

Leadership in speciality chemicals

Yule Catto & Co plc

Annual Report for the year ended
31 December 2003

YULE
CATTO

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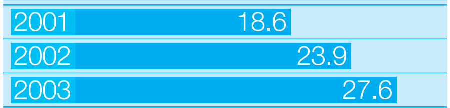
Financial Highlights
for the year ended 31 December 2003

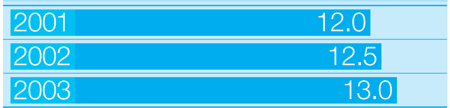
We are delighted to report a record level of profit and free cash flow, together with a further increase in dividends.

Profit before taxation £million
(note a, b, c)

Adjusted earnings per share (pence)



Dividends per share (pence)



		Total	
	Note	2003 £000	2002 £000
Total turnover	a	550,114	510,778
Ebitda	a, b	96,474	87,360
Operating profit before amortisation	a, b	73,432	66,689
Total operating profit	a	57,985	51,445
Profit before taxation	a, b, c	59,914	52,562
Profit on ordinary activities before taxation	a	49,185	35,493
Profit attributable to shareholders	a	27,798	17,348
Adjusted earnings per share		27.6p	23.9p
Earnings per share – FRS3		19.2p	12.0p
Dividends per share		13.0p	12.5p
Net borrowings	d	177,276	211,191
Net cash inflow from operating activities		111,140	73,325
Free cash flow before dividends	b	62,768	29,803

Note:
a Includes attributable share of joint ventures: turnover – £10,487,000 (2002 £9,216,000)
b As defined in note 33 to the Financial Statements on page 59
c Excludes amortisation, sale and termination of businesses and profit/(loss) on disposal of fixed assets
d See note 25 to the Financial Statements on page 55

Group Overview

£550
million
total turnover

13.0p
per share
dividend

14%
improvement in profit
before taxation

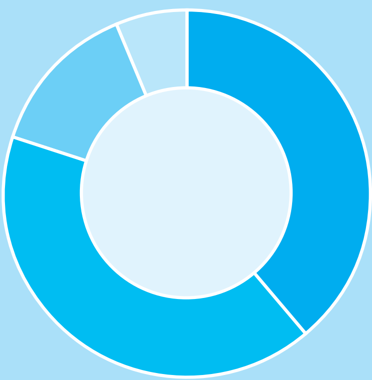
see note 33 to the financial statements on page 59

£73
million
operating profit
before amortisation

see note 33 to the financial statements on page 59

£62.8
million
free cash flow before
dividends

see note 33 to the financial statements on page 59



Turnover by Origin %[a]

UK	38.8
Other Europe	41.2
Asia	13.7
Rest of World	6.3

Turnover by Destination %[a]

UK	24.1
Other Europe	38.0
Asia	17.8
Rest of World	20.1

a derived from note 1 to the financial statements on page 42

Polymer Chemicals

Once again, good growth in turnover, approaching 14%, was achieved by our water-based polymer operations in 2003. Underlying demand was reasonable, but selling price increases and the first time contribution from the acquisition of the Ditar compounding businesses were also important factors in this performance.

Operating margins, at 10% of sales, were towards the bottom end of the range we have experienced historically during the cyclical rise and fall in the cost of raw materials. Generally, it had been thought that the price of petroleum-based products would moderate post the resolution of the Iraq crisis. This did not turn out to be the case and raw materials remained firm. The anticipation of a fall, however, made customer sentiment against price increases all the stronger.

Key products

> Emulsions
> Synthetic latices
> Adhesives
> Natural rubber latex
> Liquid polybutadiene
> Polyvinyl alcohol
> Polyvinyl acetate
> Alkyd and polyester resins

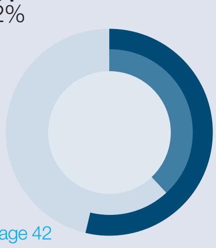
Markets

> Surface coatings
> Dipping – eg gloves
> Carpets and non-woven textiles
> Paper
> Adhesives
> PVC manufacture

Geographic scope

> UK and Continental Europe
> Asia
> Middle East
> South Africa

Turnover including joint ventures
£295.4 million[b] 53.7%
Divisional operating profit
£29.6 million[b] 38.2%



b see note 1 to the financial statements on page 42

Pharma and Fine Chemicals

Sales rose by 5% in the year, with a mix of factors contributing to this achievement. Within the Pharma operations, substantially increased sales were generated for omeprazole to all territories, but this was counterbalanced somewhat by a reduction in sales from our Italian facility, due to the decision to decontaminate the cephalosporin facility and release capacity for future years. Restructuring within the flavour industry held back sales, but this was offset by improved turnover of fragrance products.

The unusual circumstances surrounding the launch of generic omeprazole in the USA provided the opportunity of good margins for the active ingredient manufactured by Uquifa in Spain. This, plus a reasonable stability of prices for other products, saw operating profit advance by £13.5 million to £36.2 million; a new record for our Pharma and Fine Chemicals activities.

Key products

> Generic and ethical pharmaceutical actives
> Development and manufacture of clinical phase compounds
> Flavour and fragrance ingredients

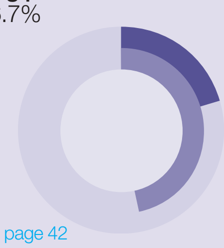
Markets

> Major pharmaceutical manufacturers
> Generic drugs
> Food industries
> Fragrances
> Toiletries
> Detergents

Geographic scope

> Europe
> North America
> South East Asia and Far East

Turnover
£112.0 million[b] 20.4%
Divisional operating profit
£36.2 million[b] 46.7%



b see note 1 to the financial statements on page 42

Performance Chemicals

General market conditions showed little sign of improvement for a number of our companies, therefore the achievement of overall sales at close to 2002 levels was pleasing. Operating profits advanced by 9%, showing the benefits of considerable effort by managements in restructuring their companies. These changes resulted in a number of substantial restructuring costs.

The improvement in profitability is all the more commendable given that exports from the UK and Europe are mainly in US Dollars which has placed margins under pressure as the US currency has weakened.

Key products

> Ultramarine pigments, photographic chemicals, sulphur dioxide derivatives, inorganic intermediates, colour dispersions
> Cleaning and engineering maintenance chemicals
> Services – contract aerosol filling, cleaning services

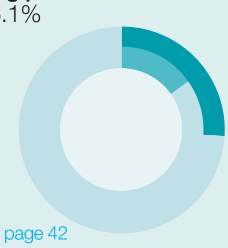
Markets

> Plastics
> Household chemicals
> Surface coatings
> Timber treatments
> Photographic
> Cosmetics and hair dyes
> Textiles
> Toiletries
> Engineering consumables
> Janitorial supplies

Geographic scope

> UK and Continental Europe
> South East Asia and Far East
> North America
> Middle East
> Africa

Turnover
£142.8 million[b] 25.9%
Divisional operating profit
£11.7 million[b] 15.1%



b see note 1 to the financial statements on page 42

Chairman's Statement

Total turnover of £550.1 million, which includes the two Ditar companies acquired in January 2003, demonstrated good growth in many of our businesses.

Turnover £million

2001	474.8
2002	510.8
2003	550.1

Profit before tax+ £million

2001	40.3
2002	52.6
2003	59.9

+15%

increase in adjusted earnings per share

We are delighted to report a record level of profit and free cash flow, together with a further increase in dividends.

The success of generic omeprazole sales to the USA was the key feature of a year that saw the Pharma and Fine Chemicals divisional operating profit increase by 60% to £36.2 million. In our largest division, Polymer Chemicals, the anticipated reduction in the high price of oil did not materialise, resulting in continuing high raw material costs which placed constraints on efforts to develop margin growth. Within Performance Chemicals, operating profit advanced by a creditable 9%, despite restrictions on the operating capacity of our ultramarine business and the impact of further restructuring initiatives.

Total turnover of £550.1 million, which includes the two Ditar companies acquired in February 2003, demonstrated good growth in many of our businesses. Profit before taxation+ was struck at £59.9 million. This was a very pleasing 14% advance over the previous year despite the negative impact of exchange rates and increased pension costs.

Across the group, movements in foreign currency exchange rates have had a mixed impact. The strengthening of the Euro has improved the translation of overseas results by £4 million. However, the weakening US Dollar, which accelerated rapidly towards the end of the year, was significantly more detrimental to the value of transactions. While forward hedging has provided a buffer, the full impact of the current level of exchange rates has yet to be reflected in our results.

A formal valuation of the main UK pension fund was conducted during the second half of the year. In common with many UK groups, our scheme has a deficit which we have addressed by a combination of modifying certain benefits, higher employee contribution rates and increased payments from the group which, on an annualised basis, total £5 million.

Profit attributable to minority interests has reduced during the year owing partially to difficult economic conditions prevailing in Asia for much of the year and also as a result of two modest investments in the final quarter. In South Africa, we increased our equity holding in Revertex Chemicals SA from 75% to 100%, whilst in India, an agreement was signed to take our shareholding in James Robinson India (Pvt) Ltd from 51% to 66%.

Adjusted earnings per share of 27.6 pence show a strong advance of 15% compared to the prior period. Your directors have proposed a final dividend of 7.7 pence per share, taking the total for the year to 13.0 pence, an increase of 4%.

There is an exceptional credit to the profit and loss account of £4.7 million, which relates to the termination of businesses and the disposal of fixed assets. In 2000 we announced the withdrawal from the textile dye market. Following the sale during 2003 of surplus land related to this manufacturing activity, the liabilities have been successfully closed out more quickly and favourably than originally expected, resulting in the release of provisions for future costs. Additionally, we have decided to withdraw from the loss making activity of producing inks in France.

+ excludes amortisation, sale and termination of businesses and profit/(loss) on disposal of fixed assets

Vigilant cash management continues to be a priority. An excellent free cash flow before dividends of £62.8 million has assisted in reducing net borrowings to £177.3 million. This was achieved as a result of a higher level of operating profit combined with a strong working capital performance, which delivered a record net cash inflow from operating activities of £111.1 million. Judicious investment in fixed assets and the proceeds from the sale of land resulted in net capital expenditure of £19.1 million, only 0.8 times depreciation.

Further progress has been achieved in the very important area of safety, health and the environment. A new and more detailed procedure for the investigation of near miss incidents and first aid cases has been introduced, which has delivered a better insight into the root cause of potential accidents. Undoubtedly this has contributed to the 22% improvement in lost time accidents recorded. A significant reduction in the frequency of reportable environmental events has also been achieved through concentrated effort by our management teams. We continue to target lower energy consumption per tonne of product manufactured and we are pleased to highlight that, at the interim stage of the biennial testing period for the UK Climate Change Levy programme, we are well placed to benefit once again from the maximum rebate.

In an increasingly competitive environment, no company can be successful without the support and enthusiasm of its employees. On behalf of the Board of Directors, I would like to recognise the invaluable contribution from all our employees around the world and thank them for their efforts on behalf of Yule Catto.

Outlook

The long awaited contribution from the launch of generic omeprazole in the USA has been a welcome boost to results during the last two years, generating a significant level of profit and cash. However, circumstances have changed with new entrants to the market in late 2003. As we look forward, the generic and ethical product development programme for our active pharmaceutical ingredients business continues to widen and deepen, with the benefits likely to emerge from 2005 onwards.

In line with the chemical industry in general, the persistently high price of oil is continuing to make it difficult to predict the cost of raw materials. Margin recovery remains a key task through a focus on pricing, new product introduction and production efficiencies. By this means our Polymer companies are positioning themselves to maximise achievable performance at all stages of the raw material cycle. In the meantime, we have invested heavily in new capacity, which has been fully commissioned and we are enjoying volume growth as new customers approve production from our appropriately sited facilities.

Performance Chemicals will benefit from the restructuring initiatives implemented towards the end of 2003. Together with more efficient production processes arising from capital investment, innovative products are being directed at new markets. However, the devaluation of the US Dollar is impacting margins.

Whilst uncertainties surrounding currency and raw materials are currently posing increased challenges, we have positioned the Group to be an efficient producer of speciality chemicals with up-to-date plant increasingly located in cost advantageous areas to serve customers' needs. Innovation of products and production methods, often in conjunction with our customers over long periods, is crucial to developing and maintaining our market positions. We see the benefits of this strategy throughout the Group and are confident that it will provide a platform for further growth in the future.

A E Richmond-Watson
4 March 2004

01
Uquifa, the portfolio of generic products in development is deepening and widening.

01


02


03


02
A selection of ultramarine blue, pink and violet pigments from Holliday Pigments.

03
Nitrile latex is now established as the base for synthetic disposable gloves which saw considerable growth in the medical and electronic industries.

Polymer Chemicals

Polymer Chemicals

The Ditar business in Holland, acquired in early 2003, has been successfully integrated and establishes us as the clear market leader in the European carpet compound sector.

Turnover £million
(including joint ventures)

2001	238.8
2002	260.0
2003	295.4

The above data has been extracted from note 1 to the financial statements on page 42

Divisional operating profit £million

2001	31.1
2002	37.6
2003	29.6

The above data has been extracted from note 1 to the financial statements on page 42

+14%

increase in turnover during 2003

Once again, good growth in turnover, approaching 14%, was achieved by our water-based polymer operations in 2003. Underlying demand was reasonable, but selling price increases and the first time contribution from the acquisition of the Ditar compounding businesses were also important factors in this performance.

Operating margins, at 10% of sales, were towards the bottom end of the range we have experienced historically during the cyclical rise and fall in the cost of raw materials. Generally, it had been thought that the price of petroleum-based products would moderate post the resolution of the Iraq crisis. This did not turn out to be the case and raw materials remained firm. The anticipation of a fall, however, made customer sentiment against price increases all the stronger.

Our ongoing strategy of investing in new assets in support of product and geographic growth has passed some important milestones and provides an excellent platform for future growth. The Synthomer SA dispersion facility in Mouscron, Belgium, is achieving good capacity utilisation and a major expansion is currently at an early planning stage. Production at our Malaysian nitrile latex plant is approaching design capacity. With the further migration of synthetic glove production to South East Asia we shall, as planned, be augmenting the local production from our European sites. New environmental legislation further delayed our capacity expansion in South Africa. However, working in close cooperation with the authorities and the local community, full commissioning took place in the fourth quarter.

The Ditar business in Holland, acquired in early 2003, has been successfully integrated and establishes us as the clear market leader in the European carpet compound sector. Recent announcements of the withdrawal of a significant supplier from this market should provide both a sales opportunity and greater stability going forward.

The difficulty of predicting even the short-term position regarding the cost of raw materials may persist for some time, providing challenges for margin development. On the other hand, volume growth should be less problematic given our sustained concentration on speciality markets and the fact that manufacturing capacity is now available in the appropriate location to develop sales geographically.

Polymer Chemicals continued

Synthetic Latex

The acquisition of Ditar Ridderkerk BV and Ditar Hasselt BV in February 2003 provided additional volume to our synthetic latex plants in Germany and the UK, as well as establishing Synthomer as the number one supplier in the European carpet compound market. Floor covering latex and compounds now represent the largest volume sector of business for Synthomer, with sales growing by close to 12% in 2003. Progress was sustained in the speciality areas, but the free capacity created by the transfer of volume to Malaysia will permit further penetration into these important markets.

Synthetic nitrile glove production continues to grow in South East Asia and China. The substitution of natural latex gloves also continues apace, creating an opportunity for substantially increased sales volumes. The new Synthomer nitrile latex operation in Kluang, Malaysia experienced some delays in obtaining customer approvals. These were, however, achieved during the second half, leading to a rapid growth in sales volume. Additional resource is now focused on debottlenecking the plant, in order to maximise the supply of nitrile latex manufactured in Malaysia.

Emulsions

Synthomer continued to grow its share of the free emulsion market in the UK, but overall sales were flat, as additional in-house capacity was installed at major customers. In mainland Europe, volumes grew, supported by the new polymerisation plant in Belgium. Product development also saw the portfolio enhanced by the launch of several new water-based polymers for surface coating and adhesives.

A new reactor installed at DCI-Harco in Saudi Arabia has provided much needed capacity to supply the Middle East market. Despite concerns over security in the region, it was pleasing to see our Saudi joint venture achieve record volume and profit performance.

In South Africa, the strengthening Rand impacted unfavourably on export activity to sub-Saharan Africa. The local market remained strong, placing pressure on production capacity until the new reactor was fully commissioned.

The business in the Far East saw a year of economic turbulence. As well as the raw material cost pressures seen elsewhere, the first half was badly affected by the SARS outbreak. Volumes improved during the second half, partly helped by exports on the back of Ringgit devaluation. Overall, the year finished strongly and plant debottlenecking is in progress in anticipation of a continuation of this improved performance.

synthomer
International technology Individual service

01

01
Synthomer's emulsions are used in many types of decorative paints.

02
Our market status in aqueous polymers was strengthened using the advantages of new production capacity and a wider portfolio of products.

03
Alcotex stabilisers for PVC manufacture continued their forward momentum as the market for higher quality PVC expanded.

04
Carpet compounding was complemented by the acquisition of Ditar in the Netherlands.

Polyvinyl Alcohol/Acetate

The PVC industry, the main outlet for Synthomer's alcotex range of polyvinyl alcohols, had a weak year, showing little growth in Europe and reduced growth rates in the traditional USA and Asian markets. Sales of alcotex, however, continued to grow, with their unique stabilising characteristics being utilised by our customers' desire to produce ever higher quality PVC. The new PVC pilot plant commissioned in early 2003 was used to good effect by Synthomer in demonstrating the effectiveness of our products.

Polyvinyl acetate sales continue to find their special niche in a wide variety of applications. Sales were slightly down on 2002, primarily as a result of weaker parquet wood flooring adhesives sales in the recessed German market.

Other Speciality Products

In the Malaysian adhesives sector, Revertex Finewaters maintained its market leadership position, but the SARS issue impacted the Malaysian woodworking and furniture industries, which were slow to recover. It is pleasing to report that things have now returned to historic levels. Export sales, particularly to Vietnam, exhibited strong growth and a study is in progress to assess the possibility of establishing local production in that country.

The resins business in Malaysia also exhibited growth, primarily in the polyester market, where a technical licence with a major South Korean company is moving the business into new product areas. Flame retardant and in situ pipe lining repairs typify the speciality direction of the new business.

The natural rubber business continued its recovery and produced much improved results, aided by a strong upward movement in rubber prices. The core prevulcanised latex business remains a focus, where a number of new growth opportunities have been identified.

In the lithene polybutadiene business, initiatives brought to the market in the last three years are showing excellent customer acceptance and will easily compensate for the decline in the use of this product for chlorinated rubber production.

Pharma and Fine Chemicals

The longer-term strategy remains in place, with the portfolio of generic products in development deepening and widening.

Turnover £million

2001	85.6
2002	106.5
2003	112.0

The above data has been extracted from note 1 to the financial statements on page 42

Divisional operating profit £million

2001	11.1
2002	22.7
2003	36.2

The above data has been extracted from note 1 to the financial statements on page 42

+59%

increase in divisional operating profit

Sales rose by 5% in the year, with a mix of factors contributing to this achievement. Within the Pharma operations, substantially increased sales were generated for omeprazole to all territories, but this was counterbalanced somewhat by a reduction in sales from our Italian facility, due to the decision to decontaminate the cephalosporin facility and release capacity for future years. Restructuring within the flavour industry held back sales, but this was offset by improved turnover of fragrance products.

The unusual circumstances surrounding the launch of generic omeprazole in the USA provided the opportunity of good margins for the active ingredient manufactured by Uquifa in Spain. This, plus a reasonable stability of prices for other products, saw operating profit advance by £13.5 million to £36.2 million; a new record for our Pharma and Fine Chemicals activities.

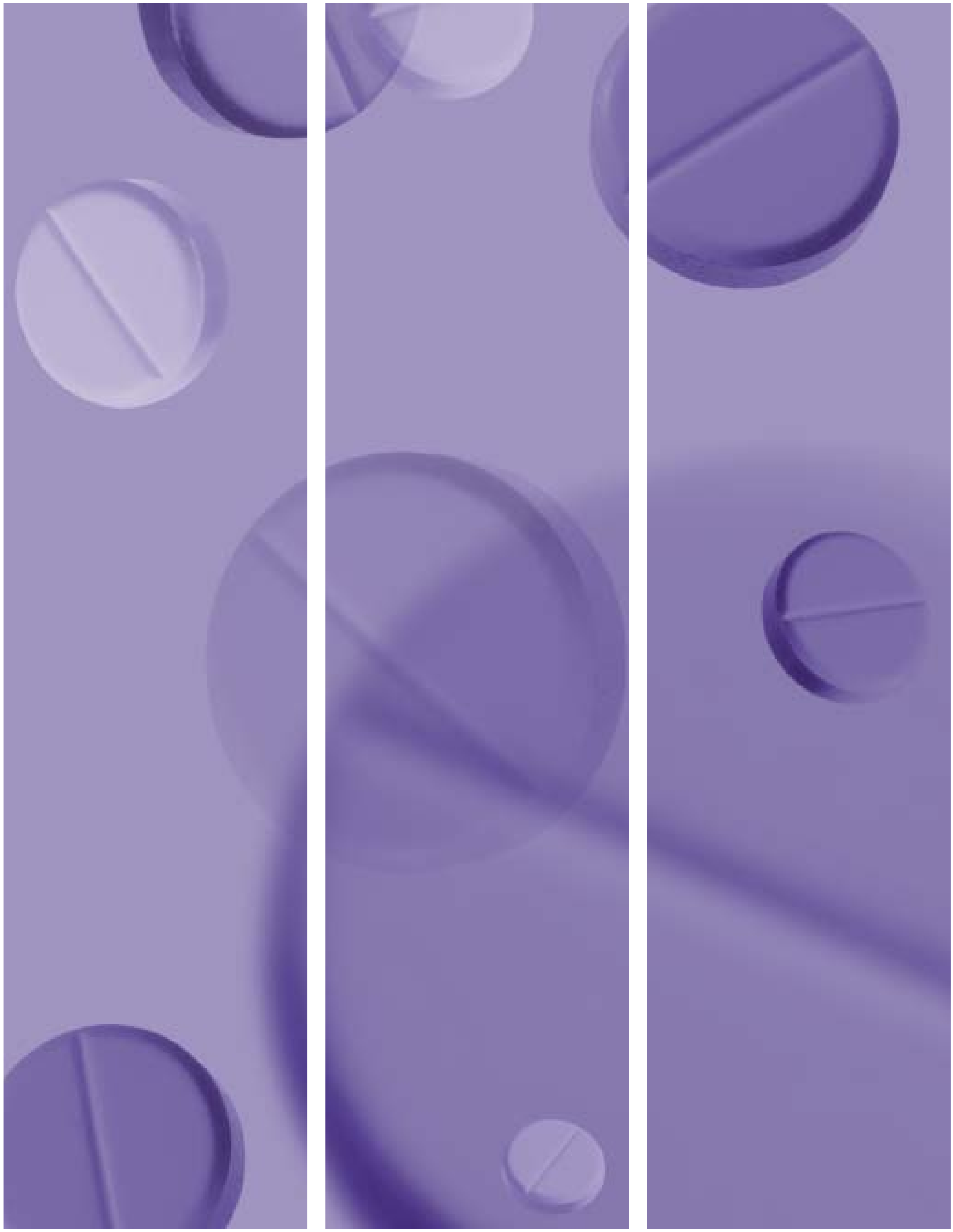
In the third quarter of 2003, events changed dramatically within the generic omeprazole market in the USA. Our major customer had achieved a unique and highly favourable position as the only generic supplier of omeprazole following a court decision in late 2002. The product was launched with Uquifa enjoying an exclusive supply position for the active ingredient. The other litigants appealed the court decision but, whilst awaiting that hearing, other companies entered the US market. Subsequently, the original decision was upheld and there is ongoing litigation involving the new entrants. The effect of all this is that the unique position of our major customer has now altered significantly, with a substantial loss of market share and reduced sales by Uquifa.

The abrupt change to the US generic omeprazole market obviously will alter the short-term outlook for our Pharma operations. However, sales of omeprazole to other territories continue to grow well and opportunities in new applications may open up towards the end of 2004. Overall, other products are performing reasonably, but securing new contracts to fill the released capacity in Italy may take longer than had been anticipated, due to the weaker pharmaceutical ingredient market and the extended timescale of regulatory approval currently prevailing.

The longer-term strategy remains in place, with the portfolio of generic products in development deepening and widening. Progress is also being made in securing ethical and early stage drug development projects, as evidenced by the high loadings on our pilot plants.

Pharma

The Uquifa companies had a very strong year in 2003, assisted by the rapid growth in sales of omeprazole and solid sales of other generic and ethical products. The product development programme saw a number of key contractual relationships strengthen in Europe and America. It is also pleasing to report the first sales to the Japanese ethical market, following a number of years of intense effort.



Pharma and Fine Chemicals

Pharma and Fine Chemicals continued

Our Spanish operations benefited most from the growth of sales of generic omeprazole in every market around the world where patent protection has ended. In support of this, a new multi-purpose plant has been commissioned at our second site in Sant Celoni. Not only does this provide security of supply to the omeprazole market, but creates additional capacity and flexibility for the introduction of new products.

There has been considerable competitive pressure directed towards our older generic products, cimetidine and ranitidine, a large part of this coming from the expiry of patents for other anti-ulcer drugs. Investment in new cGMP particle size equipment has, however, opened up opportunities for higher specification volume sales that should commence towards the end of 2004.

In Italy we successfully completed a lengthy decontamination of the cephalosporin facility, freeing this flexible 80,000 litre unit for other products. Validation batches have been produced for five products which will progressively go towards filling this capacity as customer approvals are received. Until this is achieved, we anticipate it will hold back the profit performance of this business.

A very positive picture has emerged in Mexico, with significant growth in products that offer good added value. A number of these are new ethical intermediates. This has placed pressure on the manufacturing facility, which is being addressed by stepping up investment and beginning the process of moving products to Italy where possible. The expiry of the ciprofloxacine patent in the USA towards the end of 2004 should be beneficial to our Mexican operations. It will inevitably be much more modest than has been experienced with other generic launches, due to the large number of entrants targeting the market.

With regard to early stage and new ethical products, the new pilot plant in Spain has been a notable success, running at full capacity in 2003 and highly loaded for 2004. In order that our own development programme is not compromised, a refit of the original pilot plant will be completed in early 2004. To maintain the focus on this important development area, we have sanctioned investment in a €3 million pilot facility in Italy, with the intention of breaking ground for the new unit in March 2004.

€3 million

investment in pilot plant facility in Italy

01
Storage tanks at Llica de Vall, Barcelona.

In terms of profitability, the coming year will be less propitious than perhaps was envisaged prior to the unprecedented entry of competition into the US generic omeprazole market. In addition, the pharmaceutical industry trades largely in US Dollars, providing a further challenge for European based operations. Looking further forward, our strategy remains concentrated on long-term goals directed towards securing an ever-broadening range of products and customers, supported by highly cost effective production facilities.

Flavours and Fragrances

Variable market conditions were seen as the world flavour and fragrance industry digested the major restructuring of recent years. The largest negative influence was destocking by customers as they rationalised production sites. On the other hand, our specialised polycyclic musk benefited as its dominant global market position continued to strengthen.

Oxford Chemicals Limited faced the greatest impact from industry consolidation and sales fell by 10% in 2003. Towards the end of the year there were signs of a more normal order pattern being re-established. To meet the challenges of the market, product innovation remains a key focus. The decrease in sales of larger volume products has been addressed by a restructuring exercise reducing the operating cost base of the company.

The business of PFW Aroma Chemicals BV showed a strong recovery in 2003 and sales advanced by 9%, accompanied by good profitability as the hard work of repositioning the company bore fruit. While the issue persists over the non-biodegradability of our principal product, further intensive European testing continues to support the safety of the product from every other standpoint. This has resulted in the product re-entering development programmes at a number of the larger customers, providing real opportunities for growth in volume. Efforts to secure contract manufacturing business to exploit PFW's technical expertise in high quality fragrance manufacture are also making good progress, adding further optimism for the future.

+9%

increase in sales for PFW Aroma Chemicals BV

03

02

02
C1 facility at Oxford Chemicals, used to manufacture high impact aroma chemicals.

03
Perfumery support, odour evaluation of aroma chemicals.

2003

saw the new pilot plant in Spain running at full capacity

Performance Chemicals

Performance Chemicals

Good progress has been achieved and benefits are accruing from the strategic review of the James Robinson businesses.

Turnover £million

2001	147.5
2002	144.2
2003	142.8

The above data has been extracted from note 1 to the financial statements on page 42

Divisional operating profit £million

2001	15.3
2002	10.8
2003	11.7

The above data has been extracted from note 1 to the financial statements on page 42

+9%

increase in divisional operating profit

General market conditions showed little sign of improvement for a number of our companies, therefore the achievement of overall sales at close to 2002 levels was pleasing. Operating profits advanced by 9%, showing the benefits of considerable effort by managements in restructuring their companies. These changes resulted in a number of substantial restructuring costs.

The improvement in profitability is all the more commendable given that exports from the UK and Europe are mainly in US Dollars which has placed margins under pressure as the US currency has weakened.

Good progress has been achieved and benefits are accruing from the strategic review of the James Robinson businesses. In France, however, the difficulties of Holliday Encres SA proved ever more intractable in a highly competitive inks market, exacerbated by weak economic conditions. The decision has, therefore, reluctantly been taken to withdraw from the business.

Inorganic Chemicals

Despite turnover holding up reasonably well, results from William Blythe Limited fell back due to a combination of factors. Additionally, changes in the senior management team caused a temporary disruption.

The substantial changes taking place in the copper business continued to be a feature with the final migration of all printed circuit board manufacture to Asia ending the supply of cost effective copper containing etchant in the UK. New processes were introduced to make high quality light copper carbonate, catalyst precursors and copper amines which are providing growth and, in total, higher sales of copper products were achieved.

Tin products had another good year, as did iodine, where margins were boosted by toll manufacturing contracts. The timber treatment business is rapidly changing to more environmentally-friendly products, creating both opportunities and challenges as customers review their supply and logistics requirements.

Sales of sulphur dioxide derivatives fell back due to new competitive pressure from mainland European suppliers. Margins received some support from low caustic soda prices, but attention is now directed towards increasing volumes employing a carefully targeted sales drive.

Dyes and Chemicals

Production restrictions that persisted due to the lack of a functioning flue gas desulphurisation (FGD) unit in France caused by a fire in 2002, was only one of the difficulties experienced by the Holliday Pigments' ultramarine business. The weakness of the US currency meant much time was spent in the endeavour to raise prices and some market share was conceded. Coupled with the restricted volume from France, this saw sales volumes reduce for the first time in many years.

Performance Chemicals continued

The new FGD unit will be available by the end of March 2004, creating production capacity well above historic levels. A full review of the structure of the business has also identified significant cost savings and efficiency opportunities. Product introduction to new markets from the R&D programme continues to be well received and in time these developments hold out the promise of substantial benefit.

The James Robinson activities have undergone a major review that has resulted in the identification of a clear strategy which will better match the assets employed and the skills of our people, to the markets served. The first stages were implemented during the year and, despite absorbing sizeable restructuring costs, a performance much in line with the previous year was achieved. Mixed results were recorded by the products within the portfolio. Growth in hair dyes was more modest than had been anticipated, photographic chemicals saw weak sales of black and white developers, but good ongoing colour developer progress was made by our Indian joint venture. Photochromic dyes saw a widening of the customer base and, assisted by new product launches, this brought good margin progression.

2004

will see the opening of the new FGD unit

01
Stannic chloride, helping to achieve the European standard low emissivity in glass coatings.

02
James Robinson are investing in novel reactor technologies that bring advantages in capital costs, energy usage, product quality and waste-reduction.

02

01

03
A flamboyant finish can be achieved using ultramine TR on products such as bicycle helmets.

04
A new flue gas desulphurisation plant at Holliday Pigments in Comines.

2003

saw another excellent year for Brencliffe Limited

Other Activities

The dispersions manufacturing business of Holliday Dispersions Limited in the UK saw a year of consolidation, but its French sister company succeeded in reversing a trend of falling performance through a high level of sales activity and tight control of costs.

Our consumer chemicals operations failed to make a similar major breakthrough, but an improved enquiry level for both private and branded products is emerging. Within the substantially reduced cost base that has been created, there is now the possibility of good profit growth with only modest gains in turnover.

Another excellent year was recorded by Brencliffe Limited whose houseware and automotive business goes from strength to strength. New business has been developed at key accounts through innovative marketing concepts and carefully researched product sourcing. Autoclenz Limited also turned in a fine performance, hitting new records of profitability whilst expending considerable effort on enhancing management systems and procedures to offer even better customer service.

Caring for the environment, an introduction by the Group Chief Executive.

"The management of the impact that all our activities have on safety, health and the environment (SHE) continues to be a fundamental part of how our companies conduct their business. As reported last year, we instigated a fundamental review of the whole approach to SHE matters within Yule Catto and we are delighted to report significant and continuing improvements in our SHE performance. This report sets out our achievements during 2003 and describes our plans for the future."

Alex Walker, Group Chief Executive, Director responsible for SHE

Zero

accidents is the goal for our employees, contractors and visitors

SHE Leadership

Yule Catto is committed to the principles of Responsible Care®, the code of conduct adopted by the global chemical industry for continually improving all aspects of safety, health and environmental (SHE) performance. These principles have been embedded in our corporate SHE management system, which applies to our worldwide operations.

The Board of Directors is responsible for establishing the SHE policy for Yule Catto. The Group Chief Executive has board level responsibility for SHE issues and, assisted by the Group Safety, Health and Environmental (SHE) Manager, has overall responsibility for policy implementation throughout the group. However, primary responsibility lies with the Divisional Chief Executives and their executives within each business.

The Group SHE Department provides an additional link between the senior management team and the businesses and provides expert assistance, especially with product and process safety and environmental issues and with monitoring performance.

SHE Management Processes

Planning

On an annual basis, all our businesses review and prioritise the key SHE related issues according to the risk posed to safety, the environment and the business. As well as internal reviews, this planning process takes into account corporate audit recommendations and third party audit recommendations from, for example, insurers and customers. Site specific improvement plans are then initiated to control the risks to acceptable levels.

Monitoring

All incidents, accidents and near misses are reported and investigated using AIMS (Accident & Incident Management System) as reported in 2002. This is regularly reviewed by the Group SHE Department, who also monitor the progress of improvement plans.

Auditing

A comprehensive audit programme is conducted by a team that is independent of the business under scrutiny. The audit reviews the extent to which each site has implemented corporate SHE management standards and the SHE performance of the site.

Our goal is to have zero accidents and incidents. However, we recognise that achieving this will take time and our strategy is to set each of our businesses challenging but achievable targets that will lead to continual improvements in performance.

Reporting and Review

Quarterly reports are prepared for the Board and Executive Committee, setting out SHE performance and other relevant information.

On an annual basis, all Managing Directors submit a letter of assurance to their Divisional Chief Executive to confirm the extent to which their annual improvement plan has been completed.

Learning Lessons and Sharing Experiences

Information from AIMS is used to identify and share learning points from accidents and incidents.

We are in the process of launching an electronic "expertise finder" system on the SHE intranet to better harness the knowledge and experience of our SHE and operations experts around the world.

Our Performance

Our goal is to have zero accidents and incidents. However, we recognise that achieving this will take time and our strategy is to set each of our businesses challenging but achievable targets that will lead to continual improvements in performance.

Health & Safety

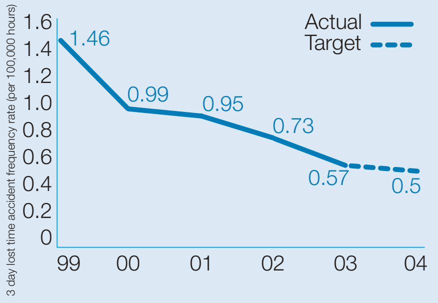
We are pleased to report that our lost time accident rate has decreased for the fifth consecutive year and that we have again exceeded our target.

During 2003, we started measuring near miss investigations in order to better understand the root causes of incidents and accidents. We set ourselves a target of undertaking 880 near miss investigations, but by the end of 2003 we have actually conducted more than 2000 investigations; this is a great testament to the enthusiasm of our employees.

Five

consecutive years of decreasing lost time accident rate

Lost time accident frequency rate



Our commitment to energy efficiency has resulted in our global warming burden per production tonne in 2003 falling by 19% compared to 2002.

2003

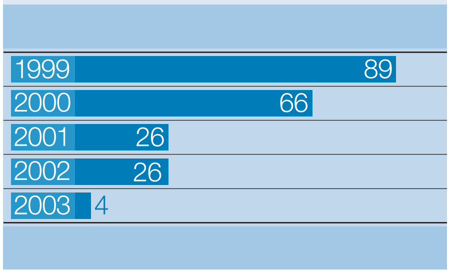
saw a significant decrease in reportable incidents

Process Safety

We are pleased to report that the number of reportable incidents has again significantly decreased, and we have exceeded our target stated in the 2002 SHE report.

Of the four reportable incidents, only one was process related and no-one was injured during or after the event.

Reportable safety incidents



Reach

The draft European Union legislation on Registration, Evaluation and Authorisation of Chemicals (REACH) is of great concern to all who operate in the chemical industry. We support the principle of better regulation and we have established an in-house "REACH task force" to track developments, advocate our views and evaluate the potential impacts that it will have on our business.

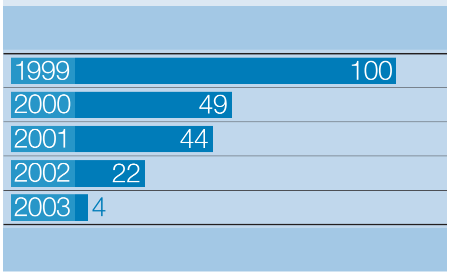
Environment

In order to align ourselves with current best practice in the chemical industry for SHE reporting, we have adopted a method produced by the UK Institution of Chemical Engineers (for more information visit www.icheme.org.uk)

Reportable Environmental Incidents

Incidents where we have had to submit a formal report to the environmental regulator have decreased for the fifth consecutive year and in 2003 we met our target.

Reportable environmental incidents



19%

decrease in our global warming burden per tonne compared to 2002

Global warming burden
(tonnes carbon dioxide equivalent release per production tonne)

1999	0.31
2000	0.29
2001	0.41
2002	0.23
2003	0.19

Atmospheric acidification burden
(kgs sulphur dioxide equivalent released per production tonne)

1999	4.5
2000	4.3
2001	3.9
2002	4.8
2003	8.3

Global Warming

The main contribution to global warming is from the release of CO_2 due to the combustion of fuels and indirectly from the usage of electricity. The increase observed in 2001 was due to the continuing operations at a factory that we were closing which had continuing energy requirements but with virtually no output, and from the energy use by an environmental control system used to reduce sulphur dioxide emissions.

Atmospheric Acidification Burden

The Group has invested in state of the art environmental technology to reduce acid gas emissions, which have the potential to form acid rain. This investment led to significant reductions in 2000 and 2001. The increase in 2002/3 was due to a fire in the environmental control system at a factory in France, which resulted in higher than normal releases of sulphur dioxide being authorised. The replacement unit is of even higher efficiency and we expect to see further reductions in 2004 when it is commissioned.

Hazardous waste disposed to land
(kg waste per production tonne)

1999	8
2000	9
2001	12
2002	12
2003	9

Hazardous Waste Disposed to Land

The increasing trend is due to many substances being reclassified as hazardous wastes. We now also manufacture a higher percentage of speciality and fine chemicals, which tend to generate larger amounts of hazardous waste for each tonne produced. In recognition of the environmental and financial implications of this, we have established a programme of waste minimisation projects in order to identify ways of reducing the amounts of hazardous waste being generated.

Directors and Advisers

Executive Directors

A. Walker
Joined the Group in 1972. He was appointed to the Board in 1986 and is Chief Executive. He is a non-executive director of Rotork plc. Age 57.

S. V. Cummins
Joined the Group in 1999. He was appointed to the Board in 2000 and is Finance Director. Age 41.

Non-Executive Directors

A. E. Richmond-Watson
Joined the Board in 1978 and was appointed Chairman in May 2000. He is the Deputy Chairman of Melrose Resources plc and was Deputy Chairman of Morgan Grenfell Group plc from 1989 until retirement in 1996. He is a member of the Institute of Chartered Accountants of Scotland. Age 62.

Dr M. J. Peagram#
Joined the Board in 1998 as Deputy Chairman. He is a non-executive director of Protherics Plc and was formerly Chairman of Holliday Chemical Holdings PLC. Age 60.

The Hon. A. G. Catto#
Joined the Board in 1981. He is Managing Director of CairnSea Investments Ltd, a private investment company, and a non-executive director of several early stage companies that have been backed by Cairnsea. Until 1995 he was a managing director of Lazard Brothers and prior to this he was with J P Morgan and Morgan Grenfell & Co. Age 51.

R. H. Hunting*+
Joined the Board in 2000. He is Chairman of Hunting PLC. Age 57.

Dato' Lee Hau Hian#
Joined the Board in 1993 and stood down in 2000 to become an alternate director. He re-joined the Board in 2002. He is a director of Kuala Lumpur Kepong Bhd and Batu Kawan Bhd. Age 50.

Dato' Lee Oi Hian#
Joined the Board in 1981. He is Chairman of Kuala Lumpur Kepong Bhd and a director of Batu Kawan Bhd. Age 53.

G. Montezemolo+$#
Joined the Board in 2001. He is a director of A T Kearney, management consultants. Age 62.

P. J. Welch*+$ #
Joined the Board in 1998. He was Chairman of WSP Group plc until 30 June 2003. Age 64.

P. S. Wood*$#
Joined the Board in 2001. He is Chief Executive of The BSS Group PLC. Age 56.

* Member of Audit Committee
\+ Member of Nomination Committee
$ Member of Remuneration Committee
\# Standing for re-election at 2004 AGM

Registered Office
Yule Catto & Co plc
Temple Fields
Harlow
Essex
CM20 2BH
Registered No. 98381

Secretary
Richard Atkinson

Bankers
ABN Amro Bank NV
Banca Nazionale de Lavoro SpA
Banca Popolare di Lodi Scarl
Banco de Sabadell SA
Barclays Bank PLC
Crédit Industriel et Commercial
Danske Bank A/S
Fortis Bank (Nederland) NV
HSBC Bank plc
The Royal Bank of Scotland plc

Merchant Bankers
Merrill Lynch International

Stockbrokers
Merrill Lynch International

Registrars
Computershare Investor Services PLC
Lochside House
7 Lochside Avenue
Edinburgh Park
Edinburgh
EH12 9DJ

Auditors
Deloitte & Touche LLP

Solicitors
Linklaters
Hammonds
Pinsents

Report of the Directors
for the year ending 31 December 2003

The directors submit their annual report and the audited financial statements for the year ended 31 December 2003.

Results and dividends

	£000
Profit attributable to shareholders	27,798
Interim dividend	(7,627)
Final dividend	(11,150)
Retained profit for the financial year	9,021

The interim dividend of 5.3p per share was paid on 20 November 2003. The directors recommend a final dividend of 7.7p per share payable on 2 July 2004 to those shareholders registered at the close of business on 4 June 2004. A dividend re-investment plan is available to shareholders and this alternative will continue to be offered until further notice.

Principal activities and review of operations
The principal activities of the company and a review of its operations are set out on pages 6 to 21.

Acquisitions and disposals
On 3 February 2003, the entire share capital of Ditar Ridderkerk BV and Ditar Hasselt BV were acquired for a consideration of €8.2 million.

On 7 November 2003 the 25% equity interest in Revertex (South Africa) (Pty) Limited held by the company's joint venture partner, Old Mutual, was acquired for a consideration of SAR 18.5 million.

Fixed assets
The last major revaluation of the group's land and buildings took place in 1985. The movements in fixed assets during the period are set out in note 12 to the financial statements.

Directors
The present membership of the Board is shown on page 22. All directors served throughout the year.

Dr M J Peagram, Mr G Montezemolo, the Hon A G Catto, Dato' Lee Oi Hian, Dato' Lee Hau Hian, Mr P J Welch and Mr P S Wood retire by rotation and will be seeking re-election at the forthcoming Annual General Meeting.

None of the directors seeking re-election has a service contract. The company has purchased and maintains insurance against directors' and officers' liabilities in relation to the company.

Details of directors' emoluments and the interests of each director in the share capital of the company are shown in the Remuneration Report on pages 28 to 33.

Share capital
During 2003 no shares were issued or re-purchased. A total of 65,877 shares were purchased on the open market on behalf of shareholders who elected to participate in the Dividend Reinvestment Plan.

Substantial shareholdings
Other than the shareholdings disclosed as directors' interests in the Remuneration Report as at 20 February 2004, the following substantial interests (3% or more) in the company's ordinary share capital have been notified to the company:

	Ordinary shares number	Per cent of ordinary shares in issue
Kuala Lumpur Kepong Berhad	31,414,472	21.69
Barclays PLC	4,442,522	3.07

Employment policies
The group gives every consideration to applications for employment from disabled persons. Employees who become disabled are given every opportunity to continue employment under normal terms and conditions with appropriate training, career development and promotion wherever possible. The group seeks to achieve equal opportunities in employment through recruitment and training policies.

Authority to purchase own shares

The company has a general authority, which expires at the conclusion of the 2004 Annual General Meeting, to make market purchases of not more than 21,575,783 of the company's ordinary shares in accordance with the terms of the special resolution passed at the 2003 Annual General Meeting. A resolution will be tabled at the 2004 Annual General Meeting to give the company general authority to make market purchases of not more than 14,480,391 of the company's ordinary shares.

Employee involvement

The group is organised on a decentralised basis so as to promote greater employee involvement and better communications with employees. Each group company is encouraged to make its employees aware of the financial and economic factors affecting the performance of the company. Performance related bonus schemes are in operation in a number of group companies.

Grant of options under the Savings-Related Share Option Scheme approved by shareholders at the 1999 Annual General Meeting have been made in November 2000 and October 2002, offering United Kingdom employees a convenient, tax effective and economical way to save and acquire shares in the company.

Two longer term share incentive plans for directors and senior executives were introduced in 1996 and 2002 with the approval of shareholders.

UK pension funds

The trustees have reviewed the independent investment management of the assets of the company pension schemes in the United Kingdom and assured themselves of the security and controls in place. In particular, it is the trustees' policy not to invest in Yule Catto shares nor lend money to the company.

Creditor payment policy

The group's policy is to make payments to creditors and other suppliers in accordance with terms of payment agreed at the time the contract of supply is made, subject to all the terms and conditions of the order being satisfied by the supplier. Trade creditor days of the company for the year ended 31 December 2003 were 27 days (2002 27 days) based on the ratio of trade creditors at the year end to the amounts invoiced during the year by trade creditors.

Charitable donations

Charitable donations in the year amounted to £78,000 (2002 £78,000). There were no political donations during the year.

Auditors

As anticipated at the company's 2003 Annual General Meeting, Deloitte & Touche have transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors used the company's statutory powers to give consent to the re-appointment of Deloitte & Touche at the 2003 Annual General Meeting as being treated as extending to Deloitte & Touche LLP with effect from 1 August 2003.

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at noon on Thursday 20 May 2004 at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR.

By Order of the Board
R Atkinson
Secretary
4 March 2004

Corporate Governance

The new Combined Code on Corporate Governance was published in July 2003 (and applies for reporting years beginning on or after 1 November 2003). Whilst this statement is the Board's final report by reference to the Combined Code issued by the Hampel Committee on Corporate Governance in June 1998 ("the Combined Code"), your Board has already introduced many of the provisions of the new Combined Code.

Statement of compliance with the Code of Best Practice

The company considers that it has complied throughout the financial year ended 31 December 2003 with the provisions of the Code of Best Practice set out in section 1 of the Combined Code.

Application of the Principles of Good Governance

The Principles of Good Governance contained in the Combined Code were applied as follows:

Directors

The activities of the company are controlled by the Board which currently comprises two executive directors and nine non-executive directors. The non-executive directors all have wide business and boardroom experience gained in a broad range of commerce. The Board meets quarterly to review current and projected performance and to determine strategic issues. The Board has established Remuneration, Audit and Nomination Committees which are discussed below. All Board and Committee meetings were fully attended during 2003. The Board considers the following non-executive directors to be independent in accordance with the provisions of the Combined Code: Mr R H Hunting, Mr G Montezemolo, Dr M J Peagram, Mr P J Welch and Mr P S Wood.

The roles of Chairman and Chief Executive are clearly divided between Mr A E Richmond-Watson who heads the Board in his capacity as non-executive Chairman and Mr A Walker who has responsibility for the running of the company's business as Chief Executive. In February 1998, following the acquisition of Holliday Chemical Holdings PLC, Dr M J Peagram, its former chairman, was appointed non-executive Deputy Chairman in recognition of his position as the senior non-executive director.

The directors receive in advance full information on all matters to be discussed at Board meetings as well as a detailed quarterly review of performance prepared by the Chief Executive. The Chairman receives the minutes of the Executive Committee (comprised of the divisional Chief Executives, the Finance Director, the Company Secretary and chaired by the Group Chief Executive) which meets once a month and all directors receive a monthly trading summary and commentary.

The Nomination Committee which is chaired by Mr R H Hunting and whose members are identified on page 22 makes recommendations to the Board regarding all new Board appointments, considers succession planning and has responsibility for the induction and training of non-executive directors. The Nominations Committee met twice during 2003.

Non-executive directors are appointed for three year terms and all directors are required to submit themselves for re-election at least every three years. Directors aged over 70 are required to submit themselves for re-election annually. The Chairman periodically reviews the individual performance of each director.

Directors' remuneration

All matters relating to remuneration are covered in the Remuneration Report, set out on pages 28 to 33.

Relations with shareholders

Dialogue with institutional investors is conducted on a regular basis by the Chief Executive and the Finance Director and meetings take place following the announcement of interim and full year results and at other times according to circumstances.

The Board seeks to encourage participation of all shareholders, and in particular private investors, at the company's Annual General Meeting and endeavours to ensure all Board members are in attendance. In particular, the chairmen of the Remuneration, Audit and Nomination Committees are available to answer questions and the remits of the committees are available to shareholders.

The company makes use of its web site www.yulecatto.com to communicate with its shareholders where it publishes interim and full year results, company announcements, share price and other investor information.

Accountability and audit

An explanation of the directors' responsibility for preparing the financial statements and a statement by the auditors about their reporting responsibilities are set out on pages 34 and 35 respectively. The report by the directors that the business is a going concern and a report on the approach to internal control are set out below. The directors endeavour to make the annual report and financial statements as informative and understandable as possible.

The Audit Committee, which is chaired by Mr P J Welch and whose members are identified on page 22, has established a detailed remit regarding the application of financial reporting and internal control principles. It meets periodically with the company's auditors to review the adequacy of the group's financial management, the internal controls and information systems. The Audit Committee's remit includes the review of the cost effectiveness, independence and objectivity of the auditors (including the extent of non-audit services and fees payable to the auditors) which is carried out and discussed with the auditors on a periodic basis. With regard to seeking to ensure the independence and objectivity of the auditors, the Audit Committee's policy is to avoid the auditors providing services in areas which may create or be perceived to create a conflict of interest. Accordingly, other than in circumstances where time constraints render it impractical or assignments are of a minor nature, the auditors are not invited to tender or propose for services of the following nature: corporate finance, legal, information technology and systems, recruitment or remuneration, accounting, internal audit or control, acquisition due diligence, valuations or appraisals, actuarial or general business consulting. In addition the auditors have been requested not to provide services to executive directors or senior executives and non-executive directors are required to disclose any relationship they have with the auditors.

The current auditors were appointed in 2002 and details of audit and non-audit fees paid to them in 2003 are set out in note 2. Non-audit fees principally relate to taxation advice. The Audit Committee met formally twice during 2003 and the Chairman of the Audit Committee had regular dialogue with the auditors during the course of the year.

Internal control

The Board of Directors has ultimate responsibility for the group's system of internal control and sets appropriate policies to ensure that the Combined Code requirements on internal control are met.

The system of internal control deployed within the group is designed to reduce the risks of failure to meet business objectives, but these risks cannot be eliminated. The internal control system adopted can therefore only provide reasonable, not absolute, assurance about meeting such business objectives or against material misstatement or loss.

A process for identifying, evaluating and managing significant business risks faced by the group was developed and fully implemented in 2000. This has since been built upon so as to embed further the process into the businesses and to enhance the usefulness of the relevant processes and information. The process has operated throughout 2003 and up to the date of approval of the Annual Report and Accounts and accords with the Turnbull Guidance.

During 2003, a number of pilot projects were undertaken to implement the recommendations arising from a study conducted by an external consultant. As a result of this work, the process has been further strengthened and will continue to be deployed throughout the group.

The system is applied at all subsidiaries, and a "bottom up" risk profile is created by evaluating the information at business, divisional and group level.

Senior managers with cross-functional responsibilities participate in the risk management process to identify and evaluate key risks. The process relies on senior managers' detailed knowledge and understanding of key internal and external risks facing their business. This is based on formal management information and reporting together with interaction with colleagues, customers, suppliers and other relevant parties. Where a significant risk is identified, its causes, potential business impact and the planned risk control measures are recorded. The process requires that the risk assessment is reviewed at least twice per year during a management meeting, with any significant changes reported to a central data base.

The nature of the risks identified as a result of this process primarily relate to matters of an operational nature. The most significant issues impacting the group in 2003 are highlighted in the Chairman's statement and the divisional reports.

Risks associated with safety, health and the environment are, by the nature of the group's business, always of the utmost concern and the safety, health and environment report on pages 18 to 21 reviews the group's performance in this connection in 2003.

A number of other issues which may impact levels of reported profits in the future have been identified from the process which arise from external influences. These include the proposed EU "REACH" regulation and the introduction of International Financial Reporting Standards in 2005. Evaluation of the potential impact of such matters is ongoing and they will require careful management.

The processes which are used by the Board either directly or, where appropriate, through the Audit Committee to review the effectiveness of the internal control system include the following:

- A review of the external audit work plan;
- Consideration of reports from management and external parties, including the auditors, on the system of internal financial control and any material control weaknesses;
- Quarterly review of safety, health and environmental performance;
- Discussion with management of the actions taken on any possible problem areas for the business identified by Board members or in the audit report;
- Consideration of a consolidated risk management report setting out the main conclusions from the internal control process;

In addition, the Board:

- Receives copies of the minutes from all Audit Committee meetings;
- Considers the role of the group insurance programme;
- Receives regular written and oral reports from management on all aspects of production, operations, financial and risk management matters.
- In compliance with Provision D.2.1 of the Combined Code the Board regularly reviews and approves the effectiveness of the group's system of internal control.

Social, environmental and ethical matters

In October 2001 the Association of British Insurers (ABI) published guidelines on socially responsible investment which take the form of disclosure principles that institutional investors would expect to see in the annual report of listed companies. These guidelines require statements on the extent to which social, ethical and environmental matters are taken into account by the Board and identified, assessed, managed and monitored particularly in relation to the risks and opportunities they present to the value of the company.

- **Environmental matters**
  The maintenance of high standards of environmental (together with health and safety) protection is central to the company's business. A separate statement on safety, health and environmental (SHE) matters has been a feature of the annual report for a number of years and the first of a series of stand-alone SHE reports was published in August 2000. The SHE statement on page 18 to 21 incorporates the ABI guidelines.

- **Social and ethical matters**
  The Board does not regard social and ethical matters as a distinct subject for special review. The company's system of internal control does, however, by virtue of its approach to risk identification, cover areas which encompass social and ethical matters. The Board is conscious of its responsibility to the communities in which the group's businesses operate and is supportive of local initiatives by management. The Board is also aware of the reputational risk associated with social and ethical issues and has a group wide code of business conduct on corruption and anti-competitive activities. The purpose of this code is to ensure that the group's employees have a clear understanding of the principles that are important in these areas when conducting the group's business.

Directors' Remuneration Report
for the year ending 31 December 2003

The following report complies with the Directors' Remuneration Report Regulations 2002, which came into force in August 2002 and satisfies the requirements of the Listing Rules of the Financial Services Authority.

Remuneration Committee

The Remuneration Committee comprises Mr P S Wood (Chairman), Mr P J Welch and Mr G Montezemolo. The Committee is responsible for determining the company's policy on executive remuneration and the specific remuneration for each of the executive directors including pension rights. The Committee is also responsible for reviewing the remuneration of senior executives throughout the group. The Committee was assisted in its deliberations on executive directors' remuneration by Monks Partnership ("Monks"). With the approval of the Remuneration Committee, Monks have been retained by the company and during the year provided general executive remuneration advice for salary review purposes and specific remuneration advice in connection with the recruitment of senior executives. The Board as a whole determines the remuneration of the non-executive directors, including members of the Remuneration Committee but the non-executive directors do not participate in the decision on their own remuneration. The Remuneration Committee met twice during 2003.

Remuneration Policy

Non-executive directors' remuneration

The remuneration of non-executive directors was reviewed during the first half of 2003 with the assistance of advice from Monks who provided a report on fee market guidelines. Following that review it was decided to increase the fees paid to all non-executive directors (other than the Chairman and the Deputy Chairman) to £26,000 per annum and to increase the fees paid to the Chairman to £100,000 per annum, all with effect from 1 July 2003. The fees paid to the Deputy Chairman were not increased and remain at £33,000 per annum. The previous increase in non-executive directors' fees took effect from March 2000.

Non-executive directors are not eligible to receive awards under any of the company's share schemes or other employee benefit schemes nor does the company make any contribution to their pension arrangements.

Dr M J Peagram holds share options relating to his service with Holliday Chemical Holdings PLC. No options have been granted to non-executive directors in their capacity as non-executive directors of the company.

Executive directors' remuneration

The company's policy for 2003 was and continues to be for 2004 and subsequent years to structure executive pay in such a way that key executives may be recruited, motivated and retained through being offered remuneration packages that are competitive. For that purpose, the Committee uses data provided by external independent surveys relevant to the industry or sector in which each Yule Catto subsidiary operates. Whilst not adopting set formulae the Committee is also sensitive to the pay and employment conditions elsewhere in the group when considering annual salary increases and total remuneration.

The major element of the remuneration package of senior executives is a competitive basic salary which is reviewed with effect from 1 January each year. For executive directors this review is conducted with the assistance of an annual independent survey of salaries at UK industrial and service companies with a similar profile to the company in terms of overseas operations, turnover and market capitalisation plus UK chemical companies. The survey presents market guidelines for basic pay and increases in basic salaries for executive directors in the UK during the previous twelve months. The Committee then use this information to recommend basic salaries for the executive directors in line with the Board's policy of awarding for good performance a basic salary of approximately the market median for companies of a similar size and complexity. In addition, the Remuneration Committee has overseen the introduction of special incentives, which are designed to reward the achievement of predetermined targets by the individuals concerned. These incentives, which were designed in accordance with the provisions of Schedule A to the Code of Best Practice, currently comprise annual cash bonuses and membership of one of two shareholder approved longer-term incentive plans (the "Share Plans").

- **Annual cash bonuses**
  The annual cash bonus payment for the executive directors is an amount equal to the percentage of basic pay calculated by reference to the annual growth in the company's adjusted earnings per share (after deducting the annual rise in the rate of headline inflation (RPI)) multiplied by a factor of 2.5 subject to a limit of 50% of basic pay. For divisional chief executives, managing directors of subsidiary companies and senior head office employees the annual cash bonus payments are based on appropriate combinations of profit, cash flow and safety and environmental targets and personal business objectives. In 2003 the bonuses were subject to limits of 40%, 35% and 30% of basic pay respectively. The structures of the bonuses and awards under it are reviewed periodically and are determined by the Remuneration Committee.

- **Share plans**

The Share Plans comprise the Performance Share Plan (the “Performance Plan”) and the Longer-term Deferred Bonus Plan (the “Deferred Plan”).

The Performance Plan was introduced in 2002 following shareholder approval at that year’s Annual General Meeting and covers the executive directors, divisional chief executives and senior head office employees. An award consists of a right to acquire shares which can be exercised for a nominal price, subject to the company satisfying performance conditions. For awards made in 2003 an award will vest in respect of 100 per cent of the shares only if the company’s adjusted earnings per share over a three year period ending on 31 December 2005 has increased by more than the annual rise in RPI plus 6% per annum compound compared with the company’s adjusted earnings per share for the year ended 31 December 2002 (with adjusted earnings per share to be calculated on a consistent basis). The award will not vest in respect of any shares unless the company’s earnings per share over the same period has increased by at least the annual rise in RPI plus 3% per annum compound at which point the award will vest in respect of 30 per cent of the shares under the award. The proportion of the award which will vest for an increase in the company’s earnings per share over the same period between these points will be calculated on a straight line basis. In addition an award which vests in accordance with these targets will only be exercisable and allocated shares may only be transferred as to one half after the third anniversary of the date the award is made and as the remaining half after the fourth anniversary of the date the award is made. The Remuneration Committee in considering what performance conditions should be set for awards under the Performance Plan to be made in 2004 was conscious that in setting such conditions it must take into account the fact that the company’s results in 2003 were boosted by the launch of generic omeprazole in the USA. Accordingly, the conditions for 2004 will be based upon the 2003 adjusted earnings per share figure of 27.6p reduced by 7.6p to take account of this highly unusual factor but otherwise in accordance with the performance conditions for 2003. The value of shares awarded under the Performance Plan in any financial year to any individual may not exceed 100 per cent of his annual basic salary.

The Performance Plan replaced the company’s Longer-term Performance Share Plan which covered the same group of executives. Awards made under that plan in 2001 (which also consisted of a right to acquire shares which could be exercised for a nominal price) are still subject to the company satisfying performance conditions. Those performance conditions are measured by comparing the growth in adjusted earnings per share with that of a similar group of UK and continental European chemical companies over a three year period (subject to such growth being not less than 2% above inflation in each of the three years). [Note] If the company’s earnings per share growth is in the top quartile of the comparator group over that period, the participant may receive the full number of shares awarded to him or her; if worse than the 60th percentile in the comparator group, the participant will receive nothing. Between the 25th and 60th percentiles, the proportion of the maximum award will be calculated on a sliding scale with 100 per cent of the maximum award payable at the 25th percentile and 20 per cent payable at the 60th percentile. In addition an award must be exercised as to one third after each of three, four and five years. The value of shares awarded under the Longer-term Performance Share Plan in any financial year to any individual could not exceed 50% of his annual salary (excluding benefits in kind). In 2003 the performance conditions relating to the awards made in 2000 were assessed. As a result of the growth in the company’s earnings per share over the three year period from 2000 to 2002 ranking it fifth in the comparator group of twenty four companies each participant received 100% of the shares awarded in 2000.

When it considered the replacement of the Longer-term Performance Share Plan the Remuneration Committee was particularly conscious that a new share plan for the company’s key executives should be competitive and align executives’ interests with those of shareholders. It also considered that it was not practical at that time to set a performance condition by reference to the performance of a comparator group of companies as consolidation in the company’s sector over recent years has made it increasingly difficult to compile a stable comparator group. Further, awards using the performance conditions attaching to awards under the Longer-term Performance Share Plan could vest in part even where the company’s performance was below median performance in the comparator group. For these reasons the performance conditions for awards under the Performance Share Plan will only normally be exercisable if stretching earnings per share targets are met.

The Deferred Plan covers managing directors of subsidiary companies and an award takes the form of a right to acquire shares in the company which can be exercised for a nominal price after three years. The value of shares subject to an award is determined by reference to sustained growth in the profit before tax (set at a minimum of 5% per annum) of the company or subsidiary for which the participant works by reference to a base year determined at the date of grant. The value of shares subject to an award may not exceed 20% of any participant’s basic salary in any year.

During 2003, 371,102 shares and 14,008 shares were awarded under the Performance Plan and the Deferred Plan respectively.

Executive directors are entitled to participate in grants of options made under the company’s Savings-Related Share Option Scheme as and when these are made.

[Note] The comparator group comprises: Ascot Chemicals Limited, British Vita plc, Ciba Speciality Chemicals Inc, Clariant Chemicals plc, Croda International plc, Degussa AG, DSM NV, Elementis plc, European Colour plc, Imperial Chemical Industries plc, Johnson Matthey plc (including former Meconic plc business), Kemira oyj, Lonza Biologics plc, Rhodia sa, Scapa Group plc, Victrex plc, Yorkshire Chemicals plc, Zotefoams plc.

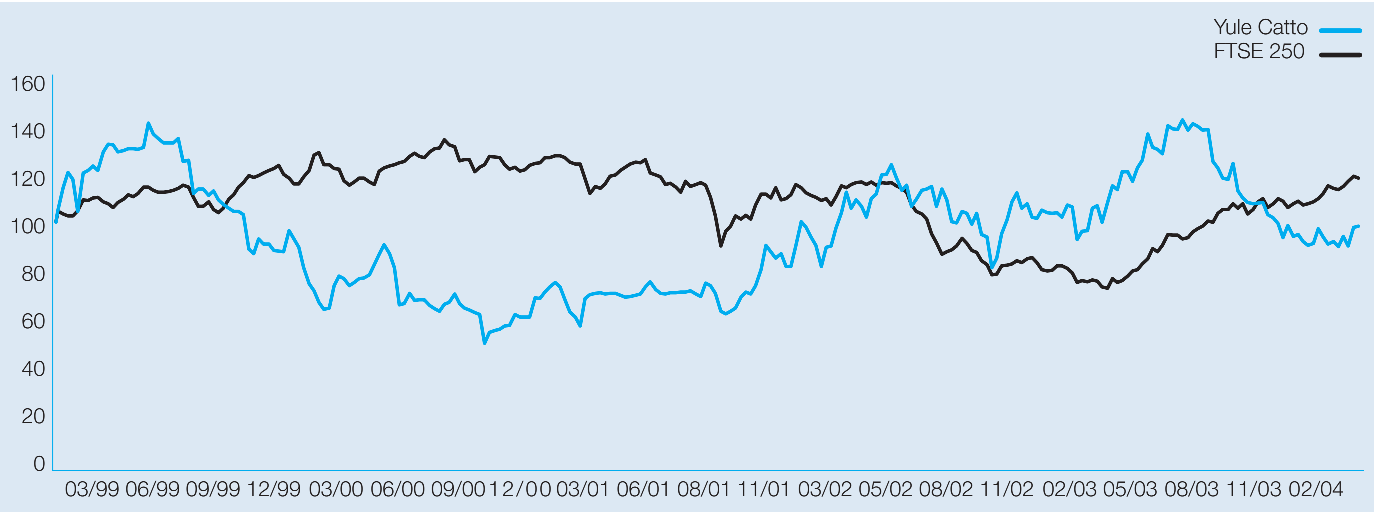
- **Pension arrangements**
  Executive directors are members of the company pension scheme. Their spouses are eligible for widows' pensions and the payment of a lump sum in the event of death in service. Where possible the pension arrangements provide for a pension on retirement at the age of 60 of 2/3 basic annual salary. No other payments to directors are pensionable. To the extent that a director's benefits from the company scheme are restricted by Inland Revenue limits, payments are made to enable the director to make his own arrangements. There are no unfunded pension promises or similar arrangements for directors.

- **Remuneration details**
  The amount and components of the directors' remuneration are set out below. No elements of remuneration other than basic salary are pensionable.

- **Service contracts**
  No director other than Mr A Walker and Mr S V Cummins has a service contract. Mr Walker's service contract comprises a letter of appointment dated 10 April 1986 (as subsequently amended), has no unexpired term, provides for a notice period of one year and makes no provision for pre-determined compensation on termination. Mr Cummins' service contract comprises a letter of appointment dated 21 June 1999, has no unexpired term, provides for a notice period of one year and makes no provision for pre-determined compensation on termination.

  The Remuneration Committee's policy on contracts and notice periods for executive directors is to seek to comply with best practices in corporate governance.

- **Total shareholder return over 5 years**
  The following graph compares the share price performance of the company (by reference to total shareholder return) with that of the FTSE 250. As the company is a member of the FTSE 250 this is considered to be the most appropriate index against which to make a comparison.



AGM approval
The directors' remuneration report has been submitted to the 2004 Annual General Meeting for approval.

Directors' Remuneration

	2003 £000	2002 £000
The total amounts for directors' remuneration and other benefits were:		
Emoluments	1,130	1,187
Pensions to former directors	1	1
	1,131	1,188

The emoluments of the individual executive directors holding office during the year were:

	Base salary 2003 £	Bonuses 2003 £	Benefits 2003 £	Total 2003 £	Total 2002 £
A Walker – Highest paid director	380,000	120,764	25,963	526,727	583,370
S V Cummins	215,000	68,327	19,739	303,066	317,693

The executive directors are members of the company's defined benefit pension scheme, the Yule Catto Group Retirement Benefits Scheme. The accrued entitlement, the amount that would be paid each year on retirement based on service to the end of the current year, for each director is shown below:

	Accrued pension at 01/01/03 £	Increase in accrued pension excluding inflation £	inflation £	Accrued pension at 31/12/03 £
A Walker	217,346	10,225	6,086	233,657
S V Cummins	5,071	1,510	142	6,723

The following table sets out the transfer value of each director's accrued benefits under the scheme, calculated in accordance with Guidance note GN11 published by the Institute of Actuaries and the Faculty of Actuaries

	Transfer value at 01/01/03 £	Increase in transfer value during the year £	Directors contributions during the year £	Transfer value at 31/12/03 £
A Walker	3,027,512	700,665	1,900	3,730,077
S V Cummins	30,228	20,595	495	51,318

The pension benefits of S V Cummins, through membership of the Yule Catto Group Retirement Benefits Scheme, are restricted by the Inland Revenue's Pensionable Earnings Cap. To fund his pension arrangements above this limit he received a payment of £43,000 (2002 £40,000).

The fees of the individual non-executive directors holding office during the year were:

	2003 £	2002 £
A E Richmond-Watson – Chairman	95,000	90,000
R M Alias	–	15,333
The Hon. A G Catto	24,500	23,000
Dato' Lee Hau Hian	24,500	7,667
Dato' Lee Oi Hian	24,500	23,000
R H Hunting	24,500	23,000
G Montezemolo	24,500	23,000
Dr M J Peagram	33,000	33,000
P J Welch	25,500	25,000
P S Wood	24,500	23,000
	300,500	286,000

The non-executive directors receive no other remuneration in addition to their fee.

Fees in respect of the services of P J Welch were paid to Frankfield Ltd.

Directors' Interests

Shareholdings

Given below are details of the interests of the directors in the share capital of the company at 31 December 2003 and 31 December 2002.

	Ordinary shares 2003		Ordinary shares 2002		Options 2003	Options 2002
The Hon A G Catto	1,411,572		1,391,572			
	2,631,824	(a)	2,631,824	(a)		
S V Cummins	26,231		10,992		235,102	171,297
R H Hunting	2,500		2,500			
Dato' Lee Hau Hian	2,613		2,613			
Dato' Lee Oi Hian	27,248		27,248			
G Montezemolo	1,000		1,000			
Dr M J Peagram	5,378,502		6,678,502		203,749	203,749
A E Richmond-Watson	798,647		798,647			
	159,632	(a)	159,632	(a)		
A Walker	287,563		202,173		438,521	484,099
P J Welch	86,827		61,827			
P S Wood	2,500		2,500			

(a) Non-beneficial interest.

Between 31 December 2003 and 20 February 2004 there were no changes in the directors' holdings.

Executive and savings-related options

	At 01.01.03		Number of options during the year Granted		Lapsed	Exercised	At 31.12.03	Exercise price	Weighted average Market price at date of exercise	Potential pre-tax gain at date of exercise £	Notional value £	Exercise period
A Walker	100,000	(a)	–		–	100,000	–	299.0p	304.0p	5,000		1997-2004
	9,403	(b)	–		–	9,403	–	–	271.5p	25,528		2000-2004
	13,995	(b)	–		–	13,995	–	–	302.0p	42,263		2001-2005
	47,112	(e)	–		–	31,408	15,704	–	284.0p	89,197	40,044	2002-2006
	91,429	(b)	–		–	30,477	60,952	–	332.5p	101,335	155,425	2003-2007
	7,200	(f)	–		–	–	7,200	150.0p	–		7,560	2006
	100,000	(c)	–		–	–	100,000	–	–		254,997	2004-2008
	114,960	(d)	–		–	–	114,960	–	–		293,146	2005-2012
	–		139,705	(d)	–	–	139,705	–	–		356,245	2006-2013
	484,099						438,521					
S V Cummins	45,715	(b)	–		–	15,239	30,476	–	332.5p	50,669	77,711	2003-2007
	7,200	(f)	–		–	–	7,200	150.0p	–		7,560	2006
	52,942	(c)	–		–	–	52,942		–		134,999	2004-2008
	62,992	(d)	–		–	–	62,992		–		160,627	2005-2012
	–		79,044	(d)	–	–	79,044				201,560	2006-2013
	2,448	(f)			–	–	2,448				Nil	2009-2010
	171,297						235,102					
Dr M J Peagram	101,874	(g)	–			–	101,874	170.6p	–		85,982	1999-2006
	101,875	(g)	–			–	101,875	222.7p	–		32,906	2000-2007
	203,749						203,749					

(a) Options granted under the Yule Catto Executive Share Option Scheme

(b) Options granted under the Longer-Term Performance Share Plan at 300 pence (total exercise price) conditional upon a performance target that has been achieved (see page 30)

(c) Options granted under the Longer-Term Performance Share Plan at 300 pence (total exercise price) conditional upon a performance target that has still to be achieved (see page 30)

(d) Options granted under the Yule Catto Performance Share Plan at 200 pence (total exercise price) conditional upon a performance target that has still to be achieved (see page 30)

(e) Options granted under the Longer-Term Performance Share Plan at 300 pence (total exercise price) conditional upon a performance target that was only partially achieved (see page 30)

(f) Options granted under the Yule Catto Employee Savings-Related Share Option Scheme

(g) Options originally granted over shares in Holliday Chemical Holdings PLC and which were exchanged for options over an equivalent number of shares in Yule Catto & Co plc under the terms of the “Roll-over” offer

The notional value of unexercised share options is based on the mid-market price of a share on 31 December 2003 of 255 pence. During the year the market price ranged between 228 pence and 382 pence.

By Order of the Board
R Atkinson
Secretary
4 March 2004

Statement of Directors' Responsibilities

Financial statements, including adoption of going concern basis

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

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed.

Other matters

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

To the Members of Yule Catto & Co plc

We have audited the financial statements of Yule Catto & Co plc for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the related notes 1 to 33 together with the reconciliation of cash flow before financing to net borrowings, the reconciliation of movements in group shareholders' funds and principal accounting policies. These financial statements have been prepared under the accounting policies set out therein. We have also audited the amounts disclosed relating to the emoluments, share interests and options, long-term incentive scheme interests and pension benefits of the directors, on pages 31 to 33, which form part of the Remuneration Report.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2003 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
4 March 2004

Consolidated Profit and Loss Account
for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Existing operations		522,165	494,318
Acquired operations	2	12,408	–
		534,573	494,318
Discontinued operations	2	5,054	7,244
Turnover of company and subsidiaries		539,627	501,562
Share of turnover of joint ventures	2	10,487	9,216
Total turnover	1	550,114	510,778
Operating profit before joint ventures and amortisation of goodwill			
Existing operations		71,232	65,588
Acquired operations	2	718	–
		71,950	65,588
Discontinued operations	2	(233)	(336)
		71,717	65,252
Amortisation of goodwill			
Existing operations	11	(15,244)	(15,244)
Acquired operations	11	(203)	–
Operating profit of company and subsidiaries		56,270	50,008
Existing operations		55,988	50,344
Acquired operations		515	–
Discontinued operations		(233)	(336)
Operating profit of company and subsidiaries		56,270	50,008
Share of operating profit of joint ventures	2	1,715	1,437
Total operating profit	2	57,985	51,445
Sale and termination of businesses	4	2,067	–
Profit/(loss) on disposal of fixed assets	4	2,651	(1,825)
Interest payable (net)	5	(13,518)	(14,127)
Profit on ordinary activities before taxation		49,185	35,493
Taxation on profit on ordinary activities	6	(19,848)	(16,293)
Profit on ordinary activities after taxation		29,337	19,200
Minority interests	23	(1,539)	(1,852)
Profit attributable to shareholders	7	27,798	17,348
Ordinary dividends	8	(18,777)	(18,095)
Retained profit/(loss) for the financial year	22	9,021	(747)
Operating profit before amortisation	33	73,432	66,689
Profit before taxation*	33	59,914	52,562
Profit after taxation and minorities*	33	39,802	34,417
Earnings per share			
– Adjusted	9	27.6p	23.9p
– Basic	9	19.2p	12.0p
Diluted earnings per share	9	19.0p	11.9p

The accompanying notes form an integral part of the consolidated profit and loss account.

* Excludes amortisation, sale and termination of business and profit/(loss) on disposal of fixed assets.

Balance Sheets
31 December 2003

	Note	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Fixed assets					
Goodwill	11	231,821	242,724	–	–
Tangible fixed assets	12	175,067	173,291	3,370	8,149
		406,888	416,015	3,370	8,149
Investments in joint ventures					
Share of gross assets		5,015	5,465	–	–
Share of gross liabilities		(1,763)	(2,451)	–	–
	13	3,252	3,014	–	–
Investments	14	38	51	59,288	59,299
		410,178	419,080	62,658	67,448
Current assets					
Stocks	15	66,947	60,740	–	–
Debtors	16	100,182	111,403	285,833	341,858
Cash at bank and in hand		9,856	6,553	20	664
		176.985	178,696	285,853	342,522
Creditors – due within one year					
Borrowings	17	(34,271)	(57,527)	(90,393)	(111,516)
Dividends	8	(11,150)	(10,715)	(11,150)	(10,715)
Other creditors	19	(170,966)	(158,959)	(11,844)	(11,096)
Net current (liabilities)/assets		(39,402)	(48,505)	172,466	209,195
Total assets less current liabilities		370,776	370,575	235,124	276,643
Creditors – due after more than one year					
Borrowings	17	(152,861)	(160,217)	(152,861)	(159,798)
Other creditors		(594)	(71)	–	–
		(153,455)	(160,288)	(152,861)	(159,798)
Provisions for liabilities and charges	20	(26,757)	(25,059)	(46)	(95)
Net assets		190,564	185,228	82,217	116,750
Capital and reserves					
Called up share capital	21	14,480	14,480	14,480	14,480
Share premium	22	31,829	31,829	31,829	31,829
Revaluation reserve	22	2,525	2,758	844	844
Capital redemption reserve	22	949	949	949	949
Profit and loss account	22	137,337	130,298	34,115	68,648
Shareholders' funds – all equity		187,120	180,314	82,217	116,750
Minority interests	23	3,444	4,914	–	–
Capital employed		190,564	185,228	82,217	116,750

The accompanying notes form an integral part of these balance sheets.

Approved on 4 March 2004.

A Walker
S V Cummins } **Directors**

Consolidated Cash Flow Statement
for the year ended 31 December 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Net cash inflow from operating activities	24		111,140		73,325
Dividends received from joint ventures			1,244		1,410
Returns on investments and servicing of finance					
Interest received		246		179	
Interest paid		(14,533)		(13,828)	
Dividends paid to minority interests		(1,286)		(923)	
Net cash outflow from returns on investments and servicing of finance			(15,573)		(14,572)
Taxation					
UK corporation tax received/(paid)		1,270		(46)	
Overseas corporate tax paid		(16,019)		(10,851)	
Total tax paid			(14,749)		(10,897)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(21,734)		(20,862)	
Sale of tangible fixed assets		2,651		1,910	
Investments net of disposals		(211)		(511)	
			(19,294)		(19,463)
Free cash flow before dividends			62,768		29,803
Acquisitions and disposals					
Purchase of businesses	27		(6,348)		–
Equity dividends paid			(18,342)		(17,598)
Cash inflow before financing			38,078		12,205
Financing					
Repayment of short term borrowings	25	(23,000)		(14,912)	
Repayment of long term borrowings	25	(7,356)		(193)	
Net cash outflow from financing			(30,356)		(15,105)
Increase/(decrease) in cash	26		7,722		(2,900)

Reconciliation of cashflow before financing to net borrowings

	Note	2003 £000	2002 £000
Cash inflow before financing		38,078	12,205
Exchange movements		(4,163)	(231)
Movement in net borrowings	26	33,915	11,974

The accompanying notes form an integral part of this consolidated cash flow statement.

Consolidated Statement of Total Recognised Gains & Losses
for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Profit attributable to shareholders	7	27,798	17,348
Exchange adjustments	22	(2,215)	30
Total recognised gains and losses for the year		25,583	17,378

The accompanying notes form an integral part of this consolidated statement of total recognised gains and losses.

Reconciliation of Movements in Group Shareholders' Funds
for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Profit attributable to shareholders	7	27,798	17,348
Exchange adjustments	22	(2,215)	30
		25,583	17,378
Dividends	8	(18,777)	(18,095)
Net increase/(reduction) in shareholders' funds		6,806	(717)
Shareholders' funds at 1 January		180,314	181,031
Net increase/(reduction) in shareholders' funds		6,806	(717)
Shareholders' funds at 31 December		187,120	180,314

Principal Accounting Policies
For the year ended 31 December 2003

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting
The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and comply with applicable UK accounting standards.

Basis of consolidation
The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiaries together with the group's share of the profits less losses of joint ventures. Investments in joint ventures are accounted for using the gross equity method, with the group's share of the gross assets and liabilities shown in the consolidated balance sheet. The results of businesses acquired or disposed of are consolidated from or to the effective date of acquisition or disposal.

Foreign currencies
Profits and losses of overseas subsidiaries and associated companies are translated into sterling at the weighted average rates of exchange for the year. Assets and liabilities in foreign currencies are translated at the year end rates. Exchange differences on the opening net assets and results for the year, together with the exchange movements on related foreign currency loans, are dealt with through reserves. Other exchange differences are included in the profit and loss account.

Group sales
Group sales represent the invoiced value for the goods sold, and services provided, to third parties, net of value added tax.

Finance costs
Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Finance costs that are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets.

Goodwill
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is a maximum of twenty years. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Tangible fixed assets
Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Except for freehold land and land grants in Malaysia, which are not depreciated, the cost or valuation of tangible fixed assets is depreciated using a straight line basis over their expected useful lives as follows:

Freehold buildings	–	50 years
Leasehold land and buildings	–	the lesser of 50 years and the period of the lease
Plant and equipment	–	between 3 and 10 years

Revaluation of properties
The group has taken advantage of the transitional provisions of FRS15 "Tangible fixed assets" and retained the book amounts of certain freehold properties which were revalued prior to implementation of that standard.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Leased assets
Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Investments
Fixed asset investments are shown at cost less provision for impairment.

Stocks
Stocks and work in progress are valued at the lower of cost, including an appropriate proportion of production overheads and net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Research and development
Research and product development costs, including expenditure on patents and trade marks, are charged to the profit and loss account as incurred.

Debt
Debt is initially stated at the amount of the net proceeds after deduction of issue costs.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Derivative financial instruments
The group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the group's accounts.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Pension funding
The costs of contributions to the group's pension schemes and of augmenting existing pensions are charged to the profit and loss account on a systematic basis over the expected period of benefits from employees' service.

The UK defined benefit scheme is funded, with the assets of the scheme held separately from those of the group, in separate trustee-administered funds.

For the German schemes, the assets are included within the assets of the respective companies, as permitted under local laws. The assets of the other overseas schemes are held separately from those of the group.

Notes to the Financial Statements
31 December 2003

1 Analysis of total turnover, profit and net assets

	Total turnover 2003 £000	Profit 2003 £000	Net assets 2003 £000	Total turnover 2002 £000	Profit 2002 £000	Net assets 2002 £000
Analysis by activity						
Polymer Chemicals	295,354	29,608	101,641	260,031	37,553	89,795
Pharma & Fine Chemicals	111,994	36,170	45,979	106,499	22,722	38,988
Performance Chemicals	142,766	11,737	31,907	144,248	10,780	29,348
Holding companies	–	(4,083)	(43,508)	–	(4,366)	(4,436)
	550,114			510,778		
Operating profit*		73,432			66,689	
Interest payable		(13,518)			(14,127)	
Profit before taxation*		59,914			52,562	
Sale and termination of businesses		2,067			–	
Profit/(loss) on disposal of fixed assets		2,651			(1,825)	
Amortisation of goodwill		(15,447)			(15,244)	
Profit before taxation		49,185			35,493	
			136,019			153,695
Goodwill			231,821			242,724
Net borrowings			(177,276)			(211,191)
Net assets			190,564			185,228

Of the amounts included within the Polymer Chemicals line of the above analysis by activity, the following relate to joint ventures; turnover £10,487,000 (2002 £9,216,000), operating profit £1,715,000 (2002 £1,437,000) and net assets £3,252,000 (2002 £3,014,000).

	Total turnover 2003 £000	Operating profit* 2003 £000	Net assets 2003 £000	Total turnover 2002 £000	Operating profit* 2002 £000	Net assets 2002 £000
Analysis by region of operation						
Europe	440,567	65,300	87,035	419,904	56,999	104,130
Asia	75,256	4,241	39,898	60,032	5,681	42,937
Rest of World	34,291	3,891	9,086	30,842	4,009	6,628
	550,114	73,432	136,019	510,778	66,689	153,695
Goodwill			231,821			242,724
Net borrowings			(177,276)			(211,191)
Net assets			190,564			185,228

Of the turnover made by operations based in Europe £213,719,000 (2002 £224,353,000) relates to operations based in the United Kingdom, £64,325,000 (2002 £57,957,000) relates to operations based in Germany and £162,523,000 (2002 £137,594,000) relates to operations based elsewhere.

	2003 £000	2002 £000
Analysis of total turnover by destination		
United Kingdom	132,502	130,380
Other Europe	208,782	193,069
Asia	97,711	82,848
Africa and Middle East	38,245	34,872
Rest of World	72,874	69,609
	550,114	510,778

Acquired operations
Of the amounts included above, the following relate to operations acquired in 2003; turnover £12,048,000, operating profit £718,000. These amounts relate to polymer chemical activities based in Europe with turnover restricted to Europe.

Discontinued operations
Of the amounts included above, the following relate to operations discontinued in 2003; turnover £5,054,000, operating loss £233,000. These amounts relate to performance chemical activities based in Europe with turnover restricted to Europe.

* Before amortisation of goodwill, sale and termination of business and profit/(loss) on disposal of fixed assets.

2 Operating profit

	Company and subsidiaries 2003 £000	Joint ventures 2003 £000	Total 2003 £000	Company and subsidiaries 2002 £000	Joint ventures 2002 £000	Total 2002 £000
Turnover	539,627	10,487	550,114	501,562	9,216	510,778
Cost of sales	(394,824)	(8,013)	(402,837)	(355,089)	(6,675)	(361,764)
Gross profit	144,803	2,474	147,277	146,473	2,541	149,014
Distribution costs	(45,737)	(373)	(46,110)	(42,281)	(524)	(42,805)
Administrative expenses						
– Amortisation of goodwill	(15,447)		(15,447)	(15,244)	–	(15,244)
– Other	(27,349)	(386)	(27,735)	(38,940)	(580)	(39,520)
Operating profit	56,270	1,715	57,985	50,008	1,437	51,445
Add back: amortisation of goodwill	15,447		15,447	15,244		15,244
Operating profit excluding amortisation of goodwill	71,717		73,432	65,252		66,689

Acquired operations	Company and subsidiaries 2003 £000	Joint ventures 2003 £000	Total 2003 £000
Turnover	12,408	–	12,408
Cost of sales	(10,760)	–	(10,760)
Gross profit	1,648	–	1,648
Distribution costs	(746)	–	(746)
Administrative expenses	(184)	–	(184)
Operating profit	718	–	718

Discontinued operations	Company and subsidiaries 2003 £000	Joint ventures 2003 £000	Total 2003 £000	Company and subsidiaries 2002 £000	Joint ventures 2002 £000	Total 2002 £000
Turnover	5,054	–	5,054	7,244	–	7,244
Cost of sales	(3,935)	–	(3,935)	(5,413)	–	(5,413)
Gross profit	1,119	–	1,119	1,831	–	1,831
Distribution costs	(998)	–	(998)	(1,330)	–	(1,330)
Administrative expenses	(354)	–	(354)	(837)	–	(837)
Operating loss	(233)	–	(233)	(336)	–	(336)

	2003 £000	2002 £000
Operating profit is stated after the following:		
Depreciation	23,042	20,671
Hire of plant and equipment	1,262	2,076
Other lease rentals	3,279	3,215
Research and development expenditure, including the group's share of that incurred by the joint ventures	11,288	12,291

Restructuring and redundancy costs totalling £2,526,000 (2000 £338,000) have been incurred in the period.

Note 28 to the 2002 financial statements referred to a long-standing commercial dispute which was anticipated to be resolved in 2003 with a potential income of £2.5 million. This dispute was settled in 2003 with the receipt of £2,726,000 credited to administrative expenses as compensation.

3 Auditors remuneration

		2003 £000	2002 £000
Fees paid to group auditors	– audit	397	385
	– taxation services	528	403
	– other services	40	–

The other services provided by the group auditors relate to assistance given in grant applications and sundry projects.

The audit fee of the holding company amounted to £5,000 (2002 £5,000).

4 Non-recurring items

	2003 £000	2002 £000
Withdrawal from Holliday Encres SA	(2,708)	–
Write back of excess provision for closure of Holliday Dyes and Chemicals Ltd	4,775	–
Sale and termination of businesses	2,067	–
Profit/(loss) on disposal of fixed assets	2,651	(1,825)
	4,718	(1,825)
Tax on exceptional items	(1,275)	–
	3,443	(1,825)

The profit on disposal of fixed assets relates to the sale of the Huddersfield site previously occupied by Holliday Dyes and Chemicals Ltd.

5 Interest payable (net)

	2003 £000	2002 £000
Interest payable on bank loans and overdrafts		
Repayable within 5 years – not by instalments	4,038	5,146
– by instalments	2,998	3,279
Interest payable on other loans	6,707	6,785
	13,743	15,210
Less: interest receivable	(246)	(179)
	13,497	15,031
Interest payable by joint ventures	21	15
	13,518	15,046
Less: finance costs capitalised	–	(919)
	13,518	14,127

6 Taxation on profit on ordinary activities

	2003 £000	2002 £000
Current tax		
UK corporation tax	(1,483)	1,872
Overseas taxation	19,039	13,772
	17,556	15,644
Tax on sale and termination of businesses	480	–
Tax on profit on disposal of fixed assets	795	–
Charge for the year	18,831	15,644
Deferred tax		
Origination and reversal of timing differences	939	637
Effect of decrease in tax rate on opening liability	(26)	(67)
	913	570
Share of associates' tax	104	79
Total tax on profit on ordinary activities	19,848	16,293

6 Taxation on profit on ordinary activities (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2003 £000	2002 £000
Profit on ordinary activities before taxation	49,185	35,493
Add back: amortisation of goodwill	15,447	15,244
Add back: sale and termination of businesses	(2,067)	–
Add back: (profit)/loss on disposal of fixed assets	(2,651)	1,825
Less: share of associates' profit before tax	(1,694)	(1,422)
Group profit on ordinary activities before tax	58,220	51,140
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)	17,466	15,342
Effects of:		
Expenses not deductible for tax purposes	181	416
Capital allowances in excess of depreciation	136	(647)
Other temporary timing differences	(22)	10
Utilisation of tax losses	(437)	(820)
Higher tax rates on overseas earnings	232	1,343
Group current tax charge for year	17,556	15,644

7 Profit attributable to shareholders

	2003 £000	2002 £000
Dealt with by Yule Catto & Co plc	(12,409)	80,868
Retained by subsidiaries	39,734	(63,462)
Retained by joint ventures	473	(58)
	27,798	17,348

As permitted by section 230 of the Companies Act 1985 no profit and loss account is presented for Yule Catto & Co plc.

8 Dividends

	2003 £000	2002 £000
Ordinary – interim of 5.3 pence per share (2002 5.1 pence)	7,627	7,380
– proposed final of 7.7 pence per share (2002 7.4 pence)	11,150	10,715
	18,777	18,095

9 Earnings per share

Earnings per share are calculated using the weighted average number of shares in issue during the year of 144,446,000 (2002 144,276,000).

	Earnings		Earnings per share	
	2003 £000	2002 £000	2003 p	2002 p
Earnings – Basic	27,798	17,348	19.2	12.0
Amortisation of goodwill	15,447	15,244	10.7	10.6
Sale and termination of businesses	(2,067)	–	(1.4)	–
(Profit)/loss on disposal of fixed assets	(2,651)	1,825	(1.8)	1.3
Tax on sale and termination of businesses and (profit)/loss on disposal of fixed assets	1,275	–	0.9	–
Earnings – Adjusted	39,802	34,417	27.6	23.9

The directors believe that the adjusted earnings as shown above is a more meaningful measure of the ongoing performance of the group's operations than that prescribed by FRS3.

Diluted earnings per share of 19.0p (2002 11.9p) is calculated on profit attributable to ordinary shareholders of £27,798,000 (2002 £17,348,000) and on 146,478,448 shares (2002 145,947,185), being the weighted average number of shares in issue during the year, as adjusted for unexercised share options in accordance with FRS14.

10 Employees

	2003 Number	2002 Number
The average monthly number of employees during the year by activity was:		
Polymer Chemicals	1,433	1,371
Pharma & Fine Chemicals	650	645
Performance Chemicals	1,395	1,393
Holding companies	41	34
	3,519	3,443
Joint ventures	111	103
	3,630	3,546

	2003 £000	2002 £000
The aggregate remuneration of all group employees comprised:		
Wages and salaries	72,354	68,385
Social security costs	11,114	10,135
Other pension costs – see note 31	6,558	3,809
	90,026	82,329

11 Goodwill

	2003 £000
Group	
Cost	
At 1 January 2003	304,827
Acquisitions	4,544
At 31 December 2003	309,371
Amortisation	
At 1 January 2003	(62,103)
Charge in the year	(15,447)
At 31 December 2003	(77,550)
Net book value	
At 31 December 2003	231,821
At 31 December 2002	242,724

The goodwill charged during the year can be analysed as follows:

	2003 £000	2002 £000
Existing operations	15,244	15,244
Acquired operations	203	–
	15,447	15,244

12 Tangible fixed assets

	Land and buildings Freeholds £000	Land and buildings Leaseholds Long £000	Land and buildings Leaseholds Short £000	Plant and equipment £000	Total £000
Group					
Cost or valuation					
At 1 January 2003	68,668	4,764	189	337,001	410,622
Exchange adjustments	1,465	(14)	(427)	6,166	7,190
Additions	1,405	12	–	22,453	23,870
Acquisition of subsidiary undertaking	–	–	–	3,550	3,550
Disposals	(79)	–	–	(5,990)	(6,069)
At 31 December 2003	71,459	4,762	(238)	363,180	439,163
At cost	68,009	4,673	(238)	363,180	435,624
At professional valuation in 1985	3,450	89	–	–	3,539
At 31 December 2003	71,459	4,762	(238)	363,180	439,163
Depreciation					
At 1 January 2003	19,591	1,490	80	216,170	237,331
Exchange adjustments	879	(2)	(10)	5,933	6,800
Charge for the year	1,836	125	77	21,004	23,042
Acquisition of subsidiary undertaking	–	–	–	2,213	2,213
Eliminated on disposals	(73)	–	–	(5,217)	(5,290)
At 31 December 2003	22,233	1,613	147	240,103	264,096
Net book value					
At 31 December 2003	49,226	3,149	(385)	123,077	175,067
At 31 December 2002	49,077	3,274	109	120,831	173,291

Properties included at valuation would have been stated on a historical cost basis at cost of £2,571,000 (2002 £2,624,000) and depreciation of £919,000 (2002 £930,000).

Freehold land amounting to £9,944,000 (2002 £9,727,000) has not been depreciated.

Cumulative finance costs capitalised after amortisation, included in the net book value of tangible fixed assets, amount to £1,313,000 (2002 £1,457,000).

	Land and buildings Freeholds £000	Land and buildings Long Leaseholds £000	Plant and equipment £000	Total £000
Company				
Cost or valuation				
At 1 January 2003	8,582	89	1,618	10,289
Additions	–	–	212	212
Transfers to subsidiary undertakings	(5,196)	–	–	(5,196)
Disposals	–	–	(121)	(121)
At 31 December 2003	3,386	89	1,709	5,184
At cost	621	–	1,709	2,330
At professional valuation in 1985	2,765	89	–	2,854
At 31 December 2003	3,386	89	1,709	5,184
Depreciation				
At 1 January 2003	871	34	1,235	2,140
Charge for the year	121	2	212	335
Eliminated on transfers to subsidiary undertakings	(543)	–	–	(543)
Eliminated on disposals	–	–	(118)	(118)
At 31 December 2003	449	36	1,329	1,814
Net book value				
At 31 December 2003	2,937	53	380	3,370
At 31 December 2002	7,711	55	383	8,149

Properties included at valuation would have been stated on a historical cost basis at cost of £1,877,000 (2002 £1,877,000) and depreciation of £318,000 (2002 £301,000).

Freehold land amounting to £2,052,000 (2002 £2,525,000) has not been depreciated.

13 Investment in joint ventures

	2003 £000	2002 £000
Share of assets		
Share of fixed assets	940	1,061
Share of current assets	4,075	4,404
	5,015	5,465
Share of liabilities		
Liabilities due within one year	(1,763)	(2,451)
Share of net assets	3,252	3,014

Reconciliation of movements in investment in joint ventures

	2003 £000
At 1 January	3,014
Share of profit before tax for the year	1,695
Share of taxation for the year	(104)
Share of dividends payable during the year	(1,118)
Exchange adjustments	(235)
At 31 December	3,252

14 Investments

	Own shares £000	Other investments £000	Total £000
Group			
Cost			
At 1 January 2003	1,454	51	1,505
Additions	211	–	211
Disposals	(801)	–	(801)
At 31 December 2003	864	51	915
Adjustments to net tangible asset values			
At 1 January 2003	(1,454)	–	(1,454)
Amortisation	(211)	(13)	(224)
Disposals	801	–	801
At 31 December 2003	(864)	(13)	(877)
Net book value			
At 31 December 2003	–	38	38
At 31 December 2002	–	51	51

The company established a Trust, the Yule Catto Employee Benefit Trust, on 17 July 1996 to distribute shares to employees enabling the obligations under the Yule Catto Longer-Term Performance Share Plan and the Yule Catto Longer-Term Deferred Bonus Plan to be met. The Trust is managed by the RBC Trustees (Guernsey) Limited, an independent company located in Guernsey.
At 31 December 2003, the Trust held 357,661 (2002 527,453) ordinary shares in the company with a market value of £912,000 (2002 £1,469,000). The dividends on these shares have been waived. All of the shares are under option. Costs are amortised over the life of the plans.

14 Investments (continued)

	Subsidiaries £000	Joint ventures £000	Other investments £000	Total £000
Company				
Cost				
At 1 January 2003	60,103	500	46	60,649
Additions	–	–	–	–
At 31 December 2003	60,103	500	46	60,649
Provisions				
At 1 January 2003	(1,118)	(220)	(12)	(1,350)
Amortisation	–	–	(11)	(11)
At 31 December 2003	(1,118)	(220)	(23)	(1,361)
Net book value				
At 31 December 2003	58,985	280	23	59,288
At 31 December 2002	58,985	280	34	59,299

Details of the principal group companies are given on pages 60 to 61.

15 Stocks

	2003 £000	2002 £000
Group		
Raw materials and consumables	24,361	23,384
Work in progress	3,948	4,048
Finished goods	38,638	33,308
	66,947	60,740

There is no material difference between the balance sheet value of stocks and their replacement cost.

16 Debtors

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Trade debtors	85,178	95,132	–	–
Amounts owed by subsidiaries	–	–	285,538	340,965
Other debtors	8,038	10,559	168	893
Prepayments and accrued income	6,966	5,712	127	–
	100,182	111,403	285,833	341,858
Receivable within one year	99,980	110,953	285,833	341,858
Receivable after more than one year	202	450	–	–
	100,182	111,403	285,833	341,858

17 Borrowings

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Amounts due within one year				
Other bank loans and overdrafts	34,271	57,527	90,393	111,516
	34,271	57,527	90,393	111,516
Amounts due after more than one year				
Loans repayable by instalments				
Between 1 and 2 years	13,407	419	13,407	–
Between 2 and 5 years	39,324	59,729	39,324	59,729
Loans repayable otherwise than by instalments				
Between 2 and 5 years	33,377	–	33,377	–
In more than 5 years	66,753	100,069	66,753	100,069
	152,861	160,217	152,861	159,798

The loans repayable in more than five years consist of the following loan notes:

$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010

These loan notes are repayable in three equal tranches on 8 September 2008, 2009 and 2010.

18 Treasury

The group's treasury operates procedures designed to reduce or eliminate financial risk and ensure that funds are available for current and future needs. The policies are approved by the Board and the use of financial instruments is strictly controlled. Yule Catto & Co plc's policy is to finance itself using a mixture of equity and debt instruments.

The group's principal financial instruments comprise borrowings, some cash and liquid resources and various items, such as trade debtors and trade creditors that arise directly from its operations. The group also uses interest rate swaps, currency swaps and forward foreign currency contracts to manage the interest rate and currency risks arising from the group's operations and its sources of finance.

As permitted by FRS13 "Derivatives and Other Financial Instruments: Disclosures", short term debtors and creditors have been excluded from the disclosures, other than net currency disclosures.

It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The group finances its operations through a mixture of retained profits and bank borrowings. The group borrows at both fixed and floating rates of interest and uses interest rate swaps to generate the desired interest profile in order to manage the group's exposure to interest rate fluctuations.

Liquidity risk

The objective of the company is to meet financial commitments as and when they fall due. The Board closely monitors liquidity through monthly management accounts.

At the year end, Yule Catto & Co plc had the following principal facilities:

- A committed £120 million syndicated bank facility, which comprise a term loan of £60 million for medium term requirements, repayable in tranches and a revolving credit facility of £60 million which expires in November 2006.
- Unsecured loan notes totalling just over £100 million raised primarily from the US private placement market. With maturity between 2008 and 2010, this provides the group's long term requirements.

18 Treasury (continued)

Foreign currency risk

The group uses currency borrowings and currency swaps to hedge overseas net assets, which are predominantly denominated in euros. Profit translation exposures are not hedged. The group hedges currency transaction exposures at the point of confirmed order, using forward foreign exchange contracts. The group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. Consequently, there are no material currency exposures to disclose (2002 – none).

Interest rate risk profile

Financial assets
The group has no financial assets, other than short-term debtors and cash at bank (2002 – none).

Financial liabilities
After taking into account the various interest rate and currency swaps entered into by the group, the currency and interest rate exposure of the group as at 31 December 2003 was:

	Total borrowings 2003 £000	Floating rate borrowings 2003 £000	Fixed rate borrowings 2003 £000	Weighted average fixed interest rate 2003 %	Weighted average time for which rate is fixed 2003 years
Sterling	139,180	(10,820)	150,000	6.8	4.7
Euro currencies	36,632	2,874	33,758	5.1	1.5
Other	11,320	11,320	–	–	–
	187,132	3,374	183,758	6.6	4.1

	Total 2002 £000	Floating rate 2002 £000	Fixed rate 2002 £000	Weighted average fixed 2002 %	Weighted average time for which 2002 years
Sterling	199,342	14,342	185,000	6.7	4.6
Euro currencies	10,292	(20,966)	31,258	5.1	2.5
Other	8,110	8,110	–	–	–
	217,744	1,486	216,258	6.6	4.3

The floating rate borrowings comprise:
- sterling denominated bank borrowings that bear interest at rates based on LIBOR.
- sterling denominated overdrafts that bear interest at rates based on the UK bank rate.
- foreign currency (predominantly euros) denominated bank borrowings and overdrafts that bear interest at equivalent rates.

Maturity of financial liabilities

The maturity of the group's financial liabilities at 31 December 2003 was as follows:

	2003 £000	2002 £000
In one year or less on demand	34,271	57,527
In more than one year but not more than two years	13,407	419
In more than two years but not more than five years	72,701	59,729
In more than five years	66,753	100,069
	187,132	217,744

Borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2003 in respect of which all conditions precedent had been met were as follows:

	2003 £000	2002 £000
Expiring in one year or less	–	–
Expiring in more than one year but not more than two years	–	30,000
Expiring in more than two years but not more than five years	60,000	25,000
	60,000	55,000

In addition to the committed facilities, the group has £60.9m (2002 £18.7m) of undrawn overdraft facilities.

18 Treasury (continued)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets and liabilities.

	Notional principal amounts at 31 December		Carrying values at 31 December		Fair values at 31 December	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
Cash	9,856	6,553	9,856	6,553	9,856	6,553
Short-term borrowings	(34,271)	(57,527)	(34,271)	(57,527)	(34,271)	(59,527)
Loans	(152,861)	(160,217)	(152,861)	(160,217)	(143,564)	(159,102)
			(177,276)	(211,191)		
Currency swaps	85,535	85,535	–	–	3,249	16,017
Interest rate swaps	168,522	201,258	–	–	(7,532)	(10,533)
Total net liabilities			(177,276)	(211,191)	(172,262)	(206,592)
Financial assets			9,856	6,553		
Financial liabilities			(187,132)	(217,744)		
			(177,276)	(211,191)		

Fair values have been obtained from the relevant institutions.

The difference between the carrying value and the fair value of the loans of £(9,297,000), (2002 £(1,115,000)) reflects the revaluation of the Private Placement loan notes. The loan notes are hedged using currency swaps and the carrying value and fair value of the currency element of these differ by an equal and opposite amount.

Gains and losses on hedges

There are no unrecognised gains and losses on the foreign exchange contracts at 31 December 2003 (2002: none).

The interest rate and currency swaps in place are an integral part of the group's interest rate hedging strategy and as such there is no intention to cancel these contracts before maturity. In the hypothetical event that the contracts had been cancelled at 31 December 2003, the net compensation payable would have been £4,283,000 (2002 net compensation receivable £5,484,000). During the year the effect of the hedging undertaken has been a debit of £791,000 (2002 credit of £348,000) to the group's profit and loss account.

The hedging undertaken ensures that a substantial proportion of the group's interest charge for 2004 and beyond is known with certainty. Should variable rates remain constant, the debit to the profit and loss account in 2004 in respect of the group's obligations under hedging contracts will be £1,170,000. If variable interest rates increase, the debit to the profit and loss account in 2004 in respect of the group's obligations under the hedging contracts will increase accordingly.

19 Other creditors

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Amount due within one year				
Trade creditors	80,285	77,033	574	918
Bills of exchange payable	600	1,329	–	–
Corporate tax	38,388	33,068	2,268	322
Other taxation and social security	4,883	4,504	117	103
Other creditors	27,336	23,941	3,587	3,832
Accruals and deferred income	19,474	19,084	5,298	5,921
	170,966	158,959	11,844	11,096

20 Provisions for liabilities and charges

	Deferred taxation £000	Deferred income £000	Pension liabilities £000	Product warranties £000	Total £000
Group					
At 1 January 2003	21,320	19	3,686	34	25,059
Exchange adjustments	304	–	311	–	615
Transfers from/(to) profit and loss account	913	–	170	53	1,136
Utilised	–	(19)	(34)	–	(53)
At 31 December 2003	22,537	–	4,133	87	26,757

The provision for pension liabilities refers to future pension obligations of some of the overseas schemes.

The provision for product warranties relates to expected warranty claims on products. It is expected that the majority of the expenditure will be incurred in the next financial year.

	Deferred taxation £000
Company	
At 1 January 2003	95
Transfers to profit and loss account	(49)
At 31 December 2003	46

Deferred Taxation

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Accelerated capital allowances	20,354	20,227	46	95
Other timing differences	2,183	1,093	–	–
	22,537	21,320	46	95

21 Share capital

	2003 £000	2002 £000
Authorised		
185,000,000 ordinary shares of 10 pence each	18,500	18,500
588,877 11.5% cumulative redeemable preference shares 1999-2003 of £1 each	589	589
34,111,230 unclassified shares of 10 pence each	3,411	3,411
	22,500	22,500
Allotted, called up and fully paid		
144,803,918 ordinary shares (2002 144,803,918)	14,480	14,480

Share options

As at 31 December 2003 the following options were outstanding:

Executive share options	Number	Option price
Exercisable during 2004	100,000	299.0p
Exercisable between 2004 - 2005	26,064	(a)
Exercisable between 2004 - 2006	32,528	(a)
Exercisable between 2004 - 2006	142,624	170.6p
Exercisable between 2004 - 2007	168,098	222.7p
Exercisable between 2004 - 2007	163,499	(a)
Exercisable between 2004 - 2008	281,294	(a)
Exercisable between 2005 - 2009	5,372	(a)
Exercisable between 2005 - 2013	298,807	(a)
Exercisable between 2006 - 2010	14,008	(a)
Exercisable between 2006 - 2014	371,102	(a)

SAYE options	Number	Option price
Exercisable between 2006 - 2008	1,272,870	150.0p
Exercisable between 2007 - 2009	712,114	261.0p

(a) options granted under the Longer-Term Performance Share Plan, the Longer-Term Deferred Bonus Plan and the Yule Catto Performance Share Plan with a total exercise price of £97.

22 Share premium and reserves

	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
Group					
At 1 January 2003	31,829	2,758	949	130,298	165,834
Retained profit for the year	–	–	–	9,021	9,021
Transfer in respect of depreciation on revalued amount	–	(2)	–	2	–
Exchange adjustments	–	(231)	–	(1,984)	(2,215)
At 31 December 2003	31,829	2,525	949	137,337	172,640

Goodwill of £77,986,000 (2002 £62,539,000) has been amortised through the profit & loss account and £81,664,000 (2002 £81,664,000) has been written off to the reserves.

	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
Company					
At 1 January 2003	31,829	844	949	68,648	102,270
Retained loss for the year	–	–	–	(31,186)	(31,186)
Exchange adjustments	–	–	–	(3,347)	(3,347)
At 31 December 2003	31,829	844	949	34,115	67,737

23 Minority interests

	Equity £000
At 1 January 2003	4,914
Profit on ordinary activities after taxation	1,539
Dividends paid and proposed	(1,286)
Purchase of minority in Revertex South Africa (Pty) Limited	(1,589)
Exchange adjustments	(134)
At 31 December 2003	3,444

On 7 November 2003, the group acquired the remaining minority interest in Revertex South Africa (Pty) Limited for a consideration of £1,589,000.

24 Reconciliation of operating profit to net cash inflow from operating activities

	2003 £000	2002 £000
Operating profit	57,985	51,445
Share of profits of joint ventures	(1,715)	(1,437)
	56,270	50,008
Depreciation charge	23,042	20,671
Cash impact of termination of businesses	(590)	(510)
Amortisation of goodwill	15,447	15,244
Amortisation of investments	224	523
Increase in stocks	(5,200)	(279)
Decrease/(increase) in debtors	15,177	(11,093)
Increase/(decrease) in creditors and provisions	6,770	(1,239)
Net cash inflow from operating activities	111,140	73,325

	2003 £000	2002 £000
Net cash inflow from operating activities comprises:		
Continuing operating activities	111,020	73,276
Discontinued operating activities	120	49
	111,140	73,325

25 Analysis of changes in net debt

	1 January 2003 £000	Cash inflows/ (outflows) £000	Exchange movement £000	31 December 2003 £000
Group				
Cash	6,553	(2)	3,305	9,856
Overdrafts	(22,527)	7,724	(7,468)	(22,271)
	(15,974)	7,722	(4,163)	(12,415)
Borrowings due within one year	(35,000)	23,000	–	(12,000)
Borrowings due after more than one year	(160,217)	7,356	–	(152,861)
Net borrowings	(211,191)	38,078	(4,163)	(177,276)

26 Reconciliation of net cash outflow to movement in net debt

	2003 £000	2002 £000
Increase/(decrease) in cash and cash equivalents in the year	7,722	(2,900)
Cash outflow from decrease in debt	30,356	15,105
Change in net debt from cash flows	38,078	12,205
Exchange movement	(4,163)	(231)
Movement in net borrowings	33,915	11,974
Net debt at 1 January	(211,191)	(223,165)
Net debt at 31 December	(177,276)	(211,191)

27 Purchase of businesses

	£000
Purchase of remaining minority interest in Revertex South Africa (Pty) Limited (see note 23)	1,589
Purchase of Ditar Ridderkerk BV and Ditar Hasselt BV (see below)	4,759
Net cash outflows in respect of acquisitions made	6,348

Purchase of Ditar Ridderkerk BV and Ditar Hasselt BV

On 3 February 2003, the group acquired 100% of the shares of Ditar Ridderkerk BV and Ditar Hasselt BV. These Dutch businesses are engaged in the manufacture of latex compounds, mainly for the carpet industry.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair values to the group:

	Book value £000	Accounting policy alignment £000	Fair value to group £000
Fixed assets			
Tangible fixed assets	1,244	(276)	968
Current assets			
Stocks	556	–	556
Debtors	2,221	–	2,221
Creditors and provisions	(2,225)	–	(2,225)
Net borrowings	(688)	–	(688)
Shareholders' funds	1,108	(276)	832
Goodwill added to the balance sheet			4,546
Purchase consideration:			
Purchase consideration:			5,378
Add: net borrowings			688
Total cash outflow in respect of the acquisition			6,066
Less deferred consideration payable in 2004			(1,307)
Total cash outflow in respect of the acquisition paid in 2003			4,759

The fair value adjustments relating to fixed assets are the result of different accounting policies between Yule Catto and the previous owner; the previous owner employed a residual value of 10% whereas Yule Catto uses a 0% residual value.

The following amounts relate to the companies acquired in the year:

	Profit after tax
Year ended 31 December 2002	517
1 January 2003 – 3 February 2003	54

The group uses acquisition accounting to account for purchases.

28 Related party transactions
There were no related party transactions during the year (2002 – none).

29 Commitments

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Capital expenditure authorised but not provided for in the accounts				
Contracted	1,053	4,459	–	–

	Land and buildings 2003 £000	Land and buildings 2002 £000	Other 2003 £000	Other 2002 £000
Commitments under operating leases are as follows				
Operating leases which expire				
Within 1 year	358	–	560	453
Between 2 and 5 years	318	32	811	1,645
After 5 years	1,213	1,229	–	29
	1,889	1,261	1,371	2,127

30 Contingent assets, contingent liabilities and guarantees
(a) The company has given guarantees amounting to £12,949,000 (2002 £14,526,000) in respect of bank and other facilities of subsidiaries and joint ventures.
(b) Other guarantees and contingent liabilities of the group amount to £5,259,000 (2002 £3,536,000).
(c) The company and its subsidiaries have, in the normal course of business, entered into guarantees and counter indemnities in respect of performance bonds, relating to the group's own contracts.

31 Pension commitments
The group operates a number of pension schemes throughout the world. In 2003, the total pension cost for the group was £5,458,000 (2002 £3,809,000) of which £1,484,000 (2002 £1,256,000) relates to overseas schemes.

UK pension schemes
The group participates in a funded Scheme with both a defined benefit and defined contribution section (the Yule Catto Group Retirement Benefit Scheme). The Scheme's defined benefit section was closed to new members with effect from 31 December 1998 and with effect from 1 January 1999 a defined contribution section was introduced and is open to all eligible group employees. The assets of the scheme are held separately from those of the companies concerned.

Contributions to the scheme are charged to the profit and loss account to spread the cost of pensions over employees' working lives within the group.

Contributions to the defined benefit scheme are determined by a qualified actuary on the basis of regular valuations using the projected unit method. The most recent valuation was at 6 April 2003. The assumptions, which have the most significant effect on the results of the valuation, are those relating to the rate of return on investments and the rate of increases in salaries and pensions. For non-retired members it was assumed the investment return would be 7.5% pa and that salaries would increase at 3.5% pa. For retired members it was assumed that the investment return would be 5.75% pa, and for all members it was assumed that all pensions for which increases were due would increase at the rate of 2.5% pa, or such higher amount as guaranteed by the Scheme Rules. Assets were taken into account at market value.

At the date of the actuarial valuation the market value of the assets of the UK Scheme was £102,574,435. On the basis described above, the assets attributable to accrued defined benefits were assessed as being sufficient to cover 61.2% of the value of the benefits accrued to members, after allowing for expected future increases in earnings. Following an improvement in the funding position since the valuation, and in line with the recommendations from the Scheme actuary, annual contributions to the main UK Scheme have increased to 36.7% with effect from 1 October 2003.

31 Pension commitments (continued)

Pension disclosure required by FRS17

A full actuarial valuation was carried out at 6 April 2003 and updated to 31 December 2003 by a qualified actuary. The major assumptions used by the actuary were:

	2003	2002
Rate of increase in salaries	3.50%	3.80%
Rate of increase in pensions in payment	2.50%	3.00%
Discount rate	5.50%	5.50%
Inflation assumption	2.50%	2.30%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

	2003 %	2003 £'million	2002 %	2002 £'million
Equities	7.75%	97.9	8.00%	79.9
Bonds	5.25%	22.6	5.25%	22.2
Cash	4.00%	0.8	5.00%	0.6
Total fair value of assets		121.3		102.7
Present value of scheme liabilities		(191.1)		(158.7)
Deficit in the scheme		(69.8)		(56.0)
Related deferred tax asset		20.9		16.8
Net pension liability		(48.9)		(39.2)

The contribution rate from 1 October 2003 was 36.7% of pensionable earnings and the agreed contribution for next year is 36.7% of pensionable earnings.

Analysis of the amount that would have been charged to operating profit under FRS17:

	2003 £000	2002 £000
Current service cost	3,900	3,200
Past service cost	–	–
Gain/(loss) on settlements and curtailments	–	–
	3,900	3,200

Analysis of the amount that would have been charged to net finance income under FRS17:

	2003 £000	2002 £000
Expected return on pension scheme assets	(7,500)	(9,000)
Interest on pension scheme liabilities	8,700	9,000
	1,200	–

Analysis of the actuarial loss that would have been recognised in the statement of total recognised gains and losses:

	2003 £000	2002 £000
Actual return less expected return on pension scheme assets	12,300	(26,600)
Experience gains and losses arising on the scheme liabilities	(27,800)	4,200
Changes in assumptions underlying the present value of the scheme liabilities	1,500	(7,000)
	(14,000)	(29,400)

31 Pension commitments (continued)

History of experience gains and losses

	2003	2002
Difference between the expected and actual return on scheme assets:		
Amount (£000)	12,300	(26,600)
Percentage of scheme assets	10.10%	(24.90)%
Experience gains and losses on scheme liabilities:		
Amount (£000)	(27,800)	4,200
Percentage of the present value of scheme liabilities	(14.50)%	2.60%
Total actuarial loss recognised in the statement of total recognised gains and losses:		
Amount (£000)	(14,000)	(29,400)
Percentage of the present value of scheme liabilities	(7.30)%	17.90%

Overseas pension schemes

The group operates a number of smaller overseas pension and post-retirement schemes. The assets of these schemes are held separately from those of the group with the exception of the German schemes where, in line with common practice, the assets are held within the respective company. The following aggregated pension disclosure required by FRS17 has been compiled from a number of actuarial valuations at 31 December 2003. The major assumptions do not differ significantly from that disclosed above in relation to the UK pension schemes.

The aggregated fair value of the assets in the overseas schemes, the present value of the liabilities in the overseas schemes and the expected weighted rates of return at each balance sheet date were:

	2003 %	2003 £m	2002 %	2002 £m
Equities	8.00%	0.4	8.00%	0.4
Bonds	4.59%	3.0	4.57%	2.6
Cash	4.00%	0.2	4.00%	0.2
Total fair value of assets		3.6		3.2
Present value of schemes' liabilities		(14.0)		(11.9)
Deficit in the schemes		(10.4)		(8.7)
Related deferred tax assets		3.7		3.2
Net pension liabilities		(6.7)		(5.5)

Of the deficit in the overseas pension schemes, £4.1 million is provided in the provisions note (note 20).

Aggregated analysis of the amount that would have been charged to operating profit under FRS17:

	2003 £000	2002 £000
Current service cost	410	369
Past service cost	–	–
Gain/(loss) on settlements and curtailments	–	–
	410	369

Aggregated analysis of the amount that would have been charged to net finance income under FRS17:

	2003 £000	2002 £000
Expected return on pension schemes' assets	(147)	(161)
Interest on pension schemes' liabilities	688	630
	541	469

Aggregated analysis of the actuarial losses that would have been recognised in the statement of total recognised gains and losses:

	2003 £000	2002 £000
Actual return less expected return on pension schemes' assets	(19)	228
Experience gains and losses arising on the schemes' liabilities	847	141
Changes in assumptions underlying the present value of the schemes' liabilities	376	262
	1,204	631

31 Pension commitments (continued)
History of experience gains and losses

	2003	2002
Difference between the expected and actual return on schemes' assets:		
Amount (£000)	(19)	228
Percentage of schemes' assets	(0.52)%	7.13%
Experience gains and losses on schemes' liabilities:		
Amount (£000)	847	141
Percentage of the present value of schemes' liabilities	(6.05)%	(1.18)%
Total actuarial gains recognised in the statement of total recognised gains and losses:		
Amount (£000)	1,204	631
Percentage of the present value of schemes' liabilities	(8.60)%	(5.30)%

32 Share price information
The middle market value of the listed ordinary shares at 31 December 2003 was 255 pence. During the year, the market price ranged between 228 pence and 382 pence. The market value of the listed ordinary shares at 31 March 1982 was 19.5 pence. The latest ordinary share price is available on the Financial Times Cityline service, telephone 09060 034567.

33 Reconciliation of numbers shown in Financial Highlights

	Note	2003 £000	2002 £000
Total operating profit		57,985	51,445
Add: depreciation	2	23,042	20,671
Add: amortisation of goodwill	10	15,447	15,244
Ebitda		96,474	87,360
Total operating profit		57,985	51,445
Add: amortisation of goodwill	10	15,447	15,244
Operating profit before amortisation		73,432	66,689
Profit on ordinary activities before taxation		49,185	35,493
Add: sale and termination of businesses	4	(2,067)	–
Add: (profit)/loss on disposal of fixed assets	4	(2,651)	1,825
Add: amortisation of goodwill	10	15,447	15,244
Profit before taxation*		59,914	52,562
Percentage improvement		14.0%	
Profit attributable to shareholders		27,798	17,348
Add: sale and termination of businesses	4	(2,067)	–
Add: (profit)/loss on disposal of fixed assets	4	(2,651)	1,825
Add: tax on exceptional items	4	1,275	–
Add: amortisation of goodwill	10	15,447	15,244
Profit after taxation and minorities*		39,802	34,417
Net cash inflow from operating activities	a	111,140	73,325
Dividends received from joint ventures	a	1,244	1,410
Net cash outflow from returns on investments and servicing of finance	a	(15,573)	(14,572)
Total tax paid	a	(14,749)	(10,897)
Capital expenditure and financial investment	a	(19,294)	(19,463)
Free cash flow before dividends		62,768	29,803

Note a – see Consolidated Cash Flow Statement on page 38.
Note* excludes amortisation, sale and termination of businesses and profit/(loss) on disposal of fixed assets.

Principal Subsidiaries and Joint Ventures

Operating Companies

	Country of incorporation and operation	Effective Group interest in equity %
Arkem (Pty) Ltd *Distributor of speciality chemicals and allied products*	South Africa	49#
Autoclenz Ltd *Provision of vehicle valeting services*	England	100
Brencliffe Ltd *Car and household cleaning products*	England	100
Dhahran Harco Chemical Industries Ltd *Synthetic resin emulsions*	Saudi Arabia	49#
Ditar Hasselt BV *Compounds of synthetic rubber latices*	Netherlands	100
Ditar Ridderkerk BV *Compounds of synthetic rubber latices*	Netherlands	100
Holliday Chemical Espana SA *Sales agent and distributor*	Spain	100
Holliday Dispersions Ltd *Pigment dispersions*	England	100
Holliday Dispersions SA *Pigment dispersions*	France	100
Holliday France SA *Sales agent and distributor*	France	100
Holliday Pigments Ltd *Ultramarine pigments*	England	100
Holliday Pigments SA *Ultramarine pigments*	France	100
James Robinson GmbH *Fine chemicals*	Germany	100
James Robinson India (Pvt) Ltd *Fine chemicals Intermediates*	India	60
James Robinson Ltd *Fine chemicals*	England	100
Oxford Chemicals Ltd *Flavour chemicals*	England	100
PFW Aroma Chemicals BV *Fragrance chemicals*	Netherlands	100
Reabrook Ltd *Hygiene, pollution control and maintenance chemicals, vehicle cleaning products. Contract filling of aerosols*	England	100
Revertex Chemicals (Pty) Ltd *Synthetic resin emulsions and allied products*	South Africa	100

Operating Companies (continued)

	Country of incorporation and operation	Effective Group interest in equity %
Revertex Finewaters Sdn Bhd *Adhesives*	Malaysia	63
Revertex (Malaysia) Sdn Bhd *Synthetic resin emulsions, natural rubber latices, plasticers and allied products*	Malaysia	70
Revertex (Thailand) Ltd *Compounds of natural rubber latex*	Thailand	35
Synthomer BV *Compounds of synthetic rubber latices*	Netherlands	100
Synthomer GmbH *Synthetic rubber latices and related compounds*	Germany	100
Synthomer Ltd *Synthetic rubber latices and emulsions*	England	100*
Synthomer SA *Compounds, dispersions and adhesives*	Belgium	100
Synthomer Sdn Bhd *Synthetic rubber latices and related compounds*	Malaysia	100
Union Quimico Farmaceutica SA (UQUIFA) *Pharmaceutical actives and intermediates*	Spain	100
Uquifa Italia SpA *Pharmaceutical actives and intermediates*	Italy	100
Uquifa Mexico S.A.C.V. *Pharmaceutical actives and intermediates*	Mexico	100
William Blythe Ltd *Inorganic chemicals*	England	100

Holding Companies

Holliday Chemical Holdings	England	100
Holliday International SA	France	100
Yule Catto BV	Netherlands	100
Yule Catto Holdings GmbH	Germany	100
Yule Catto International Ltd	England	100*
Yule Catto Overseas Ltd	England	100
Yule Catto Spain SL	Spain	100
Yule Catto Nederland BV	Netherlands	100

* Shares held by Yule Catto & Co plc
# Joint ventures

Five Year Financial Summary

	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Turnover					
Subsidiaries	539,627	501,562	443,930	470,219	442,433
Joint ventures	10,487	9,216	30,891	41,774	89,758
Total turnover	550,114	510,778	474,821	511,993	532,191
Ebitda[a]	96,474	87,360	72,601	66,752	82,553
Total operating profit[a]	73,432	66,689	52,870	48,065	66,057
Interest payable (net)	(13,518)	(14,127)	(12,590)	(11,913)	(11,847)
Profit before taxation[a]	59,914	52,562	40,280	36,152	54,210
Net (borrowings)/cash	(177,276)	(211,191)	(223,165)	(164,785)	(202,374)
Free cash flow before dividends	62,768	29,803	31,663	10,255	36,385
Capital expenditure	21,734	20,862	34,088	25,095	17,723
Adjusted earnings per share	27.6p	23.9p	18.6p	16.9p	24.5p
Dividends per share	13.0p	12.5p	12.0p	11.6p	11.2p
Dividend cover	2.1	1.9	1.6	1.5	2.2

a As defined in note 33 to the Financial Statements on page 59.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Thursday 20 May 2004 at 12 noon for the following purposes:

Ordinary business

1. To receive and adopt the report of the directors and audited financial statements for the year ended 31 December 2003.
2. To consider the recommendation of the directors as to a final dividend for the year ended 31 December 2003 and if thought fit to declare a final dividend accordingly.
3. To approve the report of the Board on directors' remuneration for the year ended 31 December 2003.
4. To re-elect as a director Dr M J Peagram who retires as a director by rotation.
5. To re-elect as a director Mr G Montezemolo who retires as a director by rotation.
6. To re-elect as a director the Hon A G Catto who retires as a director by rotation.
7. To re-elect as a director Dato' Lee Oi Hian who retires as a director by rotation.
8. To re-elect as a director Dato' Lee Hau Hian who retires as a director by rotation.
9. To re-elect as a director Mr P J Welch who retires as a director by rotation.
10. To re-elect as a director Mr P S Wood who retires as a director by rotation.
11. To re-appoint Deloitte & Touche LLP as auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
12. To authorise the directors to determine the remuneration of the auditors.

Special business

To consider, and if thought fit, to pass the following Resolutions which will be proposed as Special Resolutions.

13. To empower the directors pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred on the directors in accordance with section 80 of the Act on 22 May 2003 as if sub-section (1) of section 89 of the Act did not apply to any such allotment, provided that this power shall be limited to:

    a) the allotment of equity securities in connection with issues in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of any territory or the requirements of any recognised regulatory body; and

    b) the allotment (otherwise than pursuant to sub-paragraph (a)) of equity securities up to an aggregate nominal value of £724,019.

    and shall expire on the date of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

14. To authorise the Company unconditionally and generally for the purpose of section 166 of the Companies Act 1985 ("the Act") to make market purchases (as defined in section 163 of the Act) of ordinary shares of 10p each in the capital of the Company provided that:

    a) the maximum number of shares which may be purchased is 14,480,391;

    b) the minimum price which may be paid for each share is 10p (exclusive of expenses);

    c) the maximum price which may be paid for a share is an amount equal to 105 percent of the average of the closing middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased (exclusive of expenses); and

    d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this Resolution (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

15. To approve and confirm the payment on 21 November 2001 of an amount of £826,225.11 being part of the interim dividend of £7,061,225.11 paid on that date and to authorise the directors to execute on behalf of the Company a deed of release of any related claim against the ordinary shareholders and the directors in the form of the draft produced to the meeting and signed for identification by the Chairman.

By order of the Board
R Atkinson
Secretary
4 March 2004
Temple Fields
Harlow
Essex CM20 2BH

Notes:

i) A member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not also be a member of the Company.

ii) A copy of the register of the directors' interests in the equity share capital of the Company will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the date of the Annual General Meeting and at the place of the meeting itself from 15 minutes before it is held until its conclusion.

iii) A form of proxy is enclosed which, to be valid, must be completed and deposited with Computershare Investor Services PLC, P O Box 1075, Bristol, BS99 3ZZ not less than forty-eight hours before the time appointed for holding the meeting or any adjourned meeting. The completion and return of a form of proxy will not prevent a member who wishes to do so from attending and voting in person.

iv) Copies of all contracts of service under which directors of the Company are employed by the Company or any of its subsidiaries and which have a notice or contract period of one year or more or which have provisions for predetermining compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind are available for inspection at the Company's registered office during business hours on any weekday (Saturdays and public holidays excluded) and will also be available for inspection at the place of the meeting from 15 minutes before it is held until its conclusion.

v) If Resolution 15 is duly passed, the Company will enter into the deed of release referred to in the Resolution. A copy of the draft deed (subject to amendment) will be available for inspection at the Company's registered office during business hours on any weekday (Saturdays and public holidays excluded) and will also be available for inspection at the place of the meeting from 15 minutes before it is held until its conclusion.

vi) The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares registered in the Register of Members of the Company at 11pm on Tuesday 18 May 2004 shall be entitled to attend and vote at the aforesaid Annual General Meeting in respect of such number of shares registered in their name at that time. Changes to entries on the register of members after 11pm on Tuesday 18 May 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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