprises for strategic reasons. It cannot be ruled out that risks will arise for the Group as a result of the acquisition and resulting incorporation of these enterprises into the Group.
- Competition may intensify in Europe due to the greater price transparency resulting from monetary union and the introduction of the euro, and this may exert significant pressure on prices.
- The planned stock market flotation places considerable demands on Centrotec's public disclosure policy. To this extent, the Centrotec Group will become more transparent to its current competitors. This may encourage potential competitors to enter the market.

As a result, no guarantee can be given that the current positive earnings trend will continue, as opposed to being permanently disrupted or subject to fluctuations. Changes in the earnings trend and fluctuations in sales and earnings may have negative effects on the development of the price of the Company's shares.

### Research and development

Products in the High-temperature Exhaust Technology business unit have a lead time of up to three years, especially due to the tests required (function tests, component tests and construction material tests) as well as the required construction approval.

In the course of the harmonization of European standards and possible changes to legal regulations, these tests may no longer be required or may be simplified considerably, so that approval by the Deutsches Institut für Bautechnik (German Institute for Construction Engineering) could become possible without comprehensive tests. To this extent, it would become much easier for competitors to enter the market.

### Cyclical factors

It can be assumed that trends in the plastics processing industry will be similar to those in GDP, as in the past. As a result, the Group, and particularly Centroplast Kunststoffherzeugnisse GmbH & Co. (oHG, German open trading company, hereinafter also referred to as “Centroplast”), is highly dependent on cyclical developments for capital goods as a whole.

Significant increases in costs may result from stricter environmental protection regulations applying both to the production of input materials by the supplier, and to processing by Centroplast. These cost increases might not be compensated by cost-cutting measures or by passing on the full amount to clients.

### **Dependence on individual markets**

The main clients of the plastics processing industry are to be found in the following sectors: plant construction and mechanical engineering, the construction industry, electrical engineering and electronics, special-purpose vehicles, automotive supplies, and aerospace. Plastics processing is largely dependent on cyclical trends in these sectors.

The dependence of Centrotec Group on its largest clients has amounted to a steady 10–12 % of Group sales since 1994. The proportion of sales accounted for by the Group's largest client may grow as the result of an increase in the sales of Centrotherm Abgastechnik GmbH (hereinafter also referred to as "Centrotherm").

In addition, business developments at Centroplast are influenced to a large degree by developments in the prices for thermoplastics, which are used to produce semi-finished and prefabricated parts.

The growth of the Centrotec Group in the coming years will continue to be largely determined by the degree to which condensing system technology replaces conventional heating systems. Therefore, Centrotherm's planned sales will only be realized if key clients can continue to be supplied, and if additional contracts are won to replace conventional heating systems with condensing system technology.

### **Dependence on individual suppliers**

Centroplast's main suppliers are plastic granulate suppliers. The Company has at least two suppliers for all of the required materials which are purchased in sufficiently large volumes. The most essential granulate is POM (Polyoxymethylen). Despite the principle of multiple suppliers, there can be no guarantee that the loss of one of these suppliers would not lead to a delivery bottleneck.

Moreover, business developments have been substantially influenced by pricing trends for thermoplastics required in manufacturing semi-finished products and prefabricated parts. In the past, increases in raw materials prices were largely absorbed into the product price.

Flame-retardant polypropylene, the raw material used by Centrotherm, belongs to the polyolefin group. Given the continued development of bulk plastics, it cannot be ruled out that a less expensive plastic will be developed especially for high temperatures and that it will not automatically be available to the Group.

### **The entrance of new competitors to the market**

There can be no guarantee that new competitors will not enter the market. In particular, raw materials suppliers could extend their added value chain and begin offering high-margin process steps. In the past, however, the opposite trend has been observed.

### **Financial risks**

The success of the Company's strategy, which is based on continued growth, depends among other things on the degree to which Centrotec makes adequate use of the credit and capital markets. Factors influencing this are the Company's financial and earnings situation, its solvency, and its business prospects, among other things (see also the section below entitled "Lack of a public market for the shares, fixing of the sales price, and share price volatility").

It cannot be assumed with certainty that the Initial Public Offering will proceed as planned, and consequently that the resources necessary for investments and growth will be available in the amounts planned.

Currently, capital markets interest rates in Germany are at a historically extremely low level. Depending on how interest rates develop internationally – a factor that also affects the Centrotec Group – a rise in interest rates and hence in financing costs may result.

It cannot be ruled out that the proportion of bad debts may increase as the proportion of foreign sales increases.

### **Exchange rate fluctuations**

It cannot be ruled out that exchange rate risks will occur inside and outside the European Monetary Union prior to the introduction of the euro, and outside the European Monetary Union after its introduction. The principal invoicing currency is currently the Deutsche Mark.

### **Environmental risks**

In principle, no major environmental loading occurs during the regular processing of plastic granulate during the production process, or during its preparation and storage. However, in exceptional situations (e.g. in the case of fire at the plant), environ-

mental contamination cannot be ruled out. Any decontamination measures required could have a negative influence on the planned business development. The Company's insurance policies cover environmental risks as a result of accident. However, there can be no assurance that environmental risks might arise that are not covered by the Company's insurance policies.

#### **Dependence on specific individuals**

Dipl.-Ing. Hans-Lothar Hagen, Dr. Alexander Kirsch and Dipl.-Ing. Norbert Wülbeck are largely responsible for the success of the Centrotec-Group. As members of the Group's senior management and as shareholders, they will continue to promote its interests. The loss of Mr. Hagen's, Dr. Kirsch's or Mr. Wülbeck's services, or of those of one or more other members of the Group's senior management, could have lasting impact on the Centrotec Group's activities and earnings.

#### **Business organization**

The Company's lean management, which is a strength on the one hand, concentrates the Company's know-how in the hands of a few key employees. To this extent, the Company is, on the other hand, highly dependent on qualified personnel.

#### **IT system**

As of January 1, 1999 the company will be converting its materials management and financial accounting systems to Baan software. However, there can be no assurance that the changeover of software and the changeover to the euro and the Year 2000 conversion (millenium problem) will not entail risks for the proper functioning of the Company's IT systems or of those of its suppliers.

#### **Warranties**

It cannot be ruled out that the Centrotec Group will be held liable under warranties for the products it has supplied.

#### **Patents**

There can be no guarantee that patents that have been assigned to the Group for its use will be permanently available in the future, or that additional patent applications will be successful.

#### **Lack of a public market for the shares, fixing of the sales price, and share price volatility**

Prior to the public offering, no public market existed for the Company's shares. The selling price will be fixed by the consortium in agreement with the Company, with the help of the order book drawn up during the bookbuilding process. No guarantee can be given that the selling price of the shares will correspond to their price at which they are subsequently traded on the Neuer Markt of the Deutsche Börse AG following the offering, or that active trading in the shares will result and continue after the offering. The number of free float shares, changes in Centrotec's operating result and that of its competitors, as well as changes in the general business environment in the plastics industry, the economy as a whole, and the financial markets may cause considerable fluctuations in share prices. This is especially true of Deutsche Börse AG's Neuer Markt, on which Centrotec shares are to be traded after the Company goes public. Such fluctuations may negatively affect the market price of the shares in the future, regardless of Centrotec's operating result or financial situation.

## TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The following section covers selected aspects of taxation in the Federal Republic of Germany. It does not claim to present a comprehensive description of all taxation issues which could be of material relevance to the acquisition of shares. The description is based on current tax laws in effect in the Federal Republic of Germany at the time of preparation of this Issuing Prospectus/Company Report. Due to their nature, these tax regulations are subject to change. This explanation is limited to a discussion of the taxation of dividends, capital gains, gifts, inheritances and wealth tax. It is not possible to present an exhaustive explanation of all of the tax issues related to the acquisition of shares. Potential investors with questions about taxation are strongly advised to seek the advice of their tax advisors.

### Taxation of the company

German corporations are subject to corporation tax at the rate of 45% on retained earnings and 30% on distributed profits as well as trade tax which, however, is deductible in the calculation of corporation tax. A "solidarity surcharge", amounting to 5.5 % since January 1, 1998 is levied on the corporation tax liability. Taxpayers with unlimited tax liability in Germany as well as foreign shareholders who hold shares in the assets of an operating establishment or a permanent facility in Germany are generally entitled to offset or have reimbursed 3/7 of the gross dividend paid by a German stock corporation (before withholding tax). This also reduces the basis for assessment of the solidarity surcharge on their income or corporation tax liability.

### Taxation of dividends

Dividends with unlimited liability are subject to income or corporation tax on the gross dividend (plus solidarity surcharge and church tax). Taxable income is the net dividend plus investment income tax and solidarity surcharge received by the shareholder as well as the corporation tax distribution liability paid by the company (= corporation tax credit). The retained investment income tax (plus solidarity surcharge) and the corporation tax paid by the Company are offset against the shareholder's individual income or corporation tax liability. If the advance tax payments exceed the personal tax rate, a tax return is made. If they are under the personal tax rate, an additional tax payment must be made.

For a gross dividend of DM 100.00, shareholders first receive DM 51.54 (gross dividend DM 100.00 ./ corporation tax distribution DM 30.00 ./ corporation tax 17.50 ./ solidarity surcharge DM 0.96). They receive corporation tax credits of DM 30.00, DM 17.50 in investment income tax and a solidarity surcharge credit of DM 0.96. They must pay tax on the sum of the net dividends and tax credits, i.e. the gross dividend of DM 100.00.

Dividends paid by an Aktiengesellschaft (a stock corporation) whose registered place of business is in the Federal Republic of Germany to its foreign shareholders are subject to investment income tax at the rate of 25% of the gross dividend. If the purpose of the corporation tax imputation procedure is to avoid double taxation of foreign shareholders or Council Directive 90/435/EEC of July 23, 1990 (parent company and subsidiary directive), the result could be a reduction in the tax burden for the shareholders in question.

Although we cannot provide an exhaustive explanation of the preconditions for the application of Council Directive 90/435/EEC of July 23, 1990, these regulations can only be applied in certain parent corporations which are subject to taxation in another member state of the European Union.

Shareholders may claim a reduction in investment income tax in accordance with an agreement to avoid double taxation. However, this reduction will only be granted in the form of a refund by the German tax authorities.

Dividends received after December 31, 1997 are also subject to the solidarity surcharge which amounts to 5.5% of the investment income tax to be imposed. The solidarity surcharge therefore amounts to 1.375% of the gross dividend paid. An application is made for the solidarity surcharge as long as it and the investment income tax together exceed the maximum rate of German withholding tax set in an agreement to avoid double taxation.

Where a non-resident shareholder's shares belong to the assets of an operating facility in the Federal Republic of Germany belonging to him/her, taxes are levied as in the case of a shareholder resident in Germany who holds shares in the assets of an operating establishment in Germany. In this case, the shareholder can take advantage of the imputation system of taxation for corporation tax. The result is that the income underlying the dividend is taxed only at the individual income or corporation tax rate to which the shareholder is subject.

Earnings from shares held by a foreign legal entity which are held in the assets of an operating establishment or permanent facility are subject to German corporation tax at a rate of 44.31 % (plus a 5.5 % solidarity surcharge). The passing of purchased dividends by German legal entity through to the foreign head office is not subject to German investment income tax.

In the case of natural persons with an unlimited tax liability in the Federal Republic of Germany who are not holding the shares as part of business assets, the dividends including corporation tax and interest income tax owed are considered income from

capital assets. A “savings allowance” is applied to this income; it currently amounts to DM 6,000.00 for single persons or DM 12,000.00 for married couples. Income may be paid out up to the amount of these tax allowances plus a lump-sum business expenses allowance of DM 100.00/DM 200.00 without deducting investment income tax, provided that an exemption application certificate has been submitted to the payer. The same applies if it can be assumed that an assessment on income will not occur, as long as a non-assessment certificate has been presented.

### **Taxation of capital gains**

Gains from the disposal of shares held by natural persons with unlimited tax liability are subject to income tax, unless

- (I) the shareholder directly or indirectly held an interest in the nominal capital of the company exceeding 25% (i.e. a significant interest in accordance with Art. 17 EStG – Income Tax Act) during the last five years, or
- (II) if disposal takes place within six months of acquisition (speculative gain in accordance with Art. 23 EStG), or
- (III) the shares belong to an operating establishment.

As a matter of principle, gains from the disposal of shares held by a shareholder with limited tax liability are not subject to German income tax, unless

- (I) the shares belong to a permanent facility in the Federal Republic of Germany, or
- (II) if the shareholder directly or indirectly held an interest in the nominal capital of the company exceeding 25% during the last five years.

In case a double taxation agreement is applicable, the German taxation on capital gains may not apply.

Gains from the disposal of shares may be subject to income tax in other jurisdictions with which the shareholder has a relationship.

### **Inheritance and gift tax**

The transfer of shares by natural persons with unlimited tax liability by way of a gift or as inheritance on account of death are subject to German inheritance and gift tax.

Transfers by a shareholder with limited tax liability are not subject to German inheritance and gift tax, unless

- (I) the shareholder's shares belong to the assets of an operating establishment maintained in the Federal Republic of Germany, or
- (II) the heir, the donee or the beneficiary is subject to taxation in Germany, or
- (III) the shareholder, either individually or together with other persons associated with him/her, directly or indirectly held an interest in the nominal capital of the company amounting to at least 10%.

### **Wealth tax**

Wealth tax will not be levied for assessment periods after January, 1 1997 until further notice.

### **Other taxes in Germany**

No German capital transfer tax, value added tax, stamp duty or any similar tax or duty is levied on the purchase, sale or disposal of shares by other means.

### **Risks concerning changes to taxation**

The effects of taxation described above are subject to changes in legislation. Such changes may also have a retroactive effect on the beginning of a taxation period in question (so called artificial retroactive effect).

## THE NEUER MARKT

The Neuer Markt is designed to provide access to the capital market especially for innovative, small to medium-sized companies (also referred to as “issuers” in this section). This officially recognized and supervised trading segment at the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) has been operating since March 10, 1997.

The Neuer Markt is targeted at private and institutional investors who are willing to take risks.

In addition to satisfying the admission requirements for the “Geregelter Markt ”(Second Trading Segment), the issuer must also meet the following additional admission requirements, designed to enhance transparency, among other things:

- Minimum free float after listing 20 % (25 % if possible);
- Ordinary shares must be the primary class of share;
- Annual financial statements in German and English complying with IAS (International Accounting Standards) or US GAAP (US Generally Accepted Accounting Principles); reconciliation accounts between national accounting standards and IAS or US GAAP are acceptable. An exemption from this admission requirement may be granted on request once, for a maximum of two years.
- At least 50% of the placement should derive from a capital increase;
- Prohibition of the disposal of shares by existing shareholders for at least six months;
- Acceptance of the “Übernahmekodex” (German Takeover Code);
- An expected market value for the shares of at least ECU 5 million;
- equity of at least ECU 1.5 million.

In addition, the following ongoing requirements apply to issuers:

- Preparation of quarterly reports in German and English;
- Publication of annual financial statements no later than three months (exceptions possible), and publication of quarterly reports no later than two months after the relevant closing date;
- Publication of an annual corporate activities calendar with all relevant dates;
- Presentations to analysts at least once a year;
- Publication of changes to the shareholdings of members of executive bodies, with separate disclosures for the Managing and Supervisory Boards, at least once a year;
- Recruitment of two permanent Designated Sponsors.

Designated Sponsors are either companies authorized to trade on the Frankfurt stock exchange or dealers who function as market makers during trading sessions. The duties of the Designated Sponsor include:

- Continuous provision of firm bid and ask prices to ensure a high level of share liquidity;
- Immediate execution of customer orders;
- Limitation of the bid/ask spread to max. 4 %, making pricing as fair as possible;
- Absorption of excess market positions not reflected in price fixing; at least 65 % of quote requests must result in a bid/ask limit response;
- Regular analysis of the issuer from a capital market viewpoint;
- Advice to the issuer to ensure ad hoc publicity requirements are met and to provide continuous information coverage for its investors.

## GENERAL INFORMATION AND PLACEMENT OF THE SHARES

### Liability for the contents of the Issuing Prospectus/Company Report

Centrotec Hochleistungskunststoffe Aktiengesellschaft and the underwriting banks listed at the end of this Issuing Prospectus/Company Report assume liability for the purposes of Section 77 of the Börsengesetz (German Stock Exchange Act), in conjunction with Sections 45 ff. of the Börsengesetz for the contents of this Issuing Prospectus/Company Report and herewith state that, to the best of their knowledge, the information contained in this Issuing Prospectus/Company Report is accurate, and that no material circumstances have been omitted. The Issuing Prospectus/Company Report has been approved in this form by the Zulassungsausschuß (Securities Admission Board) of the Frankfurt Stock Exchange.

### Inspection of documents

All documents referring to the Company cited in this Company Report may be inspected at the Company's registered office in 34431 Marsberg, Unterm Ohmberg 1, and at the offices of M.M.Warburg & CO Kommanditgesellschaft auf Aktien, 20095 Hamburg, Ferdinandstr. 75, (hereinafter referred to as M.M.Warburg), during normal office hours in each case.

### Subject of the Issuing Prospectus/Company Report

The subject of the Issuing Prospectus/Company Report is the total of DM 6,000,000.00 ordinary bearer shares, divided into 1,200,000 shares with a nominal value of DM 5.00 per share carrying dividend rights as from January 1, 1998 (hereinafter referred to as the "total share capital").

Admission of the total share capital to the Geregelter Markt (Second Trading Segment) and commencement of trading on the Neuer Markt of the Frankfurt Stock Exchange was sought on November 13, 1998; the listing order was granted on November 27, 1998. The trading of the above-mentioned ordinary bearer shares is expected to be fixed on December 8, 1998.

### Placement

DM 1,500,000.00 (300,000 shares) ordinary bearer shares with a nominal value of DM 5.00 per share resulting from the capital increase resolved by the Extraordinary General Meeting on September 9, 1998 (hereinafter also referred to as "new shares"), for which the subscription rights of existing shareholders were excluded, and DM 500,000.00 (100,000 shares) ordinary bearer shares from the holdings of the original shareholders (hereinafter also referred to as "old shares") were assumed by a banking consortium led by M.M.Warburg, with the obligation to offer them for sale without obligation to interested investors in the period between December 2, 1998 and December 4, 1998 ("subscription period") in the Federal Republic of Germany by means of a public offering and outside the Federal Republic of Germany by means of a private placement, using the bookbuilding process with a price range of DM 69,- to DM 76,- per ordinary bearer share. The price range is expected to be announced at a Press Conference to be held on November 30, 1998 and will be published in both the *Börsen-Zeitung* (Stock Exchange News) and the *Bundesanzeiger* (Federal Gazette). The right to terminate the sale of the shares before the closing date specified above by curtailing the placement period is reserved.

Bids may be submitted with a price limit within this price range. The selling price, which will apply equally to both the new shares and the old shares ("selling price"), is expected to be fixed on December 4, 1998 on the basis of the bids received by the end of the subscription period and is expected to be published in the *Börsen-Zeitung*, among other places, on December 7, 1998. The bids will be accepted without obligation by the underwriting banks listed at the end of this Issuing Prospectus/Company Report during normal banking hours. In particular in the event that the placement volume turns out to be insufficient to service all bids at the selling price, the underwriting banks reserve the right to reject bids in part or in full. It is expected that investors who submit their bids through an underwriting bank will be able to obtain information from this bank regarding the number of shares allotted to them in each case as from December 7, 1998 onwards.

As part of the offering and at the request of the Company, up to 20,000 ordinary bearer shares will be subject to a claim for preferential subscription by employees of the Centrotec Group, and a further up to 40,000 ordinary bearer shares will be subject to a claim for preferential subscription by business partners. The general terms and conditions of sale shall apply in the case of these preferential subscriptions – i.e. the selling price to be paid is the same as that to be paid by the other investors.

Purchasers will probably be required to pay the purchase price for the ordinary bearer shares with a nominal value of DM 5.00 per share plus the standard securities commission on December 9, 1998.

The difference between the issuing price per share at the time the banking consortium underwrote the shares (nominal amount plus a premium of DM 20.00 per new share) and the selling price for new shares from the capital increase accrues to the Company. The proceeds from the sale of old shares will accrue to the selling shareholders.

As part of the allocation of the up to DM 2,000,000.00 composed of 400,000 ordinary bearer shares, M.M. Warburg is entitled to take measures to stabilize the market price of the ordinary bearer shares or to maintain this price at a level which they would not otherwise attain. Such stabilization measures may be discontinued at any time.

### **Delivery**

The ordinary bearer shares with a nominal value of DM 5.00 per share are evinced by three permanent global certificates, which have been lodged with Deutsche Börse Clearing AG, Frankfurt am Main. The shareholders' rights to the delivery of effective individual certificates has been ruled out.

The permanent global certificates are divided into:

700,000 ordinary bearer shares (No. 000,001 – No. 700,000) with a nominal value of DM 5.00 per share, for a total of DM 3,500,000.00,

200,000 ordinary bearer shares (No. 700,001 – No. 900,000) with a nominal value of DM 5.00 per share, for a total of DM 1,000,000.00,

300,000 ordinary bearer shares (No. 900,001 – No. 1,200,000) with a nominal value of DM 5.00 per share, for a total of DM 1,500,000.00.

The ordinary bearer shares of the Company carrying full dividend rights as from January 1, 1998 have been allotted the Securities Code Number 540 750 and the Swiss Securities Number CH 953194.

### **Prohibition on the disposal of shares**

Centrotec Hochleistungskunststoffe AG and the existing shareholders have undertaken not to offer for sale, whether directly or indirectly, nor to dispose of any shares, to announce any such disposal or to take any other measures which would be the economic equivalent of such a disposal for a period of twelve months from the date of admission of the shares to the Neuer Markt of the Frankfurt Stock Exchange.

In addition, Mr. Hagen, Dr. Kirsch and Mr. Wülbeck have undertaken only to offer for sale, whether directly or indirectly, to dispose of or to announce any such disposal or to take any other measures which would be the economic equivalent of such a disposal of a maximum of 20 % of the ordinary bearer shares in their possession before the public placement for each year following on this prohibition period; this amounts in the case of Mr. Hagen to 35,000 shares, in that of Dr. Kirsch to 2,500 shares, and in that of Mr. Wülbeck to 7,500 shares.

### **Issuing costs/utilization of the proceeds of the issue**

The net proceeds of the placement of the 400,000 ordinary bearer shares are made up of the placement price to be paid per bearer share and the number of ordinary bearer shares placed, less issuing and placement costs. The issuing and placement costs are expected to amount to between roughly DM 3.3 million and DM 3.5 million, including total remuneration of the underwriting banks of between roughly DM 1.4 million and DM 1.6 million. The net proceeds of the placement are expected to amount to between roughly DM 24.3 million and DM 27.0 million.

The expected total net proceeds of the placement of between roughly DM 17.8 million and roughly DM 19.8 million resulting from the increase in share capital against cash contributions will be used to strengthen the Company's equity base, to reduce liabilities and to finance the continued growth of the Centrotec Group.

The net proceeds of the placement of the 100,000 old shares will accrue to the selling shareholders.

## THE COMPANY

### **Formation, name, registered office and duration of the company**

Centrotec Hochleistungskunststoffe AG was founded by resolution of the shareholders on July 17, 1998 by way of a change in legal form from the previous Centrotec GmbH Hochtemperaturkunststofferzeugnisse, formerly Centroplast Holding GmbH. The change in legal form is taken by the current shareholders to have occurred with economic effect on January 1, 1998.

On the basis of the formation report by the founders dated July 17, 1998, the formation report by the Managing Board and the Supervisory Board dated July 17, 1998 and the formation report by Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, Hanover, dated July 21, 1998, the Company was registered in the commercial register of the Munich district court under the registration number HRB 121704 on August 25, 1998. For a list of names of the founders, please refer to the information given under the section of this chapter entitled "Shareholders".

No member of the Managing Board or the Supervisory Board has been granted special rights or has been compensated or remunerated for the formation or its preparation. The formation auditor appointed by the court stated the following in his report dated July 21, 1998:

"After the conclusion of our audit performed in accordance with professional standards pursuant to Sections 197, 245 Para. 1 and 220 Para. 3 UmwG (Umwandlungsgesetz – German Transformation Act) in conjunction with Section 34 AktG (Aktien-gesetz – Stock Corporation Act), we hereby confirm on the basis of the records, certificates, books and documents and the information and evidence provided to us, that:

1. The information provided by the founders in the foundation report is accurate and complete. This applies in particular to the information concerning the transfer of the shares, the contributions to share capital by means of the change in legal form and the values stated in accordance with Sections 26 and 27 AktG;
2. The actual value of the assets transferred by the change in legal form, minus the liabilities transferred to the converted Centrotec Hochleistungskunststoffe AG, corresponds at the least to the nominal value of the shares to be granted in this respect, for a total of DM 4,500,000.00. The value of the capital contributed is guaranteed."

The costs of the conversion and the change in legal form amounting to up to DM 96,000.00 shall be borne by the Company.

The name of the Company is Centrotec Hochleistungskunststoffe AG. On September 17, 1998 the Extraordinary General Meeting resolved to move the Company's registered office from Munich to Marsberg. Centrotec Hochleistungskunststoffe AG was entered into the Commercial Register in Marsberg under No. HRB 0331 on November 3, 1998. The Company's registered office is Unterm Ohmberg 1, 34431 Marsberg, Germany.

The Company is subject to the laws of the Federal Republic of Germany.

The Company has been formed for an unlimited duration.

The fiscal year of the Company is the calendar year.

### **Objectives laid down in the Company's articles of association**

The objective of the Company is the production and sale of high-performance polymer products under the brand names "Centrotec", "Centroplast" and "Centrotherm", and the acquisition, acquisition of interests in and foundation of subsidiaries in the area of the production and/or sale of technical plastics and/or exhaust systems within Germany and abroad.

The Company is entitled to conduct all business and perform all measures that appear suitable to further the Company's objectives. The Company may set up branches in Germany and abroad, may found, acquire outright, or acquire interests in other companies – even as a personally liable partner – may manage such companies or restrict itself to the administration of its interests, and may conclude intercompany agreements. It is entitled to conduct its business via subsidiaries, affiliates and joint ventures. It may operate parts of its business through affiliates, or may transfer such parts to affiliates.

### **Capitalization**

The ordinary share capital of the legal predecessor, Centroplast Holding GmbH, amounted to DM 3,500,000.00 as of July 31, 1991.

With the resolution by the partners dated June 17, 1998 the ordinary share capital was increased by DM 1,000,000.00 to DM 4,500,000.00 against corporate funds, and the Company (Centroplast Holding GmbH) was renamed Centrotec GmbH Hochtemperaturkunststofferzeugnisse.

At the time of formation of Centrotec Hochleistungskunststoffe AG by means of the change in legal form, the share capital amounted to DM 4,500,000.00, composed of 900,000 ordinary bearer shares with a nominal value of DM 5.00 each.

Among other things, the Extraordinary General Meeting on September 9, 1998 passed a resolution, to increase the Company's share capital by DM 1,500,000.00 from DM 4,500,000.00 to DM 6,000,000.00 against cash contributions by way of an issue of 300,000 ordinary bearer shares with a nominal value of DM 5.00 each. The subscription rights of shareholders were excluded. The new shares were underwritten by M.M. Warburg for the banking consortium at an issuing price of DM 25.00 per share, each carrying dividend for fiscal year 1998, i.e. from January 1, 1998.

The capital increase of DM 1,500,000.00 was entered into the Commercial Register on September 14, 1998.

The Extraordinary General Meeting on September 9, 1998 also passed the following resolutions, among other things:

#### Increase in regular capital

The share capital of the Company will be increased by DM 1,500,000.00, from DM 4,500,000.00 to DM 6,000,000.00 by way of the issuing of 300,000 ordinary bearer shares with a nominal value of DM 5.00 each against cash contributions. The new shares carry divided rights as from January 1, 1998. The subscription rights of the shareholders have been excluded. The new shares are intended to be taken up by M.M. Warburg and offered for sale at a purchase price that is still to be determined. The surplus proceeds achieved in excess of the issuing price are to be transferred to the Company. The other conditions governing the capital increase and its execution will be determined by the Managing Board.

The share capital amounts to DM 6,000,000.00. The share capital is composed of 1,200,000 shares with a nominal value of DM 5.00 each.

#### Authorized capital

The Managing Board is authorized, with the consent of the Supervisory Board, to increase the share capital by up to DM 3,000,000.00 (authorized capital) through the issue on one or more occasions of new ordinary bearer shares with a nominal value of DM 5.00 per share against cash or non-cash contributions up to August 31, 2003. The new shares are to be taken up by financial institutions with the obligation to offer them to the shareholders. However, the Managing Board is authorized to exclude subscription rights for fractions. Furthermore, the Managing Board is authorized to exclude subscription rights to the extent that it may issue new shares against non-cash contributions. In addition, the Managing Board is authorized to exclude the subscription rights of the shareholders in order to issue up to 300,000 new shares at a price not substantially lower than the market price of the Company's shares at the time at which the Managing Board determines the issuing price.

#### Contingent capital

a)

The Managing Board is authorized to issue warrants for the subscription of new ordinary bearer shares of the Company on one or more occasions during the period July 1, 1999 to December 31, 2004. Holders of the warrants may be granted the right to purchase up to 90,000 ordinary bearer shares of the Company with a nominal value of DM 5.00 per share, whereby each warrant shall grant its bearer the right to purchase one ordinary share in the Company, as provided for under the terms of the warrant.

The subscription rights of the shareholders have been excluded.

The employees of Centrotec Hochleistungskunststoffe AG, Centroplast Kunststoffherzeugnisse GmbH & Co., and Centrotherm Abgastechnik GmbH, or future affiliated enterprises within the meaning of Section 17 Aktiengesetz shall be authorized to subscribe to the shares.

The senior executives and Managing Board members of the companies mentioned above are also authorized to subscribe to the shares.

Where employees exercise dual functions within the Company, they may only subscribe once, for the higher group to which they belong in each case at the time the warrants are allocated.

The share options shall be allocated as follows:

- 60 % to the Managing Board of Centrotec Hochleistungskunststoffe AG;
- 30 % to the senior management of the affiliated enterprises mentioned above;
- 10 % to the employees of the enterprises mentioned above.

The strike price for each share shall be 90% of the average stock market price in the 30 trading days preceding the day on which the option is exercised, but at the least the nominal value (rounded up using commercial rounding to the next DM 0.10), Section 9 Para. 1 Aktiengesetz shall remain unchanged.

The waiting period before the option can be exercised shall be at least two years after its issue, or as from July 1, 2001 at the earliest. Moreover, the option may only be exercised if the market price of the Company's shares has risen by 30% since their initial quotation; however, the Managing Board is entitled to set higher targets with the approval of the Supervisory Board.

In the case of the Managing Board, the Supervisory Board shall decide on whether to dispense the options. In the case of the other authorized subscribers, the Managing Board shall decide with the approval of the Supervisory Board.

The Managing Board is authorized, with the approval of the Supervisory Board, to lay down all other details concerning the issuing and features of the warrants, and particularly the warrants' issuing price.

b)

The Company's share capital shall be conditionally increased by DM 450,000.00 through the issue of new ordinary bearer shares with a nominal value of DM 5.00 per share. The contingent capital shall be used to guarantee subscription rights (option rights) to new, ordinary bearer shares of the Company for the beneficiaries, in accordance with a). The shares shall be issued in accordance with the option price laid down in a) and the other conditions laid down in a). The contingent capital increase shall be final only to the extent that the beneficiaries exercise their option rights in accordance with a). The new shares shall carry dividend rights with effect from the beginning of the fiscal year in which they come into existence through the option rights being exercised.

The Managing Board is authorized to determine the further details of how the contingent capital increase is to be performed. The Supervisory Board is authorized to modify the wording of Section 5 of the Company's Articles of Association in accordance with the degree of utilization of the contingent capital prevailing at the time.

c)

The present Section 5 of the Company's Articles of Association shall be expanded to include the following paragraph (Paragraph 7):

“A contingent increase of DM 450,000.00 shall be made to the share capital. The contingent capital increase shall become final only to the extent that the holders of warrants issued by the Company on the basis of the authorization granted in the resolution passed by the General Meeting on September 9, 1998 shall exercise their subscription rights to ordinary bearer shares of the Company (option rights). The new shares shall carry dividend rights with effect from the beginning of the fiscal year in which they come into existence through the option rights being exercised. The contingent capital shall be divided into up to 90,000 shares with a nominal value of DM 5.00 per share.”

The performance of the capital increase and the resolutions passed by the Extraordinary General Meeting of September 9, 1998 were recorded in the commercial register on September 14.

## Shareholders

The following table displays the shareholding structure of the Company and the distribution of shares at its foundation by way of conversion as well as after the capital increase, the changes in the placement of shares within the Company and among family members and senior management, and the public placement:

	Shares at foundation and prior to capital increase, changes in placement, and public placement		Shares after capital increase, changes in placement, and public placement	
	(Number)	Percent <sup>3)</sup>	(Number)	Percent <sup>3)</sup>
Free float . . . . .	0	0.00	400,000	33.33
Maren Krass . . . . .	180,000	20.00	300,000	25.00
Guido Krass . . . . .	180,000	20.00	200,000	16.67
Carl Krass . . . . .	0	0.00	119,999	10.00
Maja Krass . . . . .	0	0.00	119,999	10.00
Hans-Lothar Hagen <sup>1)</sup> . . . . .	35,000	3.89	35,000	2.91
Dr. Bernhard – R. Heiss . . . . .	45,000	5.00	10,000	0.83
Norbert Wülbeck . . . . .	7,500	0.83	7,500	0.63
PARI Holding GmbH . . . . .	450,000	50.00	2,502	0.21
Peter Thalmann . . . . .	2,500	0.28	2,500	0.21
Dr. Alexander Kirsch . . . . .	0	0.00	2,500	0.21
	<u>900,000</u>	<u>100.00</u>	<u>1,200,000</u>	<u>100.00<sup>3)</sup></u>

1) Mr. Hagen holds 20,000 shares in trust for employees

2) Difference due to rounding off

3) Rounded off using commercial rounding

## Managing Board

The Managing Board of the Company is comprised of one or more individuals. The Supervisory Board determines the number of members, the Chairman, and the Deputy Chairman of the Managing Board.

The Managing Board runs the business in accordance with the Articles of Association and the bylaws to be adopted by the Managing Board with the approval of the Supervisory Board.

The Company is represented by two members of the Managing Board, or by one member of the Managing Board and a Prokurist (authorized signatory). Where only one Managing Board member has been appointed, he or she shall represent the Company alone. The Supervisory Board may grant any member of the Management Board the right to represent the Company alone. Moreover, it may exempt any member of the Managing Board from the restrictions laid down in Section 181 BGB (German Civil Code). At present, only Mr. Hans-Lothar Hagen, the Chairman of the Managing Board, has been granted the right of sole representation and is exempted from the restrictions laid down in Section 181 BGB.

The Managing Board is comprised of the following members:

**Dipl.-Ing. Hans-Lothar Hagen (40)**, Altenbeken, has been Chairman of the Board of the Company since its foundation by way of conversion, and is responsible within the Managing Board for Technology and Sales. In addition, he has been sole general manager of Centroplast Kunststoffzeugnisse Verwaltungs-GmbH since July 4, 1994; this company is in turn the managing partner of Centroplast Kunststoffzeugnisse & Co., Marsberg. He and Dipl.-Ing. Norbert Wülbeck comprise the management of Centrotherm Abgastechnik GmbH, Marsberg. After finishing his degree in mechanical engineering with a focus on plastics technology, he joined Centroplast in 1981, where he became technical director in 1982. In 1985, he assumed overall responsibility for Technology and Sales. During this time, the main focus of his responsibilities was the introduction of CNC technology, the automation of production processes, and the establishment of a sales force, together with the expansion of export activities.

**Dr. oec. publ. Alexander Kirsch (32)**, was appointed as the Financial Director of Centrotec Hochleistungskunststoffe AG in September 1998. Previously, Dr. Kirsch was a consultant with McKinsey & Company, Inc., where he advised industrial and financial services companies for three years. The key focus of his consulting activities was on organization, financial control, process optimization, and increasing sales. Prior to that, he was a freelance management trainer as well as an instructor at the *Bayerische Akademie der Werbung* (Bavarian Advertising Academy). He studied business administration, graduating with a doctorate from the University of Munich.

The term of office for members of the Managing Board has been determined by the Supervisory Board as follows: Hans-Lothar Hagen, from July 17, 1998 until July 31, 2003; Dr. Alexander Kirsch, from September 7, 1998 until August 31, 2001.

Total remuneration to the senior management of Centroplast Holding GmbH for fiscal year 1997 was approximately DM 200,000.00. Of this amount, Centroplast Kunststoffzeugnisse GmbH & Co. accounted for DM 140,000.00, and Centrotherm Abgastechnik GmbH accounted for DM 36,000.00. The fixed remuneration for the Group Managing Board in fiscal year 1998 will total DM 280,000.00. The establishment of a performance-related remuneration program is planned for the Managing Board and employees; this will take the form of a stock option plan from contingent capital, which is still to be decided.

On September 9, 1998, the Supervisory Board approved the Managing Board Bylaws drawn up by the Managing Board.

Following the re-placement but prior to the public placement of the new shares, members of the Managing Board hold a total of 37,500 ordinary bearer shares of Centrotec Hochleistungskunststoffe AG. Of this amount, 20,000 shares are held in trust for the employees.

## Supervisory Board

In accordance with the Company's Articles of Association, the Supervisory Board consists of three members.

According to the resolution passed at the July 17, 1998 General Meeting of Centrotec GmbH Hochleistungskunststoffe, the term of office for the members of the first Supervisory Board ends with the conclusion of the General Meeting which shall decide on the discharge for the fiscal year ending on December 31, 1998.

The first Supervisory Board is composed of the following members:

- Guido A. Krass (entrepreneur), Chairman, London
- Dr. Bernhard-R. Heiss (partner in the Boesebeck & Droste legal practice), Deputy Chairman, Munich
- Dipl.-Kfm. Hans Thomas (former member of the Stolberger Zink AG Managing Board), Hofheim

The members of the Supervisory Board do not serve on any other Supervisory Boards.

As a matter of principle, the members of the Supervisory Board are elected for a term of office terminating at the end of the General Meeting which resolves their discharge for the fourth fiscal year after the commencement of the term of office. The fiscal year in which the term begins is not included. Substitute members may be elected.

The frequency with which the Supervisory Board meets is governed by the legal provisions.

The Supervisory Board is authorized to form working parties from among its members and to delegate decision-making responsibility to them insofar as this is permitted by law. At present, no working parties exist.

The members of the Supervisory Board receive a fixed remuneration of DM 3,000.00 for each full fiscal year during which they belong to the Supervisory Board, payable after the termination of the fiscal year. The Chairman receives double, while the Deputy Chairman receives one and a half times this amount. Members of the Supervisory Board who have not belonged to the Supervisory Board for the entire fiscal year receive that fraction of the remuneration corresponding to the length of time for which they have been a member. In addition, the members of the Supervisory Board receive reimbursement of their expenses and the value-added tax payable on their remuneration and expenses.

The members of the Supervisory Board held a total of 210,000 ordinary bearer shares in the Company as of November 30, 1998, following the assumption of the shares by M.M. Warburg.

### **General Meeting**

The General Meeting is convened by the Chairman of the Supervisory Board or the Managing Board. In keeping with the Company's Articles of Association, the General Meeting is held at the registered place of business or at one of the German stock exchanges.

Each ordinary bearer share with a nominal value of DM 5.00 per share entitles the holder to one vote at the General Meeting.

### **Notices, paying and depository agents**

In accordance with the Articles of Association, notices by the Company are made solely in the Bundesanzeiger (Federal Gazette). In addition, the Company shall publish its announcements in a national journal for statutory notices of the Frankfurt Stock Exchange.

The Company shall appoint and announce the appointment of at least one financial institution as a paying and depository agent, at whose counters all measures concerning the shares may be effected. The paying and depository agents are the underwriting banks and their branches listed at the end of this Issuing Prospectus/Company Report.

In addition, shares entitling their holders to participate in the General Meeting may be deposited with the Company, with a German notary or with a securities clearing and deposit bank authorized to receive shares.

### **Appropriation of profits**

The General Meeting shall decide on the appropriation of the balance sheet profit.

Where the Managing Board and the Supervisory Board approve the annual financial statements, they may transfer up to 75% of the net income for the year remaining after deduction of the sums to be transferred to the legal reserves and any loss brought forward to the capital reserves, provided that the capital reserves do not exceed half the share, or that they would exceed half the share capital following such a transfer.

No dividends were paid out to the shareholders in the fiscal years 1995 to 1997.

### **Auditors**

Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, Sophienstraße 5, 30159 Hanover were the conversion and formation auditors for Centrotec Hochleistungskunststoffe AG, and also audited the annual financial statements of the Company and the consolidated financial statements for the 1997 fiscal year.

This Issuing Prospectus/Company Report contains the consolidated financial statements, the Company's annual financial statements and the annual financial statements of Centroplast Kunststoffherzeugnisse GmbH & Co. and Centrotherm Abgastechnik GmbH for the fiscal years 1997, 1996 and 1995.

The consolidated financial statements for Centroplast Holding GmbH for the 1997 fiscal year, the annual financial statements for the 1997, 1996 and 1995 fiscal years, the annual financial statements of Centroplast Kunststoffherzeugnisse GmbH & Co. for the fiscal years 1997, 1996 and 1995 and the annual financial statements of Centrotherm Abgastechnik GmbH for the 1997 fiscal

year were audited by Arthur Andersen Wirtschaftsprüfungsgesellschaft and were granted an unqualified audit opinion in each case.

The Shareholders' Meeting on July 17, 1998 appointed Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, Hanover, as the auditors for the fiscal year ending on December 31, 1998.

#### **Tax position**

The most recent external tax audit of Centroplast Holding GmbH, Centroplast Kunststoffzeugnisse GmbH & Co. and Centrotherm Abgastechnik GmbH covered the period down to and including 1995. The results of the external audit have been taken into account in the annual financial statements as of December 31, 1997.

The tax position is characterized by the effects of tax-related special and supplementary balance sheets. In the Centroplast Holding GmbH annual financial statements and in the unaudited interim financial statements for Centrotec, tax deferrals for the difference between the valuation of the participation in Centroplast Kunststoffzeugnisse GmbH & Co. for the commercial balance sheet and the tax balance sheet were not taken into account due to their quasi permanent nature, in accordance with Section 274 HGB (German Commercial Code).

#### **Litigation**

No legal or arbitration proceedings that could have a material influence on the financial situation of the Centrotec Group, or that have had such an effect in the last two fiscal years, were pending, nor to the best of Centrotec Hochleistungskunststoffe AG's knowledge are such proceedings pending, threatened or to be expected.

## THE CENTROTEC GROUP

### Historical overview

The Centrotec Group consists of Centrotec Hochleistungskunststoffe AG and the subsidiaries

- Centrotherm Abgastechnik GmbH
- Centroplast Kunststoffherzeugnisse GmbH & Co. (oHG) and
- Centroplast Kunststoffherzeugnisse Verwaltungs-GmbH

### The Group's historical development can be described as follows:

- 1981**      *Founded as producer of semi-finished products and prefabricated parts*
- Centroplast Kunststoffherzeugnisse GmbH* was founded in Marsberg and entered into the Commercial Register under the number HRB 0163 as a producer of semi-finished products for the plastics industry.
- 1990**      *Takeover by way of an LBO*
- The company was sold to *Centroplast Holding GmbH*, Munich (HRB 93837), presently known as Centrotec Hochleistungskunststoffe AG, Marsberg, as part of an LBO. The capital contribution of Centroplast Holding GmbH amounted to DM 50,000.00
- The activities of Centroplast Kunststoffherzeugnisse GmbH were transferred to *Centroplast Kunststoffherzeugnisse GmbH & Co.*, Marsberg. In addition to Centroplast Holding GmbH, *Centroplast Kunststoffherzeugnisse Verwaltungs GmbH*, Munich (HRB 93864, formerly Vinuese Vermögensverwaltungsgesellschaft mbH, Hamburg, HRB 44651), is also a general partner. It does not hold capital or share in the earnings of Centroplast Kunststoffherzeugnisse GmbH & Co. and has no operations of its own.
- 1991**      The shareholders of Centroplast Kunststoffherzeugnisse GmbH resolved to rename the company *KM Kunststoffherzeugnisse GmbH*, Marsberg (share capital DM 200,000.00).
- The shareholders of Centroplast Holding GmbH also resolved to increase the share capital to DM 3,500,000.00 out of corporate funds.
- 1993**      *Breakthrough for condensing system technology*
- As a further development of traditional heating technology, more environmentally friendly condensing system technology is establishing itself on the market and is increasingly replacing conventional heating systems.
- In order to expand the Company's business activities into the thermoplastics area, KM Kunststoffherzeugnisse GmbH was renamed *Centrotherm Abgastechnik GmbH* (share capital DM 200,000.00). Centroplast Holding GmbH holds 100% of its shares.
- 1994**      *Specialist for high-temperature-resistant exhaust systems*
- On the basis of Centroplast's expertise, Centrotherm Abgastechnik GmbH has become a specialist for high temperature-resistant exhaust systems made of plastic.
- 1996**      Change of shareholders at Centroplast Kunststoffherzeugnisse GmbH & Co.: Centroplast Kunststoffherzeugnisse Verwaltungs-GmbH ceases to be a shareholder, and *SIH Beteiligungsvermittlung GmbH*, Munich (HRB 81302) acquires an interest in the company. SIH Beteiligungsvermittlung GmbH is then subsequently renamed *Centroplast Kunststoffherzeugnisse Verwaltungs GmbH*, Marsberg (HRB 0289).
- After this change, Centroplast Kunststoffherzeugnisse Verwaltungs GmbH, Marsberg, is renamed as *Vinuese Verwaltungs GmbH*, Marsberg. 50% of its shares in Centroplast Holding GmbH are transferred to the company currently known as *PARI HOLDING GmbH (Krass Verwaltung)*.
- Construction approval for exhaust systems and granting of subsidies*
- After almost three years of product development, the *Deutsches Institut für Bautechnik*, Berlin, (German Institute of Construction Engineering) grants the first construction approval for the exhaust systems technology.
- Initial subsidies (non-repayable) for the development of new exhaust technology are granted by the *Technologieprogramm Wirtschaft* (technology and economic support program) of North-Rhine Westphalia.

**1997** An additional 50% of the shares of Centroplast Holding GmbH in the amount of DM 1,750,000.00 are transferred to PARI HOLDING GmbH (Krass Verwaltung), Munich (HRB 115815).

*Certification in accordance with DIN EN ISO 9001*

The Group's power of innovation has been proven by the numerous patent applications which have been submitted, Centroplast's and Centrotherm's certification in accordance with DIN EN ISO 9001 and the granting of further construction approvals.

**1998** Centroplast Holding GmbH changes its name to Centrotec GmbH Hochtemperaturkunststoffzeugnisse and increases its capital by DM 1,000,000.00 from DM 3,500,000.00 to DM 4,500,000.00 against corporate funds.

PARI HOLDING GmbH (Krass Verwaltung) transfers 50% of its shares in Centroplast Holding GmbH to Guido A. Krass, Maren Krass, Dr. Bernhard-R. Heiss, Lothar Hagen, Norbert Wülbeck and Peter Thalmann in various proportions.

Centroplast Holding GmbH changes its name and legal form to *Centrotec Hochleistungskunststoffe AG*.

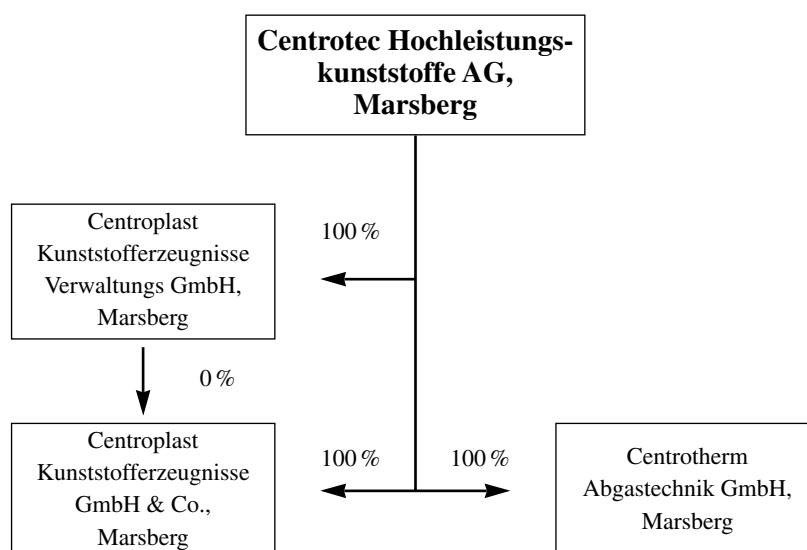
All of the shares held by Centroplast Kunststoffzeugnisse Verwaltungs GmbH are transferred to Centrotec Hochleistungskunststoffe AG.

A capital increase and changes to the placement of shares among shareholders, senior management and family members are performed in order to enable the Initial Public Offering and a public listing.

Move of Company's registered office from Munich to Marsberg

### Group structure

The details of the structure of the Group are as follows:



### Subsidiaries

The following table provides an overview of the subsidiaries of *Centrotec Hochleistungskunststoffe AG*:

	Nominal capital DM thousand	Interest held %	Equity December 31, 1997 DM thousand	Year-end results 1997 DM thousand
Centroplast Kunststoffzeugnisse GmbH & Co.	500	100	552	1,973
Centrotherm Abgastechnik GmbH	200	100	- 980	- 124
Centroplast Kunststoffzeugnisse Verwaltungs GmbH	51	100	58	5

*Centroplast Kunststoffzeugnisse GmbH & Co.* is an *offene Handelsgesellschaft* (OHG, or general partnership) with its registered office in Marsberg and was entered into the Commercial Register, Dept. A, of the District Court in Marsberg under No. 492 on March 7, 1991. The company was founded on August 1, 1990.

The business activities of the Company include the production and sales of all types of plastic products.

Each partner has the right and obligation to manage and represent the Company. In addition to his position as Chairman of the Managing Board of Centrotec Hochleistungskunststoffe AG, Hans-Lothar Hagen, Altenbeken, is also the Managing Director of the general partner, Centroplast Kunststoffzeugnisse Verwaltungs GmbH. He has also been appointed *Prokurist* (authorized signatory) of Centroplast Kunststoffzeugnisse GmbH & Co.

*Centrotherm Abgastechnik GmbH* has its registered offices in Marsberg and was entered into the Commercial Register, Dept. B, of the District Court of Marsberg under No. 163 on January 7, 1994.

The Company's business activities consist of the manufacture and sale of complete exhaust systems made of plastic for all temperature ranges and boiler sizes.

The management consists of Hans-Lothar Hagen, Altenbeken, and Norbert Wülbeck, Brilon.

The Company is represented by two managers, or by one manager and a "Prokurist" (authorized signatory). Hans-Lothar Hagen has the right to sole representation.

Dipl.-Ing. (Graduate in Engineering) Norbert Wülbeck (35), has been with the Group since 1988. As Technical Director, he was responsible for establishing a TQM system for Centroplast Kunststoffzeugnisse GmbH & Co., among other things. Mr. Wülbeck joined Centrotherm Abgastechnik GmbH as Managing Director in 1994 and was able to build it up into an innovative company in exhaust systems technology. Since Mr. Wülbeck assumed the responsibility for product development, the company has submitted applications for patents, utility patterns or trademarks for 14 products and processes.

## BUSINESS ACTIVITIES

### General overview

Centroplast Holding GmbH, the predecessor company of *Centrotec Hochleistungskunststoffe AG*, was founded in 1990 as a holding and management company for acquisitions in the plastics industry. In the same year, Centroplast Holding GmbH acquired *Centroplast Kunststoffzeugnisse GmbH & Co.*, Marsberg, by way of a leveraged buyout. Since then, Centroplast, which manufactures and processes thermoplastic polymers, has experienced constant sales growth and achieved stable earnings. In order to achieve more dynamic growth, the subsidiary *Centrotherm Abgastechnik GmbH*, formerly *KM Kunststoffzeugnisse GmbH*, added new operations in the area of thermoplastics, comprising the development and manufacture of exhaust systems. After investing in research and development for the past four years, *Centrotherm Abgastechnik GmbH* is on its way to earning profit and is exhibiting dynamic growth.

Management and the partners have resolved to open the Company's shares to the public, using the capital raised to achieve four goals:

- Financing internal growth
- Creating a financial buffer to facilitate further strategic acquisitions
- Strengthening the equity base
- Reducing external debt

### Business units

The Centrotec Group consists of two legally independent operating units

- *Centroplast Kunststoffzeugnisse GmbH & Co.*, Marsberg (Centroplast)
- *Centrotherm Abgastechnik GmbH*, Marsberg (Centrotherm)

and considers itself a specialist in thermoplastics.

The Centrotec Group processes the following important thermoplastics, among others:

- *Polyoxymethylene (POM)* (under the name Centrodal) to round rods, flat bars, hollow rods and sheets,
- *Polyvinylidene flouride (PVDF)* (under the name Centroflon) to round rods, flat bars and hollow rods,
- *Polyamide (PA)* (under the name Centromid) to round rods, flat bars, hollow rods and sheets,
- *Polycarbonate (PC)* (under the name Centroc carb) to round rods, flat bars and hollow rods,
- *Polyethylene terephthalate (PET)* (under the name Centrolyte) to round rods and flat bars,
- *Acrylonitrile butadiene styrene (ABS)* and
- *Polystyrol (PS)* to custom products in various formats.

These plastics are always used wherever reliability, precision, high dimensional stability and accuracy as well as high temperature and chemical resistance are in demand.

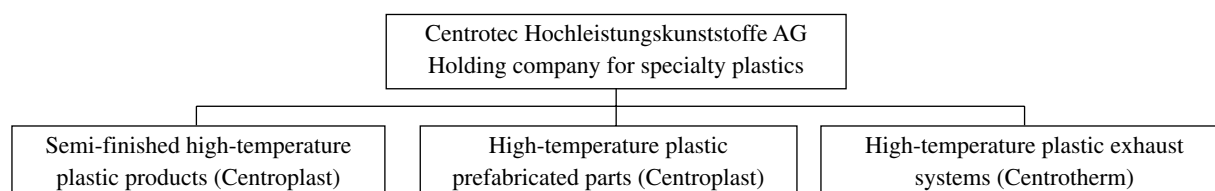
Typical areas of application for these materials, and thus for Centrotec products, include the following:

- gears • belt pulleys • ball bearing cages • pump housings • slide bearings • slipper pads • sealing rings • rolls • drum controllers
- slide sheets • bearing bushes • special housing • security glazing • specialty pipes • seals • pump components • fittings
- isolation parts.

Industries which typically use these products include:

- capital goods industry • machine tool engineering • petrochemical plant engineering • electrical and electromechanical industry
- pharmaceutical and medical industry • paper and textile industries • mechanical engineering for the food and beverage sectors
- conveying and metering technology • pump and apparatus manufacturing • pressing and sealing technology • water softening and purification technology • aviation and aerospace industries • specialty automobile manufacturing • aeration and exhaust technology • optical and acoustic device engineering • installation and operation technology • heating and exhaust technology.

The Centrotec Group consists of three business units:



In the past, group-wide investments have been made in research and development as well as quality assurance in order to provide the individual group units with the greatest possible support in research and product development.

#### *Semi-finished high-temperature plastic products*

As the core company of the Group, Centroplast is one of the pioneers in plastics extrusion at melting points between 200 and 300 degrees Celsius. Its product range of semi-finished products includes high-temperature films, sheets, plates, hollow rods, pipes and round rods. These extruded products, as with all high temperature polymers, have specific physical characteristics which fall within upper and lower limits, unlike in the case of metals or other materials.

The main competitors in this segment are Ensinger GmbH & Co., Nufingen, Erta-Plastic GmbH, Lahnstein/Tielt (B), Licharz GmbH, Buchholz, Röchling Sustaplast GmbH & Co., Lahnstein, and Pleiger Thermoplast GmbH & Co. KG, Raisdorf, Zell Metall Ges. m.b.H., Kaprun (A), Omnia Plastica S.p.A. Busto Arsizio (I), and Faigle Kunststoffe Ges. m.b.H., Hard (A).

Centroplast is considered the European market leader with its vacuum calibration process, an extrusion technique for thin- and thick-walled precision pipes. Centroplast is also a leader in the production of various films for the electronics industry and is Europe's second largest processor of polyvinylidene fluoride (PVDF), one of the most expensive high-performance plastics.

#### *High-temperature plastic prefabricated parts*

Centroplast not only produces and sells semi-finished products, but also sells specialized prefabricated parts made of thermoplastic polymers which can be produced as component parts according to customer designs or often in small to medium-sized series. Centroplast's engineers and technicians develop solutions in cooperation with the customer, thus enabling optimum product design. The Company's technical expertise in terms of applications plays a major role in recognizing and implementing the customer's requirements.

The main competitors in this segment are Ensinger GmbH & Co., Polypenco Industriekunststoffe GmbH, Bergisch-Gladbach, Licharz GmbH, Fischer GmbH, Laupheim, and Kuhn Kunststofftechnik, Marsberg.

Due to continuous investments in quality assurance instruments, machinery and the professional development of skilled personnel, Centroplast has earned its leadership position as a supplier of machine turning and milling parts in the thermoplastics sector.

#### *High-temperature plastic exhaust systems*

Centrotherm develops, produces and markets plastic exhaust systems for condensing systems, which are recognized as the future of heating technology in Europe. It is much more efficient, produces less pollutants and has a substantially lower exhaust temperature than conventional heating systems and is likely to replace them in the future.

Priorities in this business unit are pipe and connection technology, sealing technology and the configuration of various boilers with different technical specifications. The plastic exhaust systems are produced in all dimensions typically in demand on this market, from 70 to 250 mm in diameter, i.e. for applications from central ceiling heating units for single apartments to multi-family homes with large furnaces.

After a three-year product development phase in which numerous test series were produced and then tested for suitability for real-life application with TÜV Bayern (Bavaria's technical control board), Centrotherm received its first construction approval from the Institut für Bautechnik in Berlin (German Institute of Construction Engineering) in 1996.

The most significant product development steps are protected by applications submitted for patents and utility patterns and make Centrotherm the market's leading supplier in terms of technology.

Centrotherm's main competitors are Skoberne GmbH, Pfungstadt, InterActive Holding BV, The Netherlands, Muelink & Grol, The Netherlands, and Allmeva AG, Switzerland.

## Sales overview

The following table outlines the Group sales generated by the individual business units for the fiscal years 1995–1997 and up to October 31, 1998:

	1995 DM thousand	1996 DM thousand	1997 DM thousand	Oct. 31, 1998 DM thousand
Semi-finished plastic products .....	12,131	12,117	12,361	11,448
Plastic prefabricated parts .....	<u>5,794</u>	<u>5,842</u>	<u>7,187</u>	<u>7,439</u>
Centroplast .....	<u>17,925</u>	<u>17,959</u>	<u>19,548</u>	<u>18,887</u>
Exhaust systems .....	<u>595</u>	<u>1,552</u>	<u>3,270</u>	<u>3,613</u>
Centrotherm .....	<u>595</u>	<u>1,552</u>	<u>3,270</u>	<u>3,613</u>
Intra-group sales .....	<u>– 177</u>	<u>– 183</u>	<u>– 334</u>	<u>– 481</u>
Group .....	<u><u>18,343</u></u>	<u><u>19,328</u></u>	<u><u>22,484</u></u>	<u><u>22,019</u></u>

As in the previous years, the traditional semi-finished plastic products business generated the highest sales in the Centrotec Group in 1997, remaining stable at around DM 12 million for the past three fiscal years. In accordance with the Group's strategic orientation, the major driver for growth in sales were increases in the high-temperature exhaust systems business unit, in which sales more than doubled each year. By exploiting Centroplast's special expertise, the plastic prefabricated part business unit was able to increase its sales by over 20 %.

The export ratios for fiscal year 1997 amounted to approximately 47 % for Centroplast, of which 37% can be attributed to EU member states and 10% to countries outside of the EU, and to around 11 % for Centrotherm.

## Research and development

The research and development activities of the last three fiscal years have concentrated mainly on the development of new high-temperature plastic exhaust systems. Development centered primarily around pipe and connection technology, sealing technology and the configuration of various boilers with different technical specifications. The production of numerous plastic molded parts as tools is required to manufacture these plastic exhaust systems. Expenses in this regard amount roughly to DM 2.0 million.

An important advantage for the Centrotherm development team was the geographic proximity to its affiliate, Centroplast, which has developed expert knowledge in processing high-temperature polymers over the last 20 years. Several long-term industrial property rights concerning essential systems components and the tools developed for them are the result of long-term research and development activities.

## Investments

The Group invested a total of DM 3.6 million in the fiscal years 1995, 1996 and 1997 and up until October 31, 1998 (see the following overview), exceeding annual depreciation each year:

	1995 DM thousand	1996 DM thousand	1997 DM thousand	Oct. 31, 1998 DM thousand
Investments .....	1,186	635	515	1,261
Leasing of capital goods .....	348	202	0	522
Depreciation .....	<u>871</u>	<u>422</u>	<u>444</u>	<u>554</u>
Net (total) investments .....	<u><u>663</u></u>	<u><u>415</u></u>	<u><u>71</u></u>	<u><u>1,229</u></u>

In the past fiscal years, investment concentrated mainly on expanding production capacity by acquiring buildings and new machines, which were primarily financed from cash flow.

## Real property

The Centrotec Group owns real property with a total area of 14,084 m<sup>2</sup>. The real property is mortgaged in the amount of DM 10 million which serves as collateral for the liabilities to banks.

### Patents, licenses, etc.

The essential components of Centrotherm's plastic exhaust systems are protected by patent applications and utility patterns in order to assure its existing technological edge. Among others, patents have been granted for those components that substantially improve seals and therefore the operating reliability of the exhaust system (e.g. a patent for screw joints for flexible exhaust pipes and a patent for socket joints of rigid pipes). A patent has also been granted for an innovative aeration and exhaust system. Applications for patents have been submitted for additional essential components such as components which assure that acidic, aggressive exhaust condensation does not flow back into the boiler.

With the above exceptions, the Centrotec Group is not dependent on patents, licenses or contracts which could be of material importance for its business activities or profitability.

### Employees

The positive development of the Centrotec Group in the last three fiscal years, and up until October 31, 1998, is primarily a result of the commitment and ideas of its staff. In fiscal year 1997, the Group had an average of 76 employees. The following table provides a breakdown of these employees according to company units:

	1995	1996	1997	Oct. 31, 1998
Management . . . . .	3	3	3	3
Research and Development . . . . .	2	2	2	2
Quality assurance . . . . .	1	1	3	3
Production . . . . .	41	41	45	55
Administration . . . . .	3	4	4	4
Sales . . . . .	9	10	9	9
Apprentices . . . . .	7	7	6	7
Tools construction, others . . . . .	<u>5</u>	<u>5</u>	<u>4</u>	<u>4</u>
Group . . . . .	<u>71</u>	<u>73</u>	<u>76</u>	<u>87</u>
(thereof: Centroplast) . . . . .	68	65	67	73
(thereof: Centrotherm) . . . . .	2	7	8	12
(thereof: Centrotec) . . . . .	1	1	1	2

### Market and strategy

Thanks to its modern, comprehensive and diverse range of machinery with 26 extrusion machines, mostly developed in-house, as well as state-of-the-art mechanical production facilities with 12 CNC machines, Centrotec has become one of the leading European processors of technical thermoplastics. This sector is considered a high-margin, dynamic growth specialty sector within the plastics market.

For the medium term, the Centrotec Group's strategy is primarily concentrated on securing the market position which was established over the past years as well as exhausting recognizable growth potential on the basis of the further improvement in the Company's capital and financial structure.

This strategy has the following implications for the individual business units:

#### *Semi-finished high-temperature plastic products*

With eight notable suppliers at present, the European market is tending to split into two distinct groups: larger companies, mostly subsidiaries of group companies, concentrating increasingly on the lower-margin bulk business, and smaller companies such as Centroplast, which are flexible enough to process high-quality plastics in smaller batches.

It is typical, and from a strategic point of view even desired, for companies within this sector to supply each other with materials. This way, each company can concentrate on its specific strengths. Since these products are generally individually developed with the customer based on the specific applications required, an assessment of this sector can only be based on estimations.

Centroplast's future strategy will be to acquire companies involved in the lower-margin bulk business and use the existing capacity for higher-margin specialized products.

By providing flexible manufacturing and subcontracting work to third parties, production should be oriented to increasingly serve as a source for further in-house processing, as long as the margins remain favorable. On the same token, external marketing will still be necessary in order to maintain operations of an optimum size.

#### *High-temperature plastic prefabricated parts*

In this fragmented market it is difficult to establish the number of smaller metalworking companies which also process plastics. However, there are only a few competent industrial departments or larger competitors which are exclusively specialized in high-temperature plastics processing. Centroplast is among the top five companies in Germany and the top fifteen in Europe.

This is traditionally a high-margin business, as delivery times and reliability as well as quality provide a favorable basis for pricing. In terms of the level of automation and IT control, Centroplast stands out from the competition – it can even compete with flexible family-run operations. The market for plastic prefabricated parts is susceptible to cyclical fluctuations, but there has been a general upward trend since the 1970s, as the more intelligent plastics increasingly replace metals and other materials. This rate of substitution is expected to remain steady over the next ten years. In this respect, the automobile and household consumer goods industries deserve special mention – the prevalence of plastics in these industries has also continually increased. Projections in this respect also predict high growth rates over the next ten years.

One major motivation for raising equity capital on the stock exchange is the expansion of the Company's mechanical production capacity in Marsberg and the acquisition of "extended workbenches", consisting mainly of lower-margin metalworking companies, in order to restructure them on the basis of Centroplast's expertise in plastics processing.

As a result of close customer relationships, the Company is able to develop technical solutions quickly, often within a delivery turnaround time of under 48 hours. Due to positive cyclical developments and the present capacity in terms of mechanical production, Centroplast is only able to exploit a marginal part of market potential. In particular, Centroplast is unable to cover European demand satisfactorily, as the available capacity is being fully utilized in three shifts to accommodate German demand.

The Company is considering establishing additional plastics components production facilities, initially in France and later continuing expansion in Asia in cooperation with the semi-finished products unit, if the need arises. The Company has a staff of outstanding skilled workers, some of whom – with minimal employee turnover – have been working with the Group for over a decade. Due to online programming of the CNC machines, critical growth periods pose few problems – expansion can be accomplished by utilizing additional turning and milling machines.

Production control and preparatory processes, as well as pre- and post-calculation, are all already automated for the most part, which means that the preconditions for expansion in terms of technology and personnel have been met. Optimized workflows will necessitate the expansion of the present facilities due to the planned expansion of capacity. The expansion should provide for the optimum placement of the machines, enabling three-shift operations in which one employee is able to supervise and operate two to three machines. The investments required for the expansion are expected to range between DM 3.0 and 4.0 million and, in connection with the hiring of 8 to 10 new employees, could lead to almost double the present capacity.

The necessity of the above expansion is based on an assessment of the needs of almost 200 customers. After acting primarily as a development supplier in the past years and proving itself in terms of performance in only one to two years, Centroplast has risen from a second to a first-level supplier as a result of the fact that industrial companies are increasingly willing to close down their own processing departments.

#### *High-temperature plastic exhaust systems*

In the course of its CO<sub>2</sub> reduction program, the legislature changed the Federal Emission Control Act as of January 1, 1998, requiring substantial reduction in the emissions of pollutants, in particular the greenhouse gas carbon dioxide (CO<sub>2</sub>). The government expects the savings potential to be very high, as private heating systems alone account for two-thirds of private energy consumption and are responsible for 20 % of the CO<sub>2</sub> emissions in Germany.

By tightening emissions regulations, the demands placed on heating systems in 1998 and beyond are expected to result in the compulsory replacement or refurbishment of approximately two million boilers. As a result, condensing systems will replace conventional heating systems. Estimates predict that around 800,000 boilers will have to be replaced completely. New installation or refurbishment of heating systems almost always requires updating the exhaust system. High-temperature plastic exhaust systems are thus in competition with traditional aluminum and stainless steel systems for this market. The advantages of a plastic system are greater economy, diversity in installation and the substantially longer durability of the plastics used.

To date, around 70 % of the condensing boiler market is controlled by numerous small, innovative boiler manufacturers. This is likely to change in the future, as all four of the major German boiler manufacturers (Buderus, Bosch-Junkers, Vaillant,

Viessmann) are concentrating more and more on the condensing systems market. In addition to Centrotherm, two other vendors established themselves as suppliers to the boiler manufacturers during the development phase and have captured market shares with their initial deliveries. Centrotherm has an effective and equally sophisticated exhaust systems product range.

At the moment, notable large boiler manufacturers are certifying their systems. Due to the general developments on the condenser systems market, the Company expects to acquire at least one of the large boiler manufacturers as an OEM customer at the latest in the first six months of 1999.

In calculating this market's growth rate, the most significant imponderable in calculating growth rates is less likely to be the contractual agreement with the customer, but rather the general increasing acceptance of condensing system technology as well as the willingness of expert planners, heating technicians and architects to utilize plastics as a medium for furnaces in practice. As a result of its discussions with various market players, Centrotherm projects that general acceptance will rise disproportionately over the next five years due to the fact that the system is economical, virtually maintenance-free and versatile in its installation.

Approximately 90% of the Centrotherm products are organized in such a way that interchangeable subcontractors, such as injection molding companies or pipe extruders, have access to the relevant tools, thus creating capacity which enables strong growth. Additional investments are necessary in logistics and sales. However, no investments are planned for production itself, which can be divided among several suppliers if demand should increase. Suppliers in the Czech Republic are already providing not insignificant portions of the Company's value-added. Centrotherm itself produces certain critical key elements in-house and, due to the capacity at its affiliate, Centroplast, can cover short-term peak demand at all times. Commissioning, i.e. assembling standard manufacturer-specific sets, is also outsourced so that Centrotherm does not use its own capacity for this purpose.

Due to the delayed development of condensing system technology in neighboring European countries, the Company is considering establishing its own country-specific sales centers in order to achieve market penetration there similar to that in Germany over the next five to seven years. As condensing system technology is more well-known in Germany, initial sales efforts in Scandinavia, Italy and France have only generated limited success up to now. Business relationships have already been established with well-placed sales partners in Switzerland and Austria. However, massive efforts will need to be made at the latest by the end of 1999 in order to achieve decisive market share as one of the first suppliers. Should this occur in conjunction with increases in domestic sales, an additional, potentially extensive increase in staff can be expected. The funds necessary for European expansion will probably involve investments of around DM 5.0 million.

It would be in line with the strategy of the Centrotec Group to acquire majority or minority interests in competing companies in order to cooperate in accelerating market penetration and in promoting acceptance of high-temperature plastics. The Group's clear strategy is to acquire additional companies in order to further secure its own market position in the growth segment of exhaust technology and to increase its market share from 25% to 50%.

Countries outside of Europe will not be targeted for some seven to ten years due to the very different climatic conditions and a lower degree of focus on the ecological and economic aspects of boiler systems.

## **Sales**

Sales of *semi-finished high-temperature plastic products* are handled mainly by special equipment retailers located both in Germany and in the rest of Europe. These retailers primarily supply smaller plastics processing companies which then further process the semi-finished products (machining). Semi-finished products also continue to be sold directly to larger machining companies which do not purchase their fabricated materials retail. About one-third of the semi-finished products are supplied directly to end users or are used for in-house mechanical reprocessing.

The *high-temperature plastic prefabricated parts* unit set up a sales force at the beginning of the 1990s with trade and industry agencies in Germany and abroad. This sales force mainly establishes contacts and sells to customers in mechanical and plant engineering as well as in the capital goods industry. Special equipment retailers have therefore lost importance as a sales channel over time. A smaller portion of the semi-finished products is sold directly to the end user.

*High-temperature plastic exhaust systems* are sold domestically directly ex works in Marsberg to boiler manufacturers as OEM suppliers or to sanitation and heating technicians through an existing sales organization. Exports are handled by foreign partners in The Netherlands and in Switzerland. Sales are not made via special equipment retailers.

Germany is the most important market for condensing systems; neighboring markets (Italy, France, England) are just getting started and will be covered by the Company's own sales centers in the future.

# **Financial Statements**

## BUSINESS DEVELOPMENTS IN 1998

### Interim report of Centrotec Hochleistungskunststoffe AG as of October 31, 1998 (unaudited)

The following report gives an overview of the business developments of the consolidated Centrotec Group in the first ten months of fiscal year 1998 with the corresponding comparative figures. The figures were taken from the internal reporting system. They are unaudited and – to enhance comparability – do not include the costs of the Initial Public Offering. As of October 31, 1998, the costs of the Initial Public Offering amounted to DM 395 thousand and were reported as prepaid expenses in the balance sheet as of October 31, 1998.

In the period January to October 1998, the sales revenues of the Centrotec Group increased by 19 % to DM 22,019 thousand over the corresponding period in the previous year (DM 18,524 thousand). This increase is due to a rise in sales at Centroplast of around 17 % to approximately DM 18.9 million and at Centrotherm by roughly 35 % to approximately DM 3.6 million. The ratio of materials costs to operating performance experienced a slight improvement from 52.5 % to 50.5 % as a result of the concentration on higher-margin articles and further rationalization efforts.

Stronger cost management during the course of the year as regards the other operating expenses, which decreased in relative terms over the corresponding period in the previous year, resulted in the consolidated operating result more than doubling from DM 1,209 thousand to DM 2,974 thousand.

Earnings in the first ten months after financing expenses and tax amount to DM 1,980 thousand (previous year DM 379 thousand). However, a special factor amounting to DM 500 thousand will depress earnings; this relates to a final payment in conjunction with the former Leveraged Buy Out (LBO).

Consolidated DVFA earnings per share for the first ten months of 1998 are DM 1.65. These are already in excess of the twelve-monthly result for fiscal year 1997 of DM 1.07.

At DM 1,261 thousand, capital spending in the first ten months, primarily for new tools at Centrotherm Abgassysteme GmbH (DM 341 thousand), the reconstruction of a production facility and a cutting machine (together DM 368 thousand), is on target. As a result of growth, they exceed depreciation of DM 422 thousand by DM 656 thousand.

The consolidated equity stated in the pro forma consolidated balance sheet as of October 31, 1998 on page 32–33 contains the nominal capital increase of DM 1,500,000, composed of 300,000 ordinary bearer shares with a par value of DM 5.00 each, which was underwritten by the banking consortium with the obligation to offer the shares for sale and the obligation to pay a premium of DM 20 per ordinary bearer share with a par value of DM 5, a total of DM 6,000,000. The payment was made on November 24, 1998. The by October 31, 1998 outstanding payment of 75 percent of the nominal amount and of the premium is carried in the balance sheet under other assets.

The increase in the other provision is due to the inclusion of expenses which will not be recognized until November/December (e.g. Christmas bonuses).

**CONSOLIDATED STATEMENT OF INCOME AS OF OCTOBER 31, 1998**  
**(UNAUDITED)**

	Oct. 31, 1998		Oct. 31, 1997		Change	
	DM thousand	%	DM thousand	%	DM thousand	%
Sales .....	22,019		18,524		3,495	19
Changes in inventories .....	230		- 167		397	- 238
Other operating income .....	384		126		258	205
Operating performance .....	<u>22,633</u>	<u>100</u>	<u>18,483</u>	<u>100</u>	<u>4,150</u>	<u>22</u>
Cost of materials .....	- 11,248	- 50	- 9,638	- 52	- 1,610	17
Personnel expenses .....	- 4,958	- 22	- 4,418	- 24	- 540	12
Depreciation .....	- 554	- 2	- 358	- 2	- 196	55
Other operating expenses .....	- 2,889	- 13	- 2,850	- 15	- 39	1
Other taxes .....	- 10	0	- 10	0	0	0
Operating expenses .....	<u>- 19,659</u>	<u>- 87</u>	<u>- 17,274</u>	<u>- 93</u>	<u>- 2,385</u>	<u>14</u>
Operating result .....	<u>2,974</u>	<u>13</u>	<u>1,209</u>	<u>7</u>	<u>1,765</u>	<u>146</u>
Interest income .....	0	0	0	0	0	0
Interest expense .....	- 646	- 3	- 719	- 4	73	- 10
Financial result .....	<u>- 646</u>	<u>- 3</u>	<u>- 719</u>	<u>- 4</u>	<u>73</u>	<u>- 10</u>
Taxes on income .....	- 348	- 2	- 111	- 1	- 237	214
Net income .....	<u>1,980</u>	<u>9</u>	<u>379</u>	<u>2</u>	<u>1,601</u>	<u>422</u>
(before non-recurrent special charge)						
Non-recurrent special charge .....	- 500	- 2	0	0	0	100
Net income for the year .....	<u>1,480</u>	<u>7</u>	<u>379</u>	<u>2</u>	<u>1,101</u>	<u>291</u>

**PRO-FORMA-CONSOLIDATED BALANCE SHEET AS OF OCTOBER 31, 1998  
(UNAUDITED)**

**ASSETS**

	<u>Oct. 31, 1998</u>	<u>Dec. 31, 1997</u>
	DM	DM
<b>A. FIXED ASSETS</b>		
<b>I. Intangible assets</b>		
1. Industrial and similar rights .....	17,163.77	32,422.00
2. Goodwill from capital consolidation .....	0.00	0.00
	<u>17,163.77</u>	<u>32,422.00</u>
<b>II. Tangible assets</b>		
1. Land and buildings .....	3,290,336.76	3,309,708.54
2. Technical equipment and machinery .....	1,180,015.88	555,647.00
3. Other equipment, operating and office equipment .....	463,372.64	199,543.45
4. Payments on account .....	188,159.90	173,303.30
	<u>5,121,885.18</u>	<u>4,238,202.29</u>
	<u>5,139,048.95</u>	<u>4,270,624.29</u>
<b>B. CURRENT ASSETS</b>		
<b>I. Inventories</b>		
1. Raw materials, consumables and supplies .....	474,354.21	475,848.40
2. Finished goods and merchandise .....	4,311,716.60	3,759,053.74
	<u>4,786,070.81</u>	<u>4,234,902.14</u>
<b>II. Receivables and other assets</b>		
1. Trade receivables .....	3,712,125.50	2,652,368.85
2. Other assets .....	7,156,011.87	9,500.25
	<u>10,868,137.37</u>	<u>2,661,869.10</u>
<b>III. Cash-in-hand, postal giro and bank balances .....</b>	<u>575,715.10</u>	<u>118,442.90</u>
	<u>16,229,923.28</u>	<u>7,015,214.14</u>
<b>C. PREPAID EXPENSES .....</b>	<u>434,349.64</u>	<u>314.00</u>
<b>D. LOSS NOT COVERED BY EQUITY .....</b>	<u>0.00</u>	<u>5,359,720.54</u>
	<u>21,803,321.87</u>	<u>16,645,872.97</u>

## EQUITY AND LIABILITIES

	Oct. 31, 1998 DM	Dec. 31, 1997 DM
<b>A. EQUITY</b>		
I. Subscribed capital .....	6,000,000.00	3,500,000.00
II. Capital reserves .....	6,043,047.90	43,047.90
III. Consolidated accumulated losses brought forward .....	– 9,902,768.44	– 9,907,689.91
IV. Consolidated net income .....	1,479,520.30	1,004,921.47
V. Loss not covered by equity .....	0.00	5,359,720.54
	3,619,799.76	0.00
<b>B. PROVISIONS</b>		
1. Provisions for taxes .....	390,000.00	247,041.00
2. Other provisions .....	2,608,400.00	874,120.00
	2,998,400.00	1,121,161.00
<b>C. LIABILITIES</b>		
1. Liabilities to banks .....	10,920,876.63	11,526,147.35
2. Trade payables .....	1,802,667.65	1,276,128.15
3. Other liabilities .....	2,461,577.83	2,722,436.47
– thereof taxes DM 65,787.12 (previous year DM 86,308.05)		
– thereof relating to social security and similar obligations: DM 0.00 (previous year DM 94,000.00)		
	15,185,122.11	15,524,711.97
	21,803,321.87	16,645,872.97

**PRO-FORMA-STATEMENT OF CASH FLOWS FOR THE PERIOD JANUARY 1, 1998 TO OCTOBER 31, 1998  
(UNAUDITED)**

	Group Oct. 31, 1998 <u>DM thousand</u>
<b>Net cash provided by/used in operating activities</b>	
Net income .....	1,480
Depreciation on intangible and tangible assets .....	554
Income/loss from disposal of fixed assets .....	0
Cash Flow .....	<u>2,034</u>
Decrease/increase in assets and increase/decrease in liabilities	
Inventories .....	– 551
Receivables and other assets .....	– 8,640
Provisions .....	1,877
Trade payables .....	527
Other liabilities (without shareholder loans) .....	– 2,092
	<u>– 8,879</u>
<b>Net cash used in operating activities</b> .....	<u>– 6,845</u>
<b>Net cash used in investing activities</b>	
Investment in intangible and tangible assets .....	– 1,422
Disposal of fixed assets .....	– 0
	<u>– 1,422</u>
<b>Net cash provided by/used in financing activities</b>	
Medium- and long-term bank liabilities .....	– 844
Increase in subscribed capital .....	1,500
Increase in capital reserves .....	6,000
Shareholder loans .....	1,832
	<u>8,488</u>
<b>Increase/Decrease in liquid funds</b> .....	221
<b>Liquid funds at the beginning of the fiscal year</b> .....	<u>– 8,314</u>
<b>Liquid funds at the end of the fiscal year</b> .....	<u><u>– 8,093</u></u>
<b>Composition of the liquid funds at the end of the fiscal year</b>	
Cash-in-hand, bank balances .....	576
Current liabilities to banks .....	– 8,670
	<u><u>– 8,094</u></u>

On October 31, credit lines amounted to DM 12.7 million; of this total, DM 10.9 million had been drawn down.

**RECONCILIATION ACCOUNTS FOR THE CONSOLIDATED STATEMENT OF INCOME AS OF  
OCTOBER 31, 1998 (UNAUDITED)**

	DM	DM
<b>Net income (HGB)</b> .....		1,479,520.30
<b>Capitalization adjustments</b>		
Leases		
• Increase in depreciation .....	- 278,661.98	
• Decrease in other operating expenses .....	330,375.92	
• Increase in interest expense .....	- 44,032.58	7,681.36
Capitalized development expenses		
• Increase in depreciation .....	- 60,300.00	
• Decrease in other operating expenses .....	32,000.00	- 28,300.00
Increase in tax expenses .....		- 603,774.25
<b>Net income (IAS)</b> .....		855,127.41

## NOTES TO THE CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS OF THE CENTROTEC GROUP

### Change of legal form

On January 1, 1998, the change of legal form of Centrotec Hochleistungskunststoffe AG, Munich from a *Gesellschaft mit beschränkter Haftung* (limited liability company) to an *Aktiengesellschaft* (joint stock corporation) came into economic effect in accordance with Section 190 UmwG (German Transformation Act). In this context, the name of the company was previously changed from *Centroplast Holding GmbH* to *Centrotec GmbH Hochleistungskunststoffe*.

The consolidated and annual financial statements of Centroplast Holding GmbH as of December 31, 1997 as well as the group management report for fiscal year 1997 and the annual financial statements of Centroplast Kunststoffherzeugnisse GmbH & Co. and Centrotherm Abgasttechnik GmbH as of December 31, 1997 are presented below. Corresponding prior year comparative figures and the audit opinions of the auditor are included, together with a consolidated statement of cash flows and IAS reconciliation accounts for the consolidated net income.

### Comparability

Attention is drawn to the fact that the capital increase in fiscal year 1998 at Centroplast Holding GmbH (following the change of legal form: Centrotec Hochleistungskunststoffe AG) by DM 1,000,000.00 – from a subscribed capital of DM 3,500,000.00 to DM 4,500,000.00 – and the costs relating to the legal form of a joint stock corporation (general meeting, supervisory board, increased disclosure requirements) are not contained in the consolidated and annual financial statements of Centroplast Holding GmbH as of December 31, 1997.

### Negative consolidated equity

The consolidated balance sheet of Centroplast Holding GmbH as of December 31, 1997 discloses a net loss not covered by equity amounting to DM 5,359,720.54. This net loss is composed of the positive equity of all consolidated companies amounting to DM 5,243,055.01 and negative effects from the consolidation amounting to DM 10,602,775.55.

The negative equity effect of consolidation mostly contains effects from the capital consolidation of the holding by Centroplast Holding GmbH in Centroplast Kunststoffherzeugnisse GmbH & Co. at the date of acquisition of the holding (August 1, 1990). The purchase price of the investment (acquisition costs) at this date exceeded the equity stated on the face of the balance sheet, so there was a legal requirement to reveal hidden reserves and goodwill in the consolidated balance sheet.

The hidden reserves revealed and the goodwill were written down to the greatest possible extent in the consolidated financial statements in the subsequent years up until December 31, 1997, and therefore depressed consolidated earnings in the past. This was a decisive factor in the consolidated accumulated losses brought forward as of December 31, 1998 amounting to DM 9,907,689.91, and resulted in the loss not covered by equity.

**CONSOLIDATED FINANCIAL STATEMENTS OF**

**CENTROPLAST HOLDING GMBH**

**FOR FISCAL YEARS 1997, 1996 AND 1995**

**(1996 AND 1995 UNAUDITED)**

## ASSETS

	Group 1997 DM	Group 1996 DM	Group 1995 DM
	<u>DM</u>	<u>DM</u>	<u>DM</u>
<b>A. FIXED ASSETS</b>			
I. Intangible assets			
Industrial and similar rights .....	32,422.00	44,005.00	57,235.00
II. Fixed assets			
1. Land and buildings .....	3,309,708.54	3,483,254.70	3,646,105.50
2. Technical equipment and machinery .....	555,647.00	467,336.00	156,844.00
3. Other equipment, operating and office equipment .....	199,543.45	212,365.06	132,097.20
4. Payments on account .....	173,303.30	0.00	30,188.45
	<u>4,238,202.29</u>	<u>4,162,955.76</u>	<u>3,965,235.15</u>
	<u>4,270,624.29</u>	<u>4,206,960.76</u>	<u>4,022,470.15</u>
<b>B. CURRENT ASSETS</b>			
I. Inventories			
1. Raw materials, consumables and supplies .....	475,848.40	496,120.92	463,673.38
2. Work in process .....	0.00	246,998.24	0.00
3. Finished goods and merchandise .....	3,759,053.74	3,445,559.55	3,634,065.36
	<u>4,234,902.14</u>	<u>4,188,678.71</u>	<u>4,097,738.74</u>
II. Receivables and other assets			
1. Trade receivables .....	2,652,368.85	2,528,489.20	1,718,769.69
2. Other assets .....	9,500.25	219,073.77	58,023.70
	<u>2,661,869.10</u>	<u>2,747,562.97</u>	<u>1,776,793.39</u>
III. Cash-in-hand, postal giro and bank balances .....			
	118,442.90	95,333.47	84,257.77
	<u>7,015,214.14</u>	<u>7,031,575.15</u>	<u>5,958,789.90</u>
<b>C. PREPAID EXPENSES .....</b>			
	314.00	55.00	1,025.00
<b>D. LOSS NOT COVERED BY EQUITY .....</b>			
	5,359,720.54	6,364,642.01	6,492,823.00
	<u>16,645,872.97</u>	<u>17,603,232.92</u>	<u>16,475,108.05</u>

## EQUITY AND LIABILITIES

	Group 1997 DM	Group 1996 DM	Group 1995 DM
	<u>DM</u>	<u>DM</u>	<u>DM</u>
<b>A. LIABILITIES</b>			
I. Subscribed capital .....	3,500,000.00	3,500,000.00	3,500,000.00
II. Revenue reserves .....	43,047.90	43,047.90	43,047.90
III. Consolidated loss brought forward .....	– 9,907,689.91	– 10,035,870.90	– 10,148,767.61
IV. Consolidated net income .....	1,004,921.47	128,180.99	112,896.71
V. Loss not covered by equity .....	5,359,720.54	6,364,642.01	6,492,823.00
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>B. PROVISIONS</b>			
1. Provisions for taxes .....	247,041.00	0.00	0.00
2. Other provisions .....	874,120.00	391,050.00	400,800.00
	<u>1,121,161.00</u>	<u>391,050.00</u>	<u>400,800.00</u>
<b>C. LIABILITIES</b>			
1. Liabilities to banks .....	11,526,147.35	13,215,223.25	13,168,891.47
2. Trade payables .....	1,276,128.15	1,668,295.58	1,146,014.72
3. Other liabilities .....	2,722,436.47	2,328,664.09	1,759,401.86
– thereof taxes: DM 127,449.91			
– thereof relating to social security and similar obligations: DM 94,426.18			
	<u>15,524,711.97</u>	<u>17,212,182.92</u>	<u>16,074,308.05</u>
	<u>16,645,872.97</u>	<u>17,603,232.92</u>	<u>16,475,108.05</u>

## STATEMENT OF INCOME

	Group 1997 DM	Group 1996 DM	Group 1995 DM
1. Sales .....	22,483,771.34	19,328,231.80	18,342,839.44
2. Increase or decrease in finished goods inventories and work in process .....	60,027.12	– 236,978.76	962,103.64
3. Own work capitalized .....	13,194.33	0.00	0.00
4. Other operating income .....	126,811.44	373,410.49	56,970.45
5. Cost of materials			
a) Cost of raw materials, consumables and supplies and of purchased merchandise .....	– 11,061,824.80	– 9,798,581.43	9,695,189.23
b) Cost of purchased services .....	– 148,161.83	– 96,211.48	– 122,769.59
6. Personnel expenses			
a) Wages and salaries .....	– 4,259,002.31	– 4,169,130.48	– 3,875,926.68
b) Social security costs .....	– 912,239.34	– 836,397.79	– 750,175.87
7. Depreciation			
a) on intangible and tangible assets .....	– 444,142.69	– 422,342.09	– 870,716.94
b) on current assets to the extent that it exceeds depreciation normal for the company .....	0.00	0.00	– 292,316.62
8. Other operating expenses .....	– 3,585,022.96	– 2,863,284.31	– 2,549,492.24
9. Other interest and similar income .....	297.33	182.93	889.02
10. Interest and similar expenses .....	– 875,884.46	– 992,894.19	– 1,084,097.41
11. Result from ordinary operations .....	<u>1,397,823.17</u>	<u>286,004.69</u>	<u>122,117.97</u>
12. Taxes on income .....	– 381,015.00	– 145,456.00	1,310.00
13. Other taxes .....	– 11,886.70	– 12,367.70	– 10,531.26
14. Consolidated net income .....	<u><u>1,004,921.47</u></u>	<u><u>128,180.99</u></u>	<u><u>112,896.71</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 1997

### A. General information on and explanations to the consolidated financial statements and the companies included in consolidation

#### 1. Consolidated companies

At the balance sheet date, Centroplast Holding GmbH, Munich, was the parent company as defined by Section 290 HGB (German Commercial Code) for the following listed subsidiaries, which are thus also affiliated companies as defined by Section 271 Para. 2 HGB. The companies were included in the consolidated financial statements in accordance with the provisions applying to full consolidation.

Name and registered office of the company	Holding in %	Nominal capital/ Fixed capital DM thousand	Equity as of Dec. 31, 1997 DM thousand
Centroplast Kunststoffzeugnisse GmbH & Co., Marsberg.....	100.00	500	552
Centrotherm Abgastechnik GmbH, Marsberg .....	100.00	200	– 980

#### 2. Closing date of the consolidated financial statements

The consolidated financial statements were prepared as of December 31, 1997. This date is the balance sheet date for all consolidated companies in the Group.

#### 3. Consolidation, accounting and valuation policies

When preparing consolidated financial statements, Centroplast complies with the provisions of the HGB, the GmbHG (German Limited Liability Companies Act) and with generally accepted accounting and consolidation principles as regards accounting, valuation and consolidation. To the extent that tax regulations require corresponding disclosure in the financial statements, Centroplast complies with these tax provisions.

The assets and debts of the companies included in the consolidated financial statements in accordance with Section 300 Para. 2 HGB are valued in accordance with the uniform valuation principles applied to the annual financial statements of the parent company.

The date of acquisition of the holdings in the subsidiaries, i.e. August 1, 1990, was generally taken as the reference date for the elimination of the holdings owned by the parent company against the amount represented by these holdings in the equity of the subsidiaries (capital consolidation).

##### 3.1 Capital consolidation

Capital consolidation is performed using the book value method in accordance with Section 301 Para. 1 Sentence 2 No. 1 HGB by offsetting the acquisition costs of the investment against the pro rata capital subject to mandatory consolidation at the time of initial consolidation. This includes the subscribed capital, reserves, outstanding contributions and the retained earnings/accumulated losses brought forward.

Capital consolidation was carried out on the basis of the equity as of August 1, 1990.

Differences from capital consolidation result because of differences between

- the costs of acquisition of the investments in the other companies included and
- the capital of these companies subject to mandatory consolidation at the time of first inclusion of the subsidiary in the consolidated financial statements.

The resulting asset-side difference was added to the assets of the respective subsidiary to be carried in the consolidated balance sheets to the extent that their value was higher than the previous valuation. The remaining difference after this addition is disclosed as goodwill from capital consolidation. The goodwill from capital consolidation is written down in full over a period of 5 years.

##### 3.2 Consolidation of intercompany balances

Receivables and payables of the consolidated affiliated companies are eliminated. There was no difference arising from this elimination.

### *3.3 Consolidation of intercompany profits*

Intercompany profits in the Group to be eliminated in accordance with Section 304 HGB amounted to DM 25 thousand.

### *3.4 Consolidation of income and expenses*

Intercompany sales were eliminated during the consolidation of income and expenses of the related companies.

### *3.5 Tax deferrals*

There was no requirement in the Group to set up tax deferrals in accordance with Section 306 HGB.

### *3.6 Accounting and valuation policies*

#### *3.6.1 Accounting policies*

The annual financial statements of Centroplast Holding GmbH, Munich, and the other companies included in the consolidated financial statements are prepared in compliance with uniform accounting and valuation methods. The consolidated financial statements contain all assets, liabilities, prepaid expenses and deferred income, expenses and income, unless prescribed otherwise by law.

The intangible and current assets, equity, liabilities, prepaid expenses and deferred income are disclosed separately in the consolidated balance sheet and are adequately classified.

Provisions were only set up as allowed by Section 249 HGB.

Prepaid expenses and deferred income are carried in accordance with the provisions of Section 250 HGB.

#### *3.6.2 Valuation policies*

The assets and liabilities are valued individually as at the balance sheet date.

Cautious valuations are applied, and take particular account of all foreseeable risks and losses arising before the balance sheet date.

Intangible assets acquired for a consideration are capitalized at their cost of acquisition and written down over a period of 4–5 years using the straight-line method.

Intangible assets are valued at their cost of acquisition or manufacture, less regular depreciation over the standard useful life at the company. Low-value assets are written down in full in the year of their addition.

The half-yearly simplification rule for depreciable movable assets is applied.

Extraordinary depreciation is applied in those cases where it is necessary to apply a lower value.

Inventories are valued using the lower of cost or market value.

Receivables and other assets are carried at their principal value. All recognizable risks are covered by write-downs. A global value adjustment of 3 % is applied to take account of the general credit risk.

When calculating provisions for uncertain liabilities, suitable and adequate account is taken of all recognizable risks.

Liabilities are carried at their redemption amount. Foreign currency liabilities are valued at the historical rate or at the higher rate prevailing at the closing date.

## **B. Special disclosures and explanations to the consolidated financial statements**

### ***1. Consolidated balance sheet***

#### *1.1 Assets*

##### *1.1.1 Fixed assets*

The classification and movements of fixed assets are shown in the following Statement of Fixed Assets:



**STATEMENT OF CONSOLIDATED FIXED ASSETS IN FISCAL YEAR 1997**

	Acquisition and manufacturing costs			
	Jan. 1, 1997	Additions	Disposals	Dec. 31, 1997
	DM	DM	DM	DM
<b>Intangible assets</b>				
1. Industrial rights and similar rights .....	119,514.73	12,513.08	263.13	131,764.68
2. Goodwill from capital consolidation .....	3,497,164.00	0.00	0.00	3,497,164.00
	<u>3,616,678.73</u>	<u>12,513.08</u>	<u>263.13</u>	<u>3,628,928.68</u>
<b>Tangible assets</b>				
1. Land and buildings .....	5,922,518.35	0.00	0.00	5,922,518.35
2. Technical equipment and machinery .....	8,232,707.55	259,195.25	272,567.00	8,219,335.80
3. Other equipment, operating and office equipment .....	1,246,446.81	69,843.59	22,887.72	1,293,402.68
4. Payments on account .....	0.00	173,303.30	0.00	173,303.30
	<u>15,401,672.71</u>	<u>502,342.14</u>	<u>295,454.72</u>	<u>15,608,560.13</u>
	<u>19,018,351.44</u>	<u>514,855.22</u>	<u>295,717.85</u>	<u>19,237,488.81</u>

Accumulated depreciation				Net book value	
Jan. 1, 1997 DM	Additions DM	Disposals DM	Dec. 31, 1997 DM	Dec. 31, 1997 DM	Jan. 1, 1997 DM
75,509.73	24,096.08	263.13	99,342.68	32,422.00	44,005.00
3,497,164.00	0.00	0.00	3,497,164.00	0.00	0.00
<u>3,572,673.73</u>	<u>24,096.08</u>	<u>263.13</u>	<u>3,596,506.68</u>	<u>32,422.00</u>	<u>44,005.00</u>
2,439,263.65	173,546.16	0.00	2,612,809.81	3,309,708.54	3,483,254.70
7,765,371.55	170,879.25	272,562.00	7,663,688.80	555,647.00	467,336.00
1,034,081.75	75,621.20	15,843.72	1,093,859.23	199,543.45	212,365.06
0.00	0.00	0.00	0.00	173,303.30	0.00
<u>11,238,716.95</u>	<u>420,046.61</u>	<u>288,405.72</u>	<u>11,370,357.84</u>	<u>4,238,202.29</u>	<u>4,162,955.76</u>
<u>14,811,390.68</u>	<u>444,142.69</u>	<u>288,668.85</u>	<u>14,966,864.52</u>	<u>4,270,624.29</u>	<u>4,206,960.76</u>

### 1.1.2 Current assets

#### Receivables and other assets

The receivables and other assets do not contain items with more than one year to maturity.

### 1.2 Equity and liabilities

#### 1.2.1 Equity

The ordinary share capital of Centroplast Holding GmbH, Munich, amounts to DM 3,500 thousand, the revenue reserves amount to DM 43 thousand. Due to an accumulated loss of DM 9,908 thousand brought forward and net income of DM 1,005 thousand, the Group has disclosed a loss not covered by equity of DM 5,360 thousand as of 31 December, 1997.

At 31 December 1997 the parent company Centroplast Holding GmbH disclosed equity amounting to DM 5,671 thousand and net income of DM 1,067 thousand.

#### 1.2.2 Provisions for taxes

The provisions for taxes contain amounts for trade income tax in 1997 and previous years of Centroplast Kunststoffzeugnisse GmbH & Co., Marsberg.

#### 1.2.3 Other provisions

The other provisions primarily relate to amounts for legal and consulting expenses, claims for outstanding vacation entitlements, warranty obligations and credit notes to be issued.

#### 1.2.4 Liabilities

The remaining maturities are shown in the table below:

	Balance at the balance sheet date DM thousand	thereof with a remaining maturity of	
		less than one year DM thousand	between one and five years DM thousand
Liabilities to banks .....	11,526	8,432	3,094
Trade payables .....	1,276	1,276	0
Liabilities to shareholders .....	468	468	0
Other liabilities .....	2,254	2,254	0
	<u>15,524</u>	<u>12,430</u>	<u>3,094</u>

The collateral provided for liabilities to banks is principally composed of:

- Global assignments of receivables
- Storage assignments of inventories
- Mortgage on the site of the Centroplast GmbH & Co. plant amounting to DM 10,000 thousand.

At the closing date, DM 9,533 thousand of the liabilities was covered by collateral.

## 2. Consolidated statement of income

### Sales

Sales are broken down as follows:

	DM thousand
Semi-finished products .....	11,612
Finished products.....	6,918
Exhaust systems.....	3,281
Merchandise.....	895
Other .....	128
less:	
– Discounts .....	346
– Bonuses.....	5
	<u>22,483</u>

## **C. Supplementary Disclosures**

### ***1. Contingent liabilities***

At the balance sheet date, there were no contingent liabilities as defined by Section 251 HGB in the Group.

### ***2. Other financial obligations***

Leasing contracts result in financial obligations for the minimum leasing period of DM 493 thousand, including DM 320 thousand for 1998.

### ***3. Average number of employees***

During the period January 1 to December 31, 1997, the Group employed an average of 76 employees, including 3 managing directors.

Munich, May 18, 1998

Centroplast Holding GmbH

The Management

**GROUP MANAGEMENT REPORT OF CENTROPLAST HOLDING GMBH  
FOR FISCAL YEAR 1997**

In the Group, fiscal year 1997 was marked by the financial results of the affiliates Centroplast Kunststoffzeugnisse GmbH & Co. and Centrotherm Abgastechnik GmbH.

The cyclical recovery in the main customer industries continued, particularly abroad, enabling a gratifying increase in sales and earnings. This was due to a rise in sales of both semi-finished and finished products. We expect that the economic upturn in the customer industries will continue during the current fiscal year 1998, and are forecasting continued strong growth. The raw materials supply base is stable.

Consolidated liabilities to banks were reduced in 1997, despite a more than 16% rise in sales of more than DM 1.7 million. We expect debt to be reduced further in 1998 despite the need to finance our sustained growth.

The key conditions for marketing the range of products have now been met in Centrotherm GmbH's exhaust systems technology business unit. OEM orders from well-known manufacturers will be delivered in 1998 at good margins. The product range is now complete.

The planned transformation of the Company into an Aktiengesellschaft (joint stock corporation) with a simultaneous external capital increase could open up new dimensions for the Group.

Munich, May 18, 1998

Centroplast Holding GmbH

The Management

## AUDIT OPINION

We have issued the following unqualified audit opinion on the consolidated financial statements of Centroplast Holding GmbH, Munich, as of 31 December 1997:

”The consolidated financial statements, which we have audited in accordance with professional standards, comply with the legal regulations. In compliance with generally accepted accounting principles, the consolidated financial statements present a true and fair view of the net worth, financial position and results of the Group. The Group management report is in agreement with the consolidated financial statements.”

ARTHUR ANDERSEN  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft mbH

von Sperber  
Wirtschaftsprüfer

Steinweg  
Wirtschaftsprüfer

Hanover, May 18, 1998

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR FISCAL YEARS 1997, 1996 AND 1995**

	Group 1997 DM thousand	Group 1996 DM thousand	Group 1995 DM thousand
<b>Net cash provided by/used in operating activities</b>			
Net income .....	1,005	128	113
Depreciation on intangible and tangible assets .....	444	422	871
Income from disposals of assets .....	– 18	– 68	– 22
Cash Flow .....	<u>1,431</u>	<u>482</u>	<u>962</u>
Decrease/increase in assets and increase/decrease in liabilities			
Inventories .....	– 46	– 91	– 1,224
Receivables and other assets .....	86	– 970	504
Provisions .....	730	– 10	33
Trade payables .....	– 392	522	188
Other liabilities .....	675	271	304
	<u>1,053</u>	<u>– 278</u>	<u>– 195</u>
Net cash used in operating activities .....	<u>2,484</u>	<u>204</u>	<u>767</u>
<b>Net cash provided by/used in investing activities</b>			
Investment in fixed assets .....	– 515	– 635	– 1,186
Disposals .....	25	96	581
	<u>– 490</u>	<u>– 539</u>	<u>– 605</u>
<b>Net cash provided by/used by financing activities</b>			
Medium- and long-term bank liabilities .....	– 1,124	– 1,145	5,363
Shareholder loans .....	– 282	300	– 450
	<u>– 1,406</u>	<u>– 845</u>	<u>4,913</u>
<b>Increase/decrease in liquid funds</b> .....	588	– 1,180	5,075
Liquid funds at the beginning of the fiscal year .....	– 8,902	– 7,722	– 12,797
Liquid funds at the end of the fiscal year .....	<u>– 8,314</u>	<u>– 8,902</u>	<u>– 7,722</u>
Composition of the liquid funds at the end of the fiscal year			
Cash-in-hand, postal giro and bank balances .....	118	95	84
Current liabilities to bank .....	– 8,432	– 8,997	– 7,806
	<u>– 8,314</u>	<u>– 8,902</u>	<u>– 7,722</u>

On December 31, 1997 credit lines amounted to DM 13.4 million; of this total, DM 11.5 million had been drawn down.

**AUDITOR'S CERTIFICATE  
ON THE IAS RECONCILIATION ACCOUNTS**

Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH was appointed as the auditor of the consolidated financial statements of Centroplast Holding GmbH for fiscal year 1997 in accordance with Section 316 HGB (German Commercial Code). We performed this audit and reported on the results of our audit on May 18, 1998.

As a result of our audit, we issued an unqualified audit opinion on the consolidated financial statements for 1997 of Centroplast Holding GmbH in accordance with Section 322 Para. 1 HGB. The consolidated financial statements of Centroplast Holding GmbH, Munich, were prepared in accordance with the provisions of the HGB and disclose a net income of DM 1,004,921.47 for fiscal year 1997.

We were also instructed to examine the reconciliation accounts, prepared by Centrotec Hochleistungskunststoffe AG, for deriving the consolidated net income established in accordance with the standards promulgated by the International Accounting Standards Committee (IASC) from the consolidated net income established in accordance with the provisions of the HGB. As a result of our examination, we are able to confirm that the reconciliation accounts prepared by the company and attached in the Annex contain the adjustments necessary to disclose consolidated net income for fiscal year 1997 in compliance with the standards promulgated by the International Accounting Standards Committee (IASC). The details of the adjustments made are shown in the attached Annex.

The adjustments made result in an aggregate deterioration in earnings of DM 486,176.51, resulting in net income of Centroplast Holding GmbH for the consolidated fiscal year 1997 in accordance with the IASC standards of DM 518,744.96.

ARTHUR ANDERSEN  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft mbH

von Sperber  
Wirtschaftsprüfer

Steinweg  
Wirtschaftsprüfer

Hanover, 31 August 1998

**IAS RECONCILIATION ACCOUNTS FOR THE  
CONSOLIDATED STATEMENTS OF INCOME  
OF CENTROPLAST HOLDING GMBH  
FOR FISCAL YEAR 1997**

	DM	DM
<b>Net income (HGB)</b> .....		1,004,921.47
Capitalization adjustments		
Leases		
● Increase in depreciation .....	- 282,234.38	
● Decrease in other operating expenses .....	336,404.64	
● Increase in interest expense .....	-58,500.77	- 4,330.51
Capitalized development expenses		
● Increase in depreciation .....	- 64,846.00	
● Decrease in other operating expenses .....	- 90,000.00	- 154,846.00
Increase in tax expenses .....		- 327,000.00
Net income (IAS) .....		518,744.96

**NOTES TO THE IAS RECONCILIATION ACCOUNTS  
OF CENTROPLAST HOLDING GMBH  
FOR FISCAL YEAR 1997**

**Adjustment due to the capitalization of leases**

According to International Accounting Standards, a number of the leasing contracts concluded by the companies in the Centroplast Group must be accounted for by the lessor. The total expense over the overall period of the respective leasing contract is identical for each accounting method (HGB or IAS). What is different, however, is the allocation to accounting periods. In 1997, this results in an additional expense of DM 4 thousand. In the subsequent years, however, this is reversed, resulting in the following future IAS reconciliation adjustments from the leasing contracts existing in 1997:

	Effect on earnings DM thousand
	<hr/>
1998	+ 18
1999	+ 36
2000	+ 2
2001	+ 1

From 2002, the leasing contracts existing in 1997 will have expired, with the result that from then on, there will be no further differences between HGB accounts and IAS accounts resulting from the leasing contracts existing in 1997 .

**Adjustment due to capitalized development expenses**

In the past, the Company has undertaken two major development projects, for which IAS requires the associated costs, less any grants or subsidies, to be capitalized. For the first project, the capitalized development expenses amount to DM 288 thousand; since 1 January 1995, these are being written down over a five-year period. The second project resulted in development costs to be capitalized amounting to DM 36 thousand; since 1 January 1996, these are being written down over a five-year period. For fiscal years 1996 to 1999, this results in annual depreciation of capitalized development expenses of DM 65 thousand, and in the year 2000, further depreciation of capitalized development expenses of DM 7 thousand.

In addition, the preparation of annual financial statements in accordance with IAS requires that a portion of the subsidies granted, amounting to DM 90 thousand, which was not disbursed until 1997 and which was recognized in income in the HGB financial statements, must be eliminated against the capitalized development expenses in fiscal year 1997.

In the future, however, no further grant or subsidy payments are expected, so there will be no further impact on future IAS reconciliation accounts.

**Increase in tax expenses**

According to International Accounting Standards, deferred tax assets (tax credits) must be set up for accumulated losses brought forward which are likely to be utilized at some point in the future. In subsequent years, these deferred tax assets (tax credits) must be released and recognized in the amount of the utilization of the tax loss carryforwards. The additional tax expense of DM 327 thousand disclosed in fiscal year 1997 under the adjustment to comply with IAS results mostly from the amortization of the aforementioned tax credits. This does not involve recognition, but merely the technical elimination of expense. In the future, this expense item from the amortization of capitalized tax credits will develop in line with the utilization of the tax loss carryforwards of the company concerned. When the tax loss carryforwards have been exhausted, there will no longer be any difference in earnings between those calculated in accordance with the provisions of the HGB and those calculated in accordance with IAS.



**ANNUAL FINANCIAL STATEMENTS OF**

**CENTROPLAST HOLDING GMBH**

**FOR FISCAL YEARS 1997, 1996 AND 1995**

## ASSETS

	<b> Holding 1997 DM</b>	<b> Holding 1996 DM</b>	<b> Holding 1995 DM</b>
<b>A. FIXED ASSETS</b>			
<b>I. Tangible assets</b>			
Other equipment, operating and office equipment. . . . .	<u>0.00</u>	<u>156.40</u>	<u>469.20</u>
<b>II. Financial assets</b>			
Shares in affiliated companies . . . . .	<u>11,594,522.46</u>	<u>11,594,522.46</u>	<u>11,594,522.46</u>
	<u>11,594,522.46</u>	<u>11,594,678.86</u>	<u>11,594,991.66</u>
<b>B. CURRENT ASSETS</b>			
<b>I. Receivables</b>			
Receivables from affiliated companies . . . . .	<u>938,720.09</u>	<u>900,000.00</u>	<u>400,000.00</u>
<b>II. Bank balances . . . . .</b>	<u>0.00</u>	<u>4,495.07</u>	<u>15,617.94</u>
	<u>938,720.09</u>	<u>904,495.07</u>	<u>415,617.94</u>
	<u>12,533,242.55</u>	<u>12,499,173.93</u>	<u>12,010,609.60</u>

## EQUITY AND LIABILITIES

	<b>Holding 1997 DM</b>	<b>Holding 1996 DM</b>	<b>Holding 1995 DM</b>
<b>A. EQUITY</b>			
I. Subscribed capital . . . . .	3,500,000.00	3,500,000.00	3,500,000.00
II. Revenue reserves . . . . .	43,047.90	43,047.90	43,047.90
III. Retained earnings/accumulated losses brought forward . . . .	1,060,610.92	658,276.60	– 81,036.18
IV. Net income for the year . . . . .	1,067,144.88	402,334.32	739,312.78
	<u>5,670,803.70</u>	<u>4,603,658.82</u>	<u>4,201,324.50</u>
<b>B. PROVISIONS</b>			
Other provisions . . . . .	304,650.00	30,400.00	46,500.00
	<u>304,650.00</u>	<u>30,400.00</u>	<u>46,500.00</u>
<b>C. LIABILITIES</b>			
1. Liabilities to banks . . . . .	4,233,868.85	5,362,675.78	6,491,660.16
2. Trade payables . . . . .	0.00	141.80	15,208.20
3. Liabilities to affiliated companies . . . . .	0.00	536,476.50	291,550.21
4. Liabilities to shareholders . . . . .	468,170.00	750,000.00	450,000.00
5. Other liabilities			
– thereof relating to social security and other			
obligations: DM 0.00 (previous year: DM 3,349.79) . . . . .	1,855,750.00	1,215,821.03	514,366.53
	<u>6,557,788.85</u>	<u>7,865,115.11</u>	<u>7,762,785.10</u>
	<u>12,533,242.55</u>	<u>12,499,173.93</u>	<u>12,010,609.60</u>

## STATEMENT OF INCOME

	<b>Holding 1997 DM</b>	<b>Holding 1996 DM</b>	<b>Holding 1995 DM</b>
1. Other operating income . . . . .	0.00	900.00	0.00
2. Personal expenses			
a) Wages and salaries . . . . .	– 42,650.00	– 110,500.00	– 47,500.00
b) Social security costs . . . . .	– 9,955.89	– 18,890.07	– 4,705.85
3. Depreciation			
a) on tangible assets . . . . .	– 156.40	– 312.80	– 312.80
b) on current assets, to the extent that it exceeds depreciation normal for the company . . . . .	0.00	0.00	– 292,316.62
4. Other operating expenses . . . . .	– 436,926.84	– 111,952.40	– 113,803.54
5. Income from participations . . . . .	1,973,415.66	1,159,725.96	1,809,652.19
– thereof from affiliated companies: DM 1,973,415.66 (previous year: DM 1,159,725.96)			
6. Interest and similar expenses . . . . .	<u>– 416,581.65</u>	<u>– 516,636.37</u>	<u>– 611,700.60</u>
7. Result from ordinary operations . . . . .	<u>1,067,144.88</u>	<u>402,334.32</u>	<u>739,312.78</u>
8. Net income for the year . . . . .	<u><u>1,067,144.88</u></u>	<u><u>402,334.32</u></u>	<u><u>739,312.78</u></u>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR FISCAL YEAR 1997

### **A. General information**

The Company is a small company as defined by Section 267 HGB (German Commercial Code). The classification of the balance sheet and the statement of income is based on the provisions of Sections 264 ff. HGB applying to corporations. It applies the type of expenditure (total cost) format defined in Section 275 Para. 2 HGB to the statement of income. The Company makes partial use of the available simplification options in the preparation of the balance sheet (Section 266 Para. 1 HGB), the statement of income (Section 276 HGB) and the notes (Section 288 HGB).

### **B. Accounting and valuation policies**

#### ***1. Tangible assets***

Tangible assets are carried at their cost of acquisition, less regular depreciation. The Company depreciates other equipment, operating and office equipment over 4 years using the straight-line method.

#### ***2. Financial assets***

Financial assets are valued at their cost of acquisition.

#### ***3. Receivables***

Receivables are carried at their principal amount.

#### ***4. Provisions***

Other provisions are set up for uncertain obligations. They are carried at the amount dictated by prudent commercial practice.

#### ***5. Liabilities***

Liabilities are carried at their redemption amount.

## C. Disclosures and explanations to the annual financial statements

### 1. Fixed assets

Fixed asset movements are shown in the following Statement of Fixed Assets:

	Acquisition costs	
	Jan. 1, 1997	Dec. 31, 1997
	<u>DM</u>	<u>DM</u>
<b>Tangible assets</b>		
Other equipment, operating and office equipment .....	<u>1,251.20</u>	<u>1,251.20</u>
<b>Financial assets</b>		
Shares in affiliated companies .....	<u>11,594,522.46</u>	<u>11,594,522.46</u>
	<u>11,595,773.66</u>	<u>11,595,773.66</u>

Accumulated depreciation			Net book values	
Jan. 1, 1997	Additions	Dec. 31, 1997	Dec. 31, 1997	Dec. 31, 1996
DM	DM	DM	DM	DM
<u>1,094.80</u>	<u>156.40</u>	<u>1,251.20</u>	<u>0.00</u>	<u>156.40</u>
<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>11,594,522.46</u>	<u>11,594,522.46</u>
<u><u>1,094.80</u></u>	<u><u>156.40</u></u>	<u><u>1,251.20</u></u>	<u><u>11,594,522.46</u></u>	<u><u>11,594,678.86</u></u>

## 2. Receivables

There are no receivables with more than one year to maturity.

On April 23, 1996, Centroplast Holding GmbH, Munich, issued a letter subordinating its receivables from Centrotherm Abgastechnik GmbH, Marsberg, amounting to DM 900,000.00, to Berliner Bank AG, Hamburg Branch.

## 3. Liabilities

The remaining maturities of the liabilities are shown in the following Statements of Liabilities:

	Dec. 31, 1997	thereof with a remaining maturity of	
		less than one year	between one and five years
	DM	DM	DM
Liabilities to banks <sup>1)</sup> . . . . .	4,233,868.85	1,139,941.41	3,093,927.44
Liabilities to shareholders . . . . .	468,170.00	468,170.00	0.00
Other liabilities . . . . .	1,855,750.00	1,855,750.00	0.00
	<u>6,557,788.85</u>	<u>3,463,861.41</u>	<u>3,093,927.44</u>

	Dec. 31, 1996	thereof with a remaining maturity of	
		less than one year	between one and five years
	DM	DM	DM
Liabilities to banks <sup>1)</sup> . . . . .	5,362,675.78	1,143,925.78	4,218,750.00
Trade payables . . . . .	141.80	141.80	0.00
Liabilities to affiliated companies . . . . .	536,476.50	536,476.50	0.00
Liabilities to shareholders . . . . .	750,000.00	750,000.00	0.00
Other liabilities . . . . .	1,215,821.03	1,215,821.03	0.00
	<u>7,865,115.11</u>	<u>3,646,365.11</u>	<u>4,218,750.00</u>

1) The remaining maturities were calculated on the basis of the contractually agreed minimum redemptions of the loans.

Liabilities to banks are secured in full by mortgage on the site of Centroplast GmbH & Co.'s plant in Marsberg, amounting to DM 8,000 thousand. Centroplast GmbH & Co., Marsberg, is also jointly and severally liable. Of the original mortgage of DM 10,000 thousand, IKB Industriebank AG, Stuttgart Branch, has assigned DM 2,000 thousand to the Stadtparkasse Marsberg.

## 4. Contingent liabilities

The Company is liable for the liabilities of Centroplast Kunststoffherzeugnisse GmbH & Co., Marsberg, on account of its shareholder status.

In a comfort letter dated April 15, 1996, the Company assumed an unlimited obligation in respect of Berliner Bank AG, Hamburg Branch, to ensure that Centrotherm Abgastechnik GmbH, Marsberg, will be managed and provided with financial resources in such a way that it is always in a position to meet all of its obligations in a timely manner.

In addition, the Company has issued a comfort letter, limited to DM 1,500,000, in favor of Centrotherm Abgastechnik GmbH, Marsberg.

## 5. Other financial obligations

There were no material other financial obligations at the balance sheet date.

## D. SUPPLEMENTARY DISCLOSURES

### 1. Employees

The average number of employees during the fiscal year was:

	<u>1997</u> <u>Number</u>	<u>1996</u> <u>Number</u>
Salaried employees (managing directors)	<u>1</u>	<u>1</u>

### 2. Management

The Managing Director during fiscal year 1997 was Mr. Peter Thalmann, Munich. In fiscal year 1998, the Managing Director was Mr. Hans-Lothar Hagen, Altenbeken.

### 3. Shareholdings

The Company owned holdings in the following companies at the balance sheet date:

<u>Name and registered office of the company</u>	<u>Holding</u> <u>in %</u>	<u>Equity at</u> <u>Dec. 31, 1997</u> <u>DM</u>	<u>Profit/loss</u> <u>1997</u> <u>DM</u>
Centroplast Kunststoffzeugnisse GmbH & Co., Marsberg .....	100.00	500,000.00 <sup>1)</sup>	1,973,415.66
Centrotherm Abgastechnik GmbH, Marsberg .....	100.00	- 980,237.78	- 123,931.58

<sup>1)</sup> Only the fixed capital is shown. At December 31, 1997, Centroplast Kunststoffzeugnisse GmbH & Co. also disclosed a shareholder settlement account in favor of Centroplast Holding GmbH amounting to DM 38,720.09 (previous year: DM 47,575.85) and did not disclose any further receivables from Centroplast Holding GmbH (previous year: DM 584,052.35).

On account of its shareholder status, the Company has unlimited liability for the liabilities of Centroplast Kunststoffzeugnisse GmbH & Co.

As allowed under Section 293 HGB, the Company is exempt from the obligation to prepare consolidated financial statements.

Munich, April 22, 1998

CENTROPLAST HOLDING GMBH

Hans-Lothar Hagen

## AUDIT OPINION

We have issued the following unqualified audit opinion on the annual financial statements of Centroplast Holding GmbH, Munich, as of December 31, 1997:

“The accounting and the annual financial statements, which we have audited in accordance with professional standards, comply with the legal regulations. In compliance with generally accepted accounting principles, the annual financial statements present a true and fair view of the net worth, financial position and results of Centroplast Holding GmbH.”

ARTHUR ANDERSEN  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft mbH

von Sperber  
Wirtschaftsprüfer

Steinweg  
Wirtschaftsprüfer

Hanover, April 22, 1998

**ANNUAL FINANCIAL STATEMENTS OF**

**CENTROPLAST KUNSTSTOFFERZEUGNISSE GMBH & CO.**

**FOR FISCAL YEARS 1997, 1996 AND 1995**

## ASSETS

	<b>Centroplast GmbH &amp; Co. 1997 DM</b>	<b>Centroplast GmbH &amp; Co. 1996 DM</b>	<b>Centroplast GmbH &amp; Co. 1995 DM</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>A. FIXED ASSETS</b>			
<b>I. Intangible assets</b>			
Industrial rights and similar rights . . . . .	29,317.00	40,822.00	56,252.00
<b>II. Tangible assets</b>			
1. Land and buildings . . . . .	2,240,211.54	2,375,241.70	2,499,576.50
2. Technical equipment and machinery . . . . .	310,995.00	188,112.00	156,844.00
3. Other equipment, operating and office equipment . . . . .	84,406.00	107,662.00	119,683.00
4. Payments on account . . . . .	93,303.30	0.00	30,188.45
	<u>2,728,915.84</u>	<u>2,671,015.70</u>	<u>2,806,291.95</u>
	<u>2,758,232.84</u>	<u>2,711,837.70</u>	<u>2,862,543.95</u>
<b>B. CURRENT ASSETS</b>			
<b>I. Inventories</b>			
1. Raw materials, consumables and supplies . . . . .	452,292.40	496,120.92	463,673.38
2. Finished goods and merchandise . . . . .	<u>3,089,153.24</u>	<u>3,045,589.61</u>	<u>3,360,086.02</u>
	<u>3,541,445.64</u>	<u>3,541,710.53</u>	<u>3,823,759.40</u>
<b>II. Receivables and other assets</b>			
1. Trade receivables . . . . .	2,255,556.58	2,176,994.76	1,640,053.67
2. Receivables from affiliated companies . . . . .	564,075.66	219,290.08	673,580.01
3. Receivables from shareholders . . . . .	0.00	584,052.35	301,286.62
4. Other assets . . . . .	<u>3,010.61</u>	<u>188,688.71</u>	<u>18,884.47</u>
	<u>2,822,642.85</u>	<u>3,169,025.90</u>	<u>2,633,804.77</u>
<b>III. Cash-in-hand,         postal giro and bank balances . . . . .</b>	<u>28,653.88</u>	<u>42,482.51</u>	<u>22,609.74</u>
	<u>6,392,742.37</u>	<u>6,753,218.94</u>	<u>6,480,173.91</u>
<b>C. PREPAID EXPENSES . . . . .</b>	<u>314.00</u>	<u>55.00</u>	<u>1,025.00</u>
	<u>9,151,289.21</u>	<u>9,465,111.64</u>	<u>9,343,742.86</u>

## EQUITY AND LIABILITIES

	Centroplast GmbH & Co. 1997 DM	Centroplast GmbH & Co. 1996 DM	Centroplast GmbH & Co. 1995 DM
<b>A. SHAREHOLDER ACCOUNTS</b>			
I. Fixed capital . . . . .	500,000.00	500,000.00	500,000.00
II. Settlement accounts . . . . .	52,489.09	53,875.85	27,726.16
	552,489.09	553,875.85	527,726.16
<b>B. PROVISIONS</b>			
1. Provisions for taxes . . . . .	247,041.00	0.00	0.00
2. Other provisions . . . . .	468,750.00	318,350.00	334,500.00
	715,791.00	318,350.00	334,500.00
<b>C. LIABILITIES</b>			
1. Liabilities to banks . . . . .	6,528,526.11	6,902,742.00	6,668,093.52
2. Trade payables . . . . .	1,039,182.96	1,395,933.27	1,044,655.98
3. Other liabilities . . . . .	315,300.05	294,210.52	768,767.20
– thereof taxes DM 80,111.05 (previous year DM 49,170.94)			
– thereof relating to social security and similar obligations DM 86,297.28 (previous year: DM 79,429.78)			
	7,883,009.12	8,592,885.79	8,481,516.70
	9,151,289.21	9,465,111.64	9,343,742.86

**STATEMENTS OF INCOME**

	<b>Centroplast GmbH &amp; Co. 1997 DM</b>	<b>Centroplast GmbH &amp; Co. 1996 DM</b>	<b>Centroplast GmbH &amp; Co. 1995 DM</b>
1. Sales . . . . .	19,547,833.00	17,959,001.79	17,925,328.15
2. Increase or decrease in finished goods inventories . . . . .	90,809.86	– 476,431.00	964,313.64
3. Other operating income . . . . .	222,419.60	288,390.93	233,804.62
4. Cost of materials			
a) Cost of raw materials, consumables and supplies and of purchased merchandise . . . . .	– 9,619,831.69	– 8,922,417.61	– 9,677,218.42
b) Cost of purchased services . . . . .	– 56,761.57	– 26,716.53	– 68,588.40
5. Personnel expenses			
a) Wages and salaries . . . . .	– 3,642,137.99	– 3,637,849.44	– 3,564,889.24
b) Social security costs . . . . .	– 781,997.41	– 757,281.82	– 727,275.90
6. Depreciation on intangible and tangible assets . . . . .	– 310,339.85	– 332,716.58	– 409,792.25
7. Other operating expenses . . . . .	– 2,692,650.14	– 2,341,725.23	– 2,389,765.57
8. Other interest and similar income . . . . .	19.03	12.78	635.64
9. Interest and similar expenses . . . . .	– 391,045.48	– 434,717.63	– 466,368.82
10. Result from ordinary operations . . . . .	2,366,317.36	1,317,549.66	1,820,183.45
11. Taxes on income . . . . .	– 381,015.00	– 145,456.00	0.00
12. Other taxes . . . . .	– 11,886.70	– 12,367.70	– 10,531.26
13. Net income for the year . . . . .	<u>1,973,415.66</u>	<u>1,159,725.96</u>	<u>1,809,652.19</u>

## AUDIT OPINION

We have issued the following unqualified audit opinion on the annual financial statements of Centroplast Kunststoffzeugnisse GmbH & Co., Marsberg, as of December 31, 1997:

“The accounting and the annual financial statements, which we have audited in accordance with professional standards, comply with the legal regulations.”

ARTHUR ANDERSEN  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft mbH

von Sperber  
Wirtschaftsprüfer

Steinweg  
Wirtschaftsprüfer

Hanover, April 22, 1998



**ANNUAL FINANCIAL STATEMENTS OF**

**CENTROTHERM ABGASTECHNIK GMBH**

**FOR FISCAL YEARS 1997, 1996 AND 1995**

**(1996 AND 1995 UNAUDITED)**

## ASSETS

	<b>Centrotherm GmbH 1997 DM</b>	<b>Centrotherm GmbH 1996 DM</b>	<b>Centrotherm GmbH 1995 DM</b>
<b>A. FIXED ASSETS</b>			
<b>I. Intangible assets</b>			
Industrial and similar rights . . . . .	3,105.00	118,912.17	242,962.17
<b>II. Property and equipment</b>			
1. Technical equipment and machinery . . . . .	244,652.00	279,224.00	0.00
2. Other equipment, operating and office equipment . . . . .	115,137.45	104,546.66	11,945.00
3. Payments on account . . . . .	80,000.00	0.00	0.00
	<u>439,789.45</u>	<u>383,770.66</u>	<u>11,945.00</u>
	<u>442,894.45</u>	<u>502,682.83</u>	<u>254,907.17</u>
<b>B. CURRENT ASSETS</b>			
<b>I. Inventories</b>			
1. Raw materials, consumables and supplies . . . . .	23,556.00	0.00	0.00
2. Finished goods and purchased merchandise . . . . .	695,161.50	656,724.18	276,189.34
	<u>718,717.50</u>	<u>656,724.18</u>	<u>276,189.34</u>
<b>II. Receivables and other assets</b>			
1. Trade receivables . . . . .	396,812.27	351,494.44	78,716.02
2. Other assets . . . . .	6,489.64	30,385.06	39,139.23
	<u>403,301.91</u>	<u>381,879.50</u>	<u>117,855.25</u>
<b>III. Cash-in-hand, bank balances . . . . .</b>	<u>89,789.02</u>	<u>48,355.89</u>	<u>46,030.09</u>
	<u>1,211,808.43</u>	<u>1,086,959.57</u>	<u>440,074.68</u>
<b>C. LOSS NOT COVERED BY EQUITY . . . . .</b>	<u>980,237.78</u>	<u>856,306.20</u>	<u>501,964.87</u>
	<u>2,634,940.66</u>	<u>2,445,948.60</u>	<u>1,196,946.72</u>

## EQUITY AND LIABILITIES

	Centrotherm GmbH 1997 DM	Centrotherm GmbH 1996 DM	Centrotherm GmbH 1995 DM
<b>A. EQUITY</b>			
I. Subscribed capital . . . . .	200,000.00	200,000.00	200,000.00
II. Accumulated losses brought forward. . . . .	- 1,056,306.20	- 701,964.87	- 398,030.80
III. Net loss for the year. . . . .	- 123,931.58	- 354,341.33	- 303,934.07
IV. Loss not covered by equity . . . . .	980,237.78	856,306.20	501,964.87
	0.00	0.00	0.00
<b>B. PROVISIONS</b>			
Other provisions. . . . .	100,720.00	42,300.00	19,800.00
<b>C. LIABILITIES</b>			
1. Liabilities to banks . . . . .	763,752.39	949,805.47	9,137.79
2. Trade payables . . . . .	236,945.19	331,368.12	86,150.54
3. Liabilities to affiliated companies . . . . .	564,075.66	160,142.47	673,580.01
4. Liabilities to shareholders . . . . .	900,000.00	900,000.00	400,000.00
5. Other liabilities. . . . .	69,447.42	62,332.54	8,278.38
- thereof taxes: DM 47,338.86 (previous year: DM 36,708.74)			
- thereof social security and similar obligations: DM 8,128.90 (previous year: DM 145.59)			
	2,534,220.66	2,403,648.60	1,177,146.72
	2,634,940.66	2,445,948.60	1,196,946.72

## STATEMENT OF INCOME

	<b>Centrotherm GmbH 1997 DM</b>	<b>Centrotherm GmbH 1996 DM</b>	<b>Centrotherm GmbH 1995 DM</b>
1. Sales . . . . .	3,270,365.64	1,552,394.41	594,351.29
2. Increase or decrease in finished goods inventories . . . . .	– 15,277.74	246,998.24	0.00
3. Own work capitalized . . . . .	13,194.33	0.00	0.00
4. Other operating income . . . . .	146,950.00	228,319.56	5.83
5. Cost of materials			
a) Cost of raw materials, consumables and supplies and of purchased merchandise . . . . .	– 1,776,420.41	– 1,059,328.22	– 194,810.81
b) Cost of purchased services . . . . .	– 91,400.26	– 69,494.95	– 54,181.19
6. Personnel expenses			
a) Wages and salaries . . . . .	– 621,164.32	– 420,781.04	– 263,537.44
b) Social security costs . . . . .	– 120,286.04	– 60,225.90	– 18,194.12
7. Depreciation on intangible and tangible assets . . . . .	– 210,859.61	– 177,046.71	140,339.89
8. Other operating expenses . . . . .	– 651,054.14	– 553,806.68	– 222,763.13
9. Other interest and similar income . . . . .	278.30	170.15	253.38
10. Interest and similar expenses . . . . .	<u>– 68,257.33</u>	<u>– 41,540.19</u>	<u>– 6,027.99</u>
11. Result from ordinary operations . . . . .	<u>– 123,931.58</u>	<u>– 354,341.33</u>	<u>– 305,244.07</u>
12. Taxes on income . . . . .	<u>0.00</u>	<u>0.00</u>	<u>1,310.00</u>
13. Net loss for the year . . . . .	<u><u>– 123,931.58</u></u>	<u><u>– 354,341.33</u></u>	<u><u>– 303,934.07</u></u>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR FISCAL YEAR 1997

### A. GENERAL DISCLOSURES

The Company is a small company as defined by Section 267 HGB (German Commercial Code). It makes partial use of the available simplification options in the preparation of the balance sheet (Section 266 Para. 1 HGB), the statement of income (Section 276 HGB) and the notes (Section 288 HGB).

The annual financial statements have been prepared in compliance with the provisions of the HGB and the supplementary provisions of the GmbHG (German Limited Liability Companies Act). The statement of income was prepared using the type of expenditure (total cost) format defined in Section 275 Para. 2 HGB.

### B. ACCOUNTING AND VALUATION POLICIES

#### *1. Fixed assets*

Intangible assets acquired for a consideration are capitalized at their cost of acquisition and amortized using the straight-line method.

Tangible assets are carried at their cost of acquisition or manufacture, less regular depreciation. Depreciation is charged using the straight-line method over the standard useful life applied at the Company. The half-yearly simplification rule for the depreciation of depreciable movable assets in accordance with Directive 44 Para. 2 of the EStR (German Income Tax Directives) is utilized. Low-value assets are written down in full in the year of their acquisition and disclosed as a disposal in the Statement of Fixed Assets for the following year.

#### *2. Inventories*

Inventories are carried at their cost of acquisition or manufacture, or at the lower value to be applied.

#### *3. Receivables and other assets*

Receivables and other assets are carried at their principal value. Foreign currency receivables are carried at historical rates or at the lower rate at the closing date. Recognizable risks are covered by write-downs. To take account of the general credit risk, an adequate global value adjustment is applied to trade receivables for which no specific write-downs have been charged.

#### *4. Liquid assets*

These amounts are exclusively in domestic currency and are carried at their nominal amounts.

#### *5. Provisions*

Other provisions are set up for uncertain obligations and take account of all recognizable risks. They are carried at the amount dictated by prudent commercial practice.

#### *6. Liabilities*

Liabilities are carried at their redemption amount. Foreign currency liabilities are valued at the historical rate or at the higher rate prevailing at the closing date.

### C. DISCLOSURES AND EXPLANATIONS TO THE ANNUAL FINANCIAL STATEMENTS

#### *1. Fixed assets*

The classification and movements of fixed assets are shown in the following Statement of Fixed Assets.

**CENTROTHERM ABGASTECHNIK GMBH, MARSBERG**

**STATEMENT OF FIXED ASSETS IN FISCAL YEAR 1997**

	Cost of acquisition and manufacture			Dec. 31, 1997 DM
	Jan. 1, 1997 DM	Additions DM	Disposals DM	
<b>Intangible assets</b>				
Industrial and other rights .....	509,361.20	867.00	0.00	510,228.20
<b>Tangible assets</b>				
1. Technical equipment and machinery . . . .	313,193.45	33,750.00	0.00	346,943.45
2. Other equipment, operating and office equipment .....	122,018.81	36,454.23	5,204.12	153,268.92
3. Payments on account .....	0.00	80,000.00	0.00	80,000.00
	435,212.26	150,204.23	5,204.12	580,212.37
	944,573.46	151,071.23	5,204.12	1,090,440.57

Accumulated depreciation				Net book values	
Jan. 1, 1997	Additions	Reversals	Dec. 31, 1997	Dec. 31, 1997	Dec. 31, 1996
DM	DM	DM	DM	DM	DM
<u>390,449.03</u>	<u>116,674.17</u>	<u>0.00</u>	<u>507,123.20</u>	<u>3,105.00</u>	<u>118,912.17</u>
33,969.45	68,322.00	0.00	102,291.45	244,652.00	279,224.00
17,472.15	25,863.44	5,204.12	38,131.47	115,137.45	104,546.66
0.00	0.00	0.00	0.00	80,000.00	0.00
<u>51,441.60</u>	<u>94,185.44</u>	<u>5,204.12</u>	<u>140,422.92</u>	<u>439,789.45</u>	<u>383,770.66</u>
<u>441,890.63</u>	<u>210,859.61</u>	<u>5,204.12</u>	<u>647,546.12</u>	<u>442,894.45</u>	<u>502,682.83</u>

## **2. Receivables and other assets**

Receivables and other assets are due within one year.

## **3. Equity**

At December 31, 1997, the Company disclosed a loss of DM 980 thousand not covered by equity. To secure the continued existence of the Company, the shareholder Centroplast Holding GmbH, Munich, issued the following comfort letter:

We hereby assume an unlimited obligation in respect of Centrotherm to ensure that Centrotherm is managed and provided with financial resources in such a way that it is always in a position to meet all its obligations in a timely manner. To the extent that Centrotherm requires additional financial resources in order to secure its lasting ability to pay, it has a claim against us, due at first demand, for provision of such funds up to the amount of DM 1,500,000; objections or pleas by us are excluded to this extent. Funds to be provided in this way shall be granted in the form of subordinated loans, on which payments will only be due to the extent that they do not endanger the solvency of Centrotherm and can be paid from the assets of Centrotherm exceeding its liabilities. In the event that bankruptcy or composition proceedings instituted against the assets of Centrotherm result in insufficient funds to satisfy the claims of creditors, we shall pay the necessary amount at first demand, free from objections or pleas; in return, the creditors' claims to be serviced in this way shall be transferred to us. However, we can only assert them to the extent that there are remaining assets available for distribution.

This comfort letter applies to the period during which the Company is technically over-indebted.

## **4. Provisions**

The other provisions relate primarily to claims for outstanding vacation, legal and consultancy fees and the cost of preparing the annual financial statements, as well as outstanding invoices received.

## **5. Liabilities**

The liabilities do not contain any items with a time to maturity of more than one year.

The liabilities to banks amounting to DM 764 thousand are secured by a global assignment of receivables, a comfort letter and a letter of subordination issued by Centroplast Holding GmbH, Munich, and a storage assignment of the inventories.

## **D. OTHER DISCLOSURES**

### **1. Contingent liabilities**

There are no contingent liabilities as defined by Section 251 HGB in conjunction with Section 268 Para.7 HGB.

### **2. Other financial obligations**

There were no material other financial obligations at the balance sheet date.

### **3. Management**

The members of the management are:  
Hans-Lothar Hagen, Altenbeken  
Norbert Wülbeck, Brilon

### **4. Membership of a group**

The parent company of the Company is Centroplast Holding GmbH, Munich. Centroplast Holding GmbH, Munich, is exempt from the requirement to prepare consolidated financial statements in accordance with Section 293 Para. 1 HGB .

Marsberg, April 22, 1998

Centrotherm Abgastechnik GmbH

The Management

## AUDIT OPINION

We have issued the following unqualified audit opinion on the annual financial statements of Centrotherm Abgastechnik GmbH, Marsberg, as of 31 December 1997:

“The accounting and the annual financial statements for fiscal year 1997, which we have audited in accordance with professional standards, comply with the legal regulations. In compliance with generally accepted accounting principles, the annual financial statements present a true and fair view of the net worth, financial position and results of Centrotherm Abgastechnik GmbH.”

ARTHUR ANDERSEN  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft mbH

von Sperber  
Wirtschaftsprüfer

Steinweg  
Wirtschaftsprüfer

Hanover, April 22, 1998

## RECENT BUSINESS DEVELOPMENTS AND PROSPECTS

### Recent business developments

According to the present figures, fiscal year 1998 has been one of positive growth for Centrotec Hochleistungskunststoffe AG. Group sales rose by approx. 19% in the first ten months over the same period in the previous year. This improvement is based on an increase in sales of roughly 17% in Centroplast's semi-finished products and prefabricated parts sectors and by roughly 35% in Centrotherm's high-temperature plastic exhaust systems business unit.

Due to efficient cost management, coupled with the launch of new software, costs have remained within the projected range.

Centrotec Hochleistungskunststoffe AG had 87 employees in the Group as of October 31, 1998, including apprentices and temporary employees. In the course of further growth and the reinforcement of development, sales and production activities, the number of employees will probably increase to 91 by the end of 1999.

### Market development and business prospects

The Centroplast business units, producers of high-performance plastic components for the global capital goods industry, will continue to experience above-average growth in the future in line with the market – annual growth of 15% is projected for the prefabricated parts sector.

Centrotherm, which is engaged in the development, production and marketing of plastic exhaust systems for condensing system technology in buildings heating systems, is expected to experience a particularly positive trend. Condensing system technology is substantially more economical than traditional heating technology and has also received a boost from the Federal Emissions Control Act. By the year 2000, condensing system technology is expected to have a 50% share of the total German market. Plastic exhaust technology will experience above-average growth, as these systems are more economical, more sturdy to install, more durable and more environmentally friendly than the aluminum exhaust systems used in the past.

According to present information, assuming no unforeseeable events occur, positive results are expected for all the Centrotec Group business units.

Investments in the current year will probably amount to DM 1.8 million, clearly above depreciation. These investments are primarily focused on business expansion and the extension of efficient communications systems.

### Strategic Focus

In 1998, Centrotec Hochleistungskunststoffe AG will continue its policy of being an innovative supplier of high-margin specialty products within the plastics industry.

This has the following consequences for the individual business units:

#### *Semi-finished high-temperature plastic products*

Low-margin bulk products will be bought in and existing capacity will be exclusively utilized for high-margin specialty products. Production will continue to concentrate on becoming a basis for in-house processing, as long as the margins remain favorable. However, a certain level of external marketing will still be required in order to maintain an optimum level of operations. The export share accounted for by exports, which has grown constantly in the past, will also be increased in future.

#### *High-temperature plastic components*

Strong sales growth is also expected in this traditionally high-margin business unit. In addition to maintaining existing customer relations, primarily by rapidly developing technical solutions in cooperation with regular customers, we will make every effort to acquire new customers, especially through appropriate marketing activities in Germany and abroad.

The purchase of new processing machines and the reinforcement of our technical sales force have created a basis on which to better utilize existing market potential.

#### *High-temperature plastic exhaust systems*

We will continue to preserve the competitive edge which our expertise has given us in the past through consistent further development of our approved range of plastic exhaust systems. It is our stated goal to establish this business unit as a systems supplier for boiler manufacturers. We expect strong growth in sales due to the expected growth in this market and our increased market share.

## GLOSSARY

### **Bundesimmissionsschutzverordnung (Federal Emissions Control Act)**

The new, tightened limits aimed at reducing emissions of CO<sub>2</sub>, thereby contributing to environmental and climatic protection, came into effect on January 1, 1998. After a transitional period, Germany must have completely replaced roughly 800,000 boilers by the year 2004. When a boiler is replaced, it is generally also necessary to reconstruct or modernize the chimney.

### **Calendaring**

Extrusion process for manufacturing films and sheets using a sheet die with a polishing stack.

### **Centrocarb®**

Centrocarb® is a registered trademark of Centroplast GmbH & Co. used in the production of semi-finished products made of polycarbonate (PC).

### **Centrodal®**

Centrodal® is a registered trademark of Centroplast GmbH & Co. used in the production of thermoplastic semi-finished products made of polyoxymethylene (POM).

### **CENTROflex®**

CENTROflex® is a registered trademark of Centrotherm GmbH; the term describes flexible PP (flame-retardant polypropylene) exhaust systems.

### **Centroflon®**

Centroflon® is a registered trademark of Centrotherm GmbH used in the production of PVDF (polyvinylidene fluoride) exhaust systems.

### **Centrolen®**

Centrolen® is a registered trademark of Centroplast GmbH & Co. used in the production of thermoplastic semi-finished products made of polyethylene (PE) and polypropylene (PP).

### **Centrolyte®**

Centrolyte® is a registered trademark of Centroplast GmbH & Co. used in the production of thermoplastic semi-finished products made of polyethylenterephthalat (PE) and polypropylene (PP).

### **Centromid®**

Centromid® is a registered trademark of Centroplast GmbH & Co. used in the production of thermoplastic semi-finished products made of polyamide (PA).

### **Centrophen®**

Centrophen® is a registered trademark of Centroplast GmbH & Co. used in the production of semi-finished products made of polyphenylene oxide (PPO).

### **Centroplast**

Founded on September 1, 1973 as a plastics processing company, Centroplast produces technical semi-finished products (round rods, flat bars, hollow rods, sheets and films) from various types of thermoplastics and manufactures machinery components in different forms, sizes and structures.

### **Centrotec®**

Centrotec® is a registered trademark of Centroplast GmbH & Co..

### **Certification**

Confirmation by a certified auditing team that a quality management system exists and that work is being carried out in accordance with the German DIN EN ISO 9000 ff. standard.

### **Concentric exhaust systems**

Concentric exhaust systems are required for the operation of gas furnaces not dependent on ambient air. With this type of installation, the air added for combustion is passed across all parts that have come in contact with the exhaust, during which process the exhaust is expelled through the inner tube of the concentric double tube. The combustion air is injected via the annular slit between the inner and outer tubes.

At present, Centrotherm has 4 different concentric systems: DN125/75, DN125/80, DN160/110 and the dimension DN125/70 for the flexible sector. The development of this flexible, concentric exhaust system was supported by the state of North Rhine-Westphalia as part of a program for promoting innovation.

### **Condensate**

In the case of gas-fired condensing boilers, a fairly large part of the condensation heat of the water vapor is used for the exhaust. When the exhaust cools, the result is condensed water (condensate) which must be drained off via the public sewage system.

### **Construction approval**

Exhaust systems are classified as construction products and therefore require general construction approval. Construction approval can only be obtained from the German Institute of Construction Engineering (Deutsches Institut für Bautechnik – DIBt) in Berlin. To obtain approval for exhaust systems, the following documents must be submitted together with the original drawings and assembly instructions:

- proof of functional test
- proof of components test
- proof of materials test

The time needed to process an application for construction approval must generally be estimated as at least one year. The legal basis for granting general construction approval (planning permission) is the state building regulations.

### **Excentricity**

Inadmissible ovality or fluctuation in wall thickness (especially in the case of pipes).

### **Exhaust gas systems**

Expectations regarding the venting of exhaust gas have increased while the need for different dimensions and complicated special molded parts is constantly increasing, and the need to develop special solutions for exhaust gas venting (flexible systems, cascades, multiple installations, etc.) has led to the creation of the terms “exhaust systems” and “exhaust systems technology”.

The plastic chimneys that were laughed at in the early 90s have gained a hold on the market since then. The superior manufacturing properties and more favorable price/performance ratio of these exhaust systems played a large role in the breakthrough of condensing system technology.

### **Exhaust pipes**

*“The exhaust pipe conducts the exhaust gas from the boiler into the open air. The exhaust pipe consists of all parts between the exhaust fittings and the opening onto the outside.”* This is the definition of an exhaust pipe for condensing boilers according to the German DIN4702 standard Part 6. Another requirement is that the exhaust pipe must be approved by the construction authorities and its dimensions must be matched to those of the boiler.

### **Gas-fired condensing boilers**

Today, gas-fired condensing boilers can be regarded as the most energy-efficient and ecological solution for home heating. Modern low-temperature gas boilers have an efficiency rate of up to 90%. This means that condensing boilers use an average of 10 to 15% less energy in comparison to low-temperature boilers, thereby reducing heating costs.

The wide range of gas boilers that is now available shows the clear trend towards the more widespread use of condensing system technology. This energy-saving, environmentally friendly technology has been regarded for years as tried and tested. By the end of 1991, 600,000 condensing boilers had already been installed in Europe.

### **Granulate**

The majority of thermoplastic molding compounds come to the plant as granulate. Granulates are free-flowing and have a cylindrical or lenticular shape with a 2-3 mm diameter or edge length.

### **Neutralization of the condensate**

About 4,000 liters of condensate are produced per year by a 20 kW boiler. This slightly acid condensate (pH <4) should generally be neutralized before being introduced into the domestic sewage system. Different granulates such as limestone, dolomite and other special mixtures can be used for neutralization. In this process, the condensate is normally pumped into a vessel provided for this purpose (neutralization box) by means of a siphon and neutralized before it goes into the boiler. The process described is relatively laborious and difficult to carry out in rooms such as halls.

A patent application for an innovative process, the neutralization of the condensate in exhaust pipes, has already been submitted by Centrotherm.

### **OEM**

Original Equipment Manufacturer

### **Prefabricated parts**

Machinery components manufactured by machining (turning, milling, planing, boring, etc.).

### **Program for the reduction of CO<sub>2</sub> emissions**

Condensing boilers make a considerable contribution towards environmental protection because they use less energy and significantly reduce emissions of CO<sub>2</sub>, NO<sub>x</sub> and CO. In view of the legislative's goal of reducing pollutant emissions and energy consumption by establishing low limits for exhaust emissions, condensing boilers, in particular, are the ideal heat generators of the future.

### **Semi-finished products**

Plastic products in the form of plates, pipes, rods, profiles, etc. which are machined to produce machinery components (gear wheels, belt pulleys, screws, star configuration conveyors, driver plates, side and baffle plates).

### **Thermoplastics**

A collective term for the group of plastics which, when heated, are softened and can be molded.

### **Vacuum calibration**

A special process for manufacturing thin-walled pipes, in which a vacuum in the calibrating section causes the liquid molten tube to be pressed against the wall of the calibrator bore as a result of the normal pressure in the inside of the pipe.

Marsberg, November 1998

Centrotec Hochleistungskunststoffe AG

– The Managing Board –



Based on the above Preliminary Offering Prospectus / Company Report, the

1,200,000 ordinary bearer shares (aggregate share capital)  
with a par value of DM 5.00 per share  
carrying dividend rights for fiscal year 1998  
(from January 1, 1998)

Nos. 000,001 – 1,200,000

Securities Code Number 540 750

of

Centrotec Hochleistungskunststoffe Aktiengesellschaft  
Marsberg

has been admitted to the Geregelter Markt (Second Trading Segment) and to Trading on the Neuer Markt  
of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange)

Hamburg, Frankfurt, November 1998

M.M.Warburg & CO  
Kommanditgesellschaft auf Aktien

Heinrich Gontard & Co.  
Aktiengesellschaft

Vereins- und Westbank  
Aktiengesellschaft