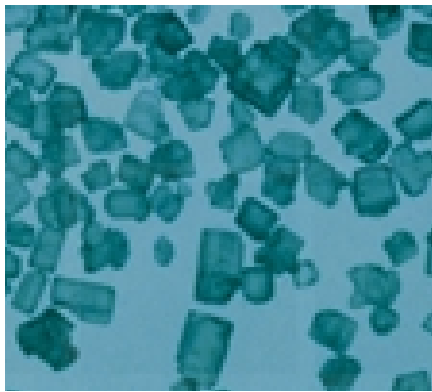
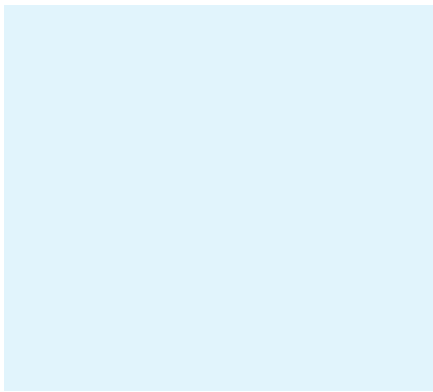
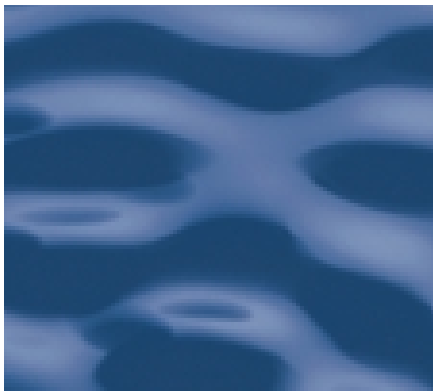


Yule Catto & Co plc  
Annual Report

for the year ended  
31 December 2002

# Leadership in speciality chemicals



Yule Catto & Co plc  
Annual Report

for the year ended  
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for the year ended  
31 December 2002

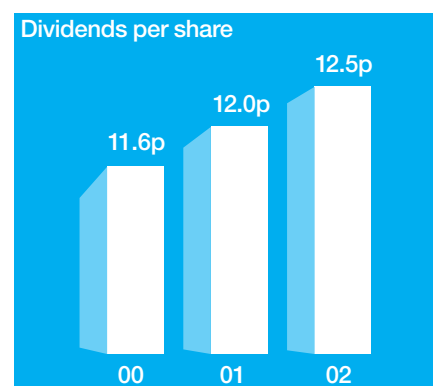
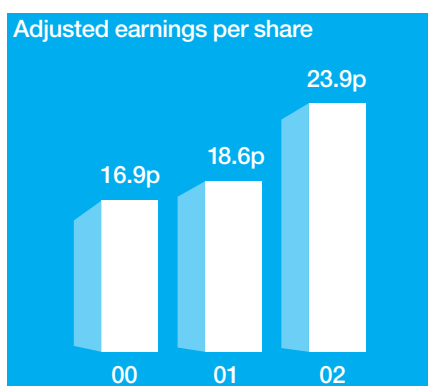
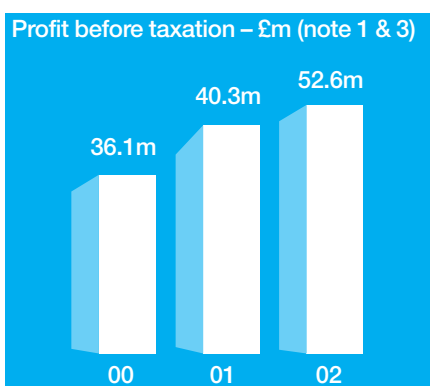
01

Yule Catto is an international producer of speciality chemicals, which are supplied to global customers, ranging from manufacturers of medical gloves, paint and adhesives to the pharmaceuticals and cosmetics industries.

	Note	2002 £000	Total 2001 £000
Total turnover	1	510,778	474,821
Ebitda	1&2	87,360	72,601
Operating profit before amortisation	1	66,689	52,870
Total operating profit	1	51,445	38,977*
Profit before taxation	1&3	52,562	40,280
Profit on ordinary activities before taxation	1	35,493	12,889*
Profit/(loss) attributable to shareholders	1	17,348	(430)*
Adjusted earnings per share		23.9p	18.6p*
Earnings/(loss) per share – FRS 3		12.0p	(0.3)p*
Dividends per share		12.5p	12.0p
Net borrowings		211,191	223,165
Free cash flow before dividends		29,803	31,663

Note:

- 1 Includes attributable share of joint ventures
- 2 Earnings before interest, tax, depreciation, amortisation and loss on disposal of fixed assets
- 3 Excludes amortisation, sale and termination of business and loss on disposal of fixed assets

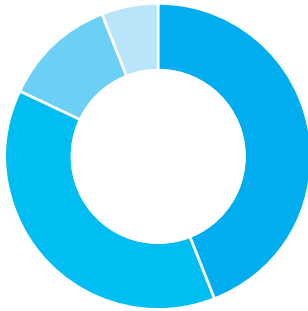


£511  
million  
total turnover

£67  
million  
operating profit

Before amortisation of goodwill

#### Turnover by Origin %



■ UK	44
■ Other Europe	38
■ Asia	12
■ Rest of World	6

## Polymer Chemicals

Over the past two years sales of our water-based polymer products have grown by close to 20%. This has obviously been influenced by the benefits of the acquisition of 100% control of Harlow Chemical Company Limited, but it is a more than satisfactory result in the current economic environment.

Profits increased by over 20% in 2002, and would have been higher had not the impact of rising raw material prices been in evidence in the second half. Overall, margins were recorded at the traditional levels seen for our speciality products and action is in hand with regard to pricing and product mix in an endeavour to sustain these levels.

#### Key products

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

## Pharma and Fine Chemicals

The long-awaited news of the launch of generic omeprazole in the USA emerged towards the end of last year. It was, however, advances on a broad front across our Pharma and Fine Chemical activities that led to the growth of 24.4% in turnover.

The higher sales, better product mix and close attention to production and raw material efficiencies delivered a profit that more than doubled.

#### Key products

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

## Performance Chemicals

Market conditions for our companies were testing last year with the downward pull of the weakening US dollar adding to the pressure on margins. In the circumstances, sales held up well and initiatives are in hand to combat current difficulties.

During 2002, work was centred on the development of growth opportunities for inorganic chemicals, ultramarine and colour developers. In addition, strategic reviews have been completed or are in progress in inks, dispersions and the organic businesses.

#### Key products

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

12.5p  
per share  
dividend

£29.8  
million  
free cash flow

30%  
improvement  
in profit before  
taxation

Before amortisation of goodwill and exceptional items



Turnover by Destination %

UK	26
Other Europe	38
Asia	16
Rest of World	20

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

Sales including joint ventures

£260.0m 50.9%

Divisional operating profit

£37.6m 52.9%



Markets

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

Geographic scope

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

Sales

£106.5m 20.9%

Divisional operating profit

£22.7m 32.0%



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

Sales

£144.2m 28.2%

Divisional operating profit

£10.8m 15.1%



Turnover – £m

00	512.0
01	474.8
02	510.8

Profit before tax – £m

00	36.2
01	40.3
02	52.6

Before amortisation of goodwill and exceptional items

**28%**  
increase in adjusted earnings per share

# We are well positioned to deliver growth this year and remain confident of the long term prospects for the group.

We are delighted to report a substantial growth in profit, a further increase in dividends and another year of positive cash flow.

The first half of 2002 was particularly strong for our Polymer Chemical activities owing to the benefits arising from the creation of a global water-based polymer business and favourable raw material prices.

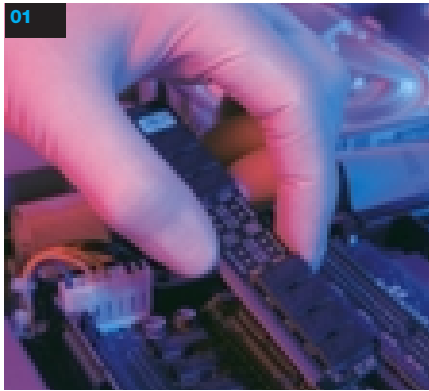
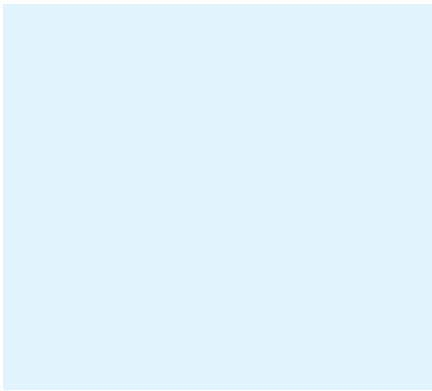
As the year unfolded the position changed with regard to the cost of petrochemical based raw materials. However, this was more than counterbalanced by the rewards emerging from our strategy of investment in the development of pharmaceutical active ingredients. Good results were delivered across the Pharma & Fine Chemical companies and these received a further boost in the final weeks of the year with the long anticipated launch of a generic version of omeprazole in the USA.

With good progress in many of our businesses, turnover rose by 8% to £511 million. We continue to focus on higher value, technically demanding applications and this has been reflected in the improvement of operating margin to 13%.

The speciality nature of our portfolio provides some protection against the global economic slowdown. In difficult market conditions, profit before taxation, amortisation of goodwill and exceptional items at £52.6 million is a creditable advance of 30% over the corresponding twelve months. This was achieved in spite of significant underlying negative pressures.

Competitive forces in the insurance industry have caused the market to tighten further, leading to an escalation in premiums. Current conditions are likely to persist for the foreseeable future and we are reviewing alternative risk transfer strategies to mitigate the impact. As a result of weak global stock markets, the rising cost associated with final salary pension plans has been well publicised. Our primary scheme is in the UK, which is reviewed on a quarterly basis. Increased cash payments of £1.1 million were made in the year and, following determination of the fund's triennial valuation due in 2003, we anticipate a further increase in annual costs of £3-5 million. In addition to direct exposure to the USA market, an element of our international trade is denominated in US dollars. Therefore, the steady devaluation of that currency against sterling and euro during the year has been a negative feature.

Adjusted earnings per share have been struck at 23.9 pence, 28% higher than 2001. With the confidence of further growth in prospect, your directors have proposed a final dividend of 7.4 pence per share, making a total for the year of 12.5 pence, an increase of 4% over last year.



Cash management consistently receives a high level of attention. This year was no exception and we are happy to report a strong free cash flow of £29.8 million. As previously indicated, 2002 saw a much reduced level of capital expenditure following the successful commissioning of our new nitrile latex facility in Malaysia. At the year end we experienced some upward pressure on working capital caused by higher trading activity in the final two months and, to a lesser extent, the impact of rising raw material costs. This was a timing issue, as cash receipts early in the new year more than compensated, leaving us well placed for another robust performance.

As a consequence of a fire at one of our facilities in France, we have recorded an exceptional charge of £1.8 million relating to the fixed assets destroyed during the incident. We have approved capital investment for replacement equipment to be installed during 2003, which will incorporate state-of-the-art technology and substantially further reduce sulphur dioxide emissions to air.



Safety, health and the environment (SHE) are of the utmost importance and it is pleasing to report good progress, along with the launch of a new initiative. In the UK the group has achieved compliance with government targets for the reduction in energy consumption per tonne of production. As well as benefiting the environment, it will provide the maximum rebate from the Climate Change Levy programme. Targets to enhance our safety performance, as measured by the frequency of 3 day lost time accidents, have been achieved, delivering a further 23% improvement on the reductions of 2001. To focus even greater attention on the root cause of SHE issues, the senior management incentive scheme has been adjusted to target further improvement.

In an ever changing business climate, the success of the group can only be realised through the hard work and commitment of all of our employees. On behalf of the directors and shareholders, I would like to thank everyone for their contribution to the excellent results achieved this year, which provide a solid platform for future growth.

**01**  
Synthomer's nitrile latices have the ideal properties to meet the needs of the medical and electronics industries.

**02**  
Ultramarine, or synthetic lapis lazuli, is an eco-friendly powder pigment widely used to colour plastics.

The political uncertainty relating to Iraq is causing the price of oil to remain high, consequently the cost of our major raw materials remains a concern. At the same time growth rates for the major economies are being scaled back, providing uncertainty with regard to demand. That said, the benefits of capital investment made in recent years and opportunities for geographic market expansion are starting to show through. The penetration of generic omeprazole in the USA is also exceeding previous expectations, as are other pharma developments. We are well positioned to deliver growth this year and remain confident of the long term prospects for the group.

**A E Richmond-Watson**  
12 March 2003

**03**  
Generic omeprazole has been successfully launched in Europe and the USA, rapidly gaining market share.



# Sales

of our water-based  
polymer products  
have grown by close  
to 21% over the  
past two years

# The combined business is unrivalled in its range of water-based products, allowing closer partnerships to be developed with customers through offering the most comprehensive package to meet their needs.

Over the past two years sales of our water-based polymer products have grown by close to 20%. This has obviously been influenced by the benefits of the acquisition of 100% control of Harlow Chemical Company Limited, but it is a more than satisfactory result in the current economic environment.

Profits increased by over 20% in 2002, and would have been higher had not the impact of rising raw material prices been in evidence in the second half. Overall, margins were recorded at the traditional levels seen for our speciality products and action is in hand with regard to pricing and product mix in an endeavour to sustain these levels.

The major task undertaken in 2002 was the consolidation and integration of our polymer operations under the Synthomer banner. Announced early in January, it is pleasing to report that this has been successfully executed, much to the credit of the management teams involved. We now have an organisation well positioned to operate globally to best advantage.

The combined business is unrivalled in its range of water-based products, allowing closer partnerships to be developed with customers through offering the most comprehensive package to meet their needs.

Our Malaysian latex plant is now in regular operation and qualification of production is well underway. The nature of the product range is, however, heavily directed to technically demanding applications and this process must therefore progress at the rate of our customers' approval procedures. In the meantime, we continue to satisfy their needs during the transfer phase by exports from our European plants.

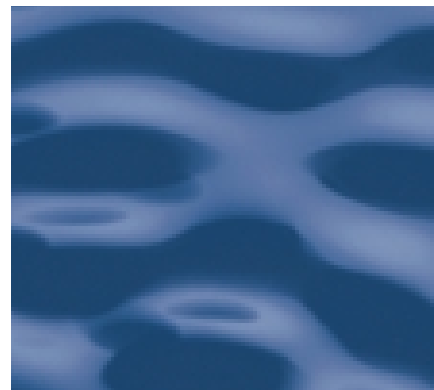
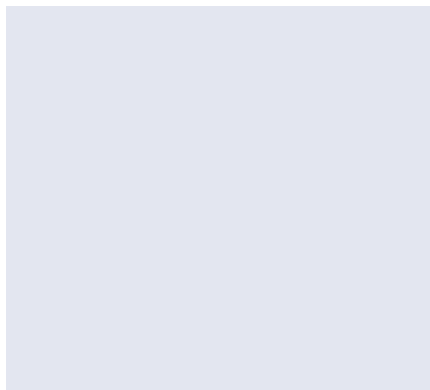
## Sales including joint ventures – £m

00	217.2
01	238.8
02	260.0

## Divisional operating profit – £m

00	22.8
01	31.1
02	37.6

**21%**  
increase in profits  
during 2002



In support of our position as a major supplier of synthetic latex compounds to the carpet industry, we acquired two Dutch companies, Ditar Ridderkerk BV and Ditar Hasselt BV, on 3rd February 2003. This makes Yule Catto the largest supplier of these compounds in Europe and will provide additional volume to our synthetic latex polymer plants as production of nitrile latex transfers to the Far East.

A number of major capital investments were successfully carried out in 2002 and Phase 1 of our new polymerisation plant in Mouscron, Belgium, is now complete. The infrastructure installed will allow this to be rapidly expanded as capacity utilisation builds up, to serve the mainland European market. Commercial exploitation of the facility will begin in early 2003.

Not for the first time, the short-term future offers the prospect of uncertain raw material costs. However, we are completely free from the constraints of joint ventures, we have new capacity on stream and with identified geographic market expansion opportunities, we look forward to a period of sustained growth.

#### Synthetic Latex

High capacity utilisation at our European manufacturing facilities remains a feature. This is partly due to the slower than anticipated transfer by customers to our new Malaysian facility but good demand for our speciality products is the major contributor.

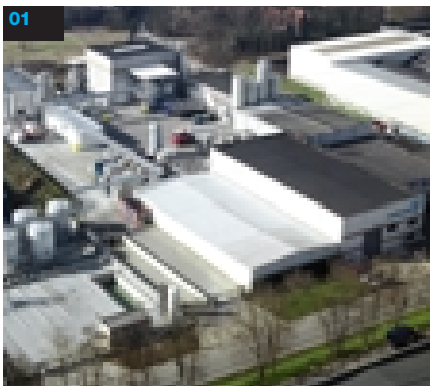
Strong growth was recorded in the construction, technical textile and speciality paper sectors. In floor coverings, our largest volume sector, we saw a more mixed picture with the UK, Germany and Belgium carpet industries contracting and, in contrast, a good performance being recorded in The Netherlands, Turkey and Saudi Arabia. Russia is also developing as a new market as privately-owned mills gear up to supply the previously imported economy carpets.

In the important sector of nitrile latex, used in the dipping of disposable gloves, 2002 was another year that saw more announcements of glove production being abandoned in the USA in favour of the Far East. This is already providing opportunities with customers as they install new production facilities.

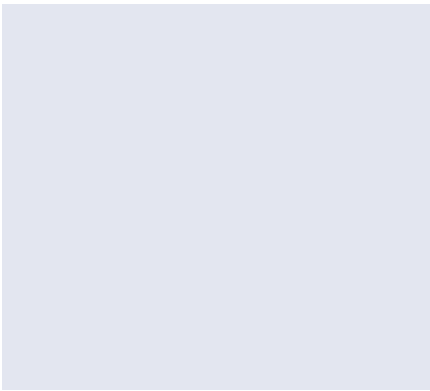
#### Emulsions

All our emulsion businesses achieved volume growth despite variable operating conditions within the markets they serve.

Announced capacity increases in the UK and Saudi Arabia were completed in 2002 and as referred to above, our Synthomer SA facility in Mouscron, Belgium will offer commercial quantities in the first quarter of 2003. In South Africa, strong progress has been achieved with capacity under severe strain. Protracted delays in governmental approval will now result in the commissioning of our plant extension now taking place in Spring 2003.



**01**  
Phase 1 of our new polymerisation plant in Mouscron, Belgium will serve the mainland European market.



We maintain our position as market leader in Malaysia against a background of overcapacity. Our well-established presence in the market and long tradition of product innovation served us well in protecting margins in a far from easy year.

**Polyvinyl Acetate/Alcohol**

Global PVC demand showed some growth in 2002, particularly in the Pacific region.

The alcotex range is used in more demanding applications and the extension of our product range has consolidated our position as a leading global player in this niche market. Whilst production is centred in the UK, exports predominate and our sales strategy focuses on consolidating our position in established areas, whilst growing in emerging markets as higher quality PVC is demanded from local production. This is supported by the new PVC pilot plant installed at our Harlow Technical Centre.

Our polyvinyl acetate range has seen greater competitive activity. Nevertheless, new applications continue to be found for these relatively mature products.

**Other Speciality Products**

With its high market share, the Far East adhesive business is experiencing slower growth in its traditional markets. Good progress is, however, being achieved in emerging territories, notably Vietnam and China. Overall, strong management control and product innovation resulted in good progress.

In Malaysia, the alkyd and polyester business has experienced good demand, in a market with problems of overcapacity. Initiatives are being pursued to position the business towards more demanding technical applications that will allow us to use our strong technical presence to maximum advantage.

In lithene polybutadiene products, the virtual completion of a withdrawal from low cost intermediates for chlorinated rubber production has freed capacity to concentrate on the higher margin automotive and sealant sector.

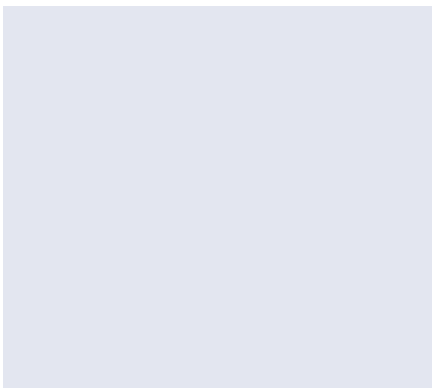
After a period of unprecedented price collapse, natural rubber showed some recovery in 2002, helping our position in prevulcanised applications. Coupled with a new management focus resulting in a rationalisation of the business, this produced substantially improved results.



**02** All our emulsion businesses achieved volume growth. Our tradition of product innovation, supported by further capacity increases, leave us well positioned for further success.

**03** Compound latices make cost-effective backing materials and binders for carpets.

**04** Alcotex secondary suspending agent which is fully water dilutable and is designed to give increased efficiency for the highest quality PVC resins.



**2002**  
saw capacity increased in the UK and Saudi Arabia

These results are the reward for the years of hard work and focus on developing a growing range of generic active pharmaceutical intermediates, together with the creation of ever closer links with major customers to provide an efficient and responsive outsourcing service.

Sales – £m

00	88.0
01	85.6
02	106.5

Divisional operating profit – £m

00	11.3
01	11.1
02	22.7

The long-awaited news of the launch of generic omeprazole in the USA emerged towards the end of last year. It was, however, advances on a broad front across our Pharma and Fine Chemical activities that led to the growth of 24.4% in turnover.

The higher sales, better product mix and close attention to production and raw material efficiencies delivered a profit that more than doubled.

These results are the reward for the many years of hard work and sustained focus on the development of a growing range of generic active pharmaceutical intermediates, together with the creation of ever closer links with major customers to provide an efficient and responsive outsourcing service.

Our flavour and fragrance customers experienced weaker trading in 2002 which reflected on the results from our businesses. To meet this slower growth, restructuring has taken place at our Dutch facility and all round greater emphasis given to marketing and new product launches.

The outlook remains positive with the opportunity to sell substantial volumes of omeprazole to the USA as Prilosec<sup>®</sup>, is replaced by the generic alternative. However, other products are also showing significant progress with contracts in place that will keep our factories busy in the months ahead.

**105%**  
profit growth across  
our Pharma and Fine  
Chemical activities

# USA

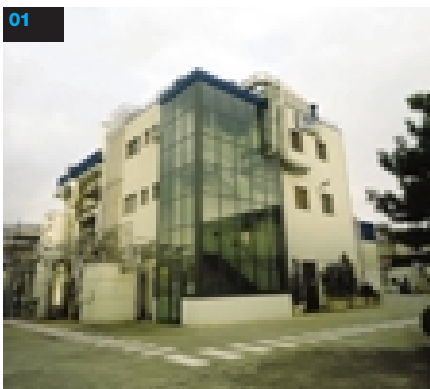
saw the long  
awaited launch of  
generic omeprazole





# Four

new drug master files  
were registered in the  
USA and Europe



## Pharma

The Uquifa companies achieved good forward momentum, not only on the sales front, but also with the development programme for generic products. This saw four new drug master files registered in the USA and Europe. The process is continuing with a programme clearly mapped out for the next few years.

In Spain, sales of omeprazole increased to European customers as it progressively came off patent in a number of countries. New production capacity was installed and commissioned in the middle of the year in readiness to handle the extra demand forecast for the launch of the generic product in the USA. Further capacity expansions will take place during the course of 2003.

All other generic products performed well, with notable advances in sales of ranitidine and cimetidine. A contract has also been secured for a high volume veterinary active.

The new pilot plant is performing well with a number of chemical products in early phase, successfully developed to industrial scale. Capacity for this unit is already reserved for most of the year ahead.

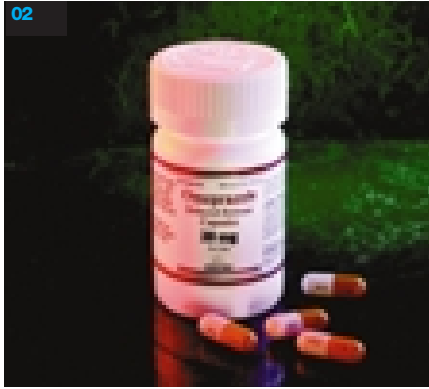
Our Italian company was challenged by a fall in the market for cephalosporins, but patient work was rewarded by the securing of attractive contracts for ethical intermediates. A decision has been taken to cease cephalosporin production and convert it to prime cryogenic manufacturing capacity for high volume generics and new ethical intermediates. The change will release an additional 12% capacity to the Uquifa group and will be completed by mid 2003.

The improvement in the performance of the Mexican business continued apace with high capacity utilisation for ethical intermediate contracts and growing sales of generic products. The introduction of three new generics was also achieved providing good opportunities for the future.

The consolidation of the Uquifa companies is complete and they now boast the ability to offer highly efficient manufacturing capabilities for both the generic and ethical markets. The management team are pushing forward with generic filings and the offer of ever more complex intermediates.

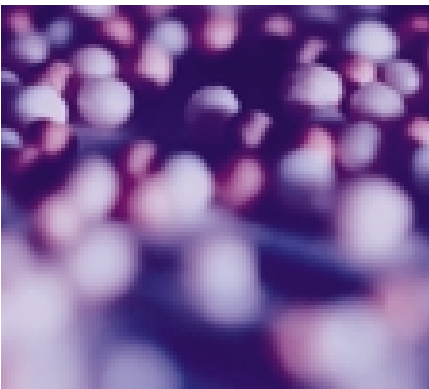
## 01

Agrate Brianza, Italy – one of Uquifa's four manufacturing plants. Additional capacity will be created by the cessation of cephalosporin production and the conversion to cryogenic manufacturing.



**02**  
The long awaited news of the launch of generic omeprazole in the USA emerged towards the end of last year. We look forward to further growth in 2003.

**2003**  
prospects are considerably improved in the marketplace



**Flavour and Fragrance**

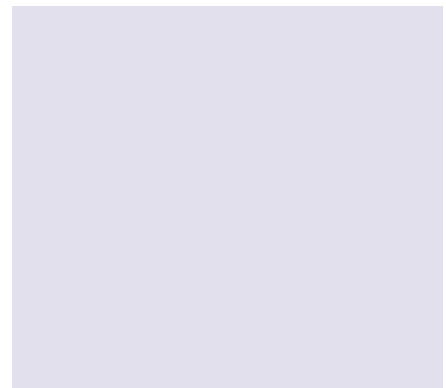
Consolidation and restructuring continues to be a major influence on the markets we serve, but equally provides business opportunities. The adoption by multinational companies of global purchasing is one of many challenges. However, our position as a niche producer, particularly in sulphur compounds, gives protection against the stronger downward pricing forces. This is unlike the more commodity products, where increased competition from China and India has been noted.

A focus on quality and production efficiency, backed by innovation, will remain a feature in delivering momentum in this growing market as the spread of convenience food extends to developing countries.

Oxford Chemicals Limited has enjoyed good demand for its top selling high impact range, particularly its sulphur chemicals. As well as flavour applications, good progress was seen in other markets, in particular, the adoption of non-sulphur products for domestic gas odourants has boosted sales. With its wide geographic spread and customer base, the company is well placed to exploit e-business and they have spearheaded the group's development of this important additional sales tool.

The performance of PFW Aroma Chemicals BV was adversely affected by increased raw material costs. Lower volume for its Tonalid polycyclic musk products was balanced by a notable gain in production efficiency and reduced overheads. Prospects for 2003 are considerably improved by the withdrawal of our last competitor from the market, as well as new initiatives to secure cost-effective feedstocks.

Insourcing and toll manufacture, particularly in Friedel Crafts chemistry, combined with world class distillation and separation techniques, has created significant new business opportunities. In addition, recent European legislation requiring the labelling, even of low hazard chemicals, is creating interest in our "label free" citrus range.



The background of the entire page is a teal color with a pattern of ice cubes. The ice cubes are scattered across the surface, with some appearing in a grid-like arrangement and others more randomly placed. The lighting on the ice cubes creates highlights and shadows, giving them a three-dimensional appearance.

# Sales

held up well and  
initiatives are in  
hand to combat  
current difficulties

**2002**  
saw work centred  
on the development  
of growth  
opportunities

The niche position and high market share enjoyed by our companies in this sector provide ample opportunity for good returns and positive cash flow. Substantial effort is being applied to achieve this goal.

Sales – £m

00	157.5
01	147.5
02	144.2

Market conditions for our companies were testing last year with the downward pull of the weakening US dollar adding to the pressure on margins. In the circumstances, sales held up well and initiatives are in hand to combat current difficulties.

During 2002, work was centred on the development of growth opportunities for inorganic chemicals, ultramarine and colour developers. In addition, strategic reviews have been completed or are in progress in inks, dispersions and the organic businesses.

Divisional operating profit – £m

00	16.3
01	15.3
02	10.8

The niche position and high market share enjoyed by our companies in this sector provide ample opportunity for good returns and positive cash flow. Substantial effort is being applied to achieve this goal.

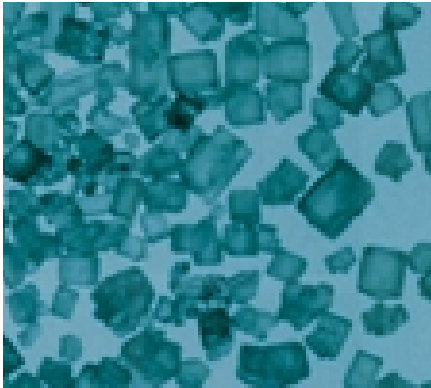
**Inorganic Chemicals**

A pleasing return to profit growth was achieved by William Blythe Limited. The difficulties of the copper market, following the collapse of the UK printed circuit board industry, came steadily under control throughout the year. Newly installed facilities for copper digestion enabled cost effective product to be available for the latest environmentally friendly timber treatment products for which demand is increasing.

Tin products had a strong year with good demand across all areas. This was particularly true of sales to pharmaceutical applications and rising demand for stannic chloride to the European glass industry.

# 2003

will be very busy  
fulfilling contracts  
already secured



The iodine product group developed excellent momentum with buoyant sales of higher margin products and new business in reprocessing residues returned from customers as part of total service contracts.

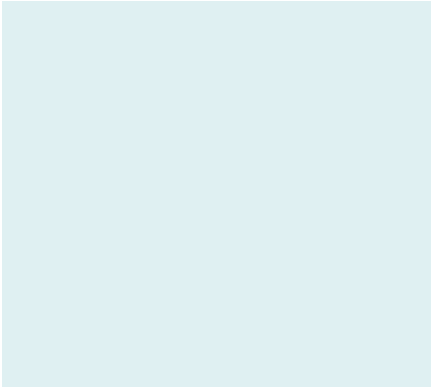
Sulphur dioxide derivatives also had a good year despite increased competition from central Europe on the back of a strong pound. Sales are also now well established in the new application area of bleaching in the manufacture of paper.

#### Dyes and Chemicals

Overall global leadership was maintained by our ultramarine business with good progress in extending their lead and market dominance of the most technically demanding products. A substantial proportion of ultramarine is sold to US dollar territories and the weakening of that currency reduced profits. In addition, volumes were constrained in the second half of the year due to a fire within the flue gas desulphurisation plant at our French factory. Plans were already well advanced to replace this equipment with a larger capacity, higher efficiency unit. Timing of the installation has been significantly brought forward with the target for commissioning now set as late 2003. Research and development work to broaden the range of ultramarine applications continues to receive high levels of interest from customers. In some areas these new developments have already been included in major colour styling programmes.

**01**  
William Blythe's new stannic chloride plant will supply the pharmaceutical and glass coating industries.





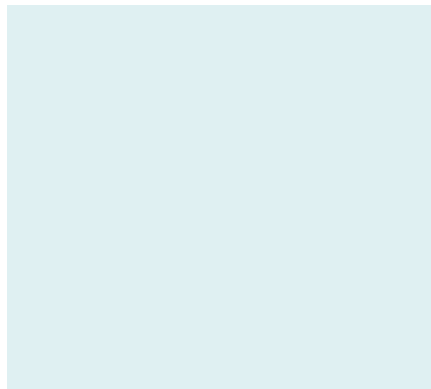
**02**  
Highlighting the use of ultramarine in screen printing inks and foils for packaging purposes.

**03**  
James Robinson produces hair dye intermediates, photographic chemicals and novel photochromic dyes from three locations in the UK, Germany and India.



The James Robinson activities had a difficult year with the expected upsurge in demand in the second half being further delayed. The company retains leading positions in hair dye, photochromic and photographic chemicals and an in-depth strategy review is in progress to assess how best to structure the business to maximise returns.

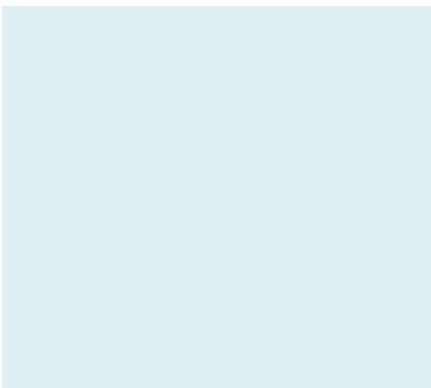
Our joint venture in India suffered delays in the build up of orders for photographic developers. This has now completely reversed and 2003 will be very busy fulfilling contracts already secured.



**Other Activities**

The management changes and restructuring within our consumer chemicals operations have started to bear fruit. Margins have improved substantially, whilst costs and working capital have been brought under tight control, improving results substantially. New initiatives are underway to market the product range more aggressively from the solid base that has been established. The houseware and automotive business of Brencliffe Limited had a very strong year, achieving record profits.

Autoclenz Limited had another good year, taking advantage of structural changes within the UK automotive market to offset competitive market pressures.



**Zero**  
accidents is the goal  
for our employees,  
contractors and visitors

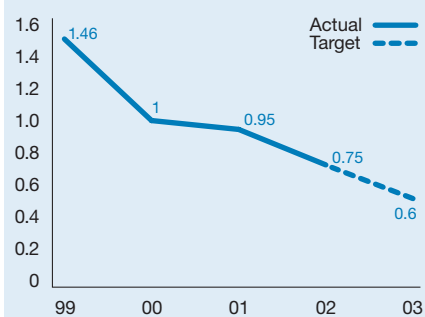
# Caring for the environment, an introduction by the Group Chief Executive.

“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. We have increasingly focused management effort upon this important area and as a result our SHE performance has dramatically improved.

However, we know we can do better, and during the course of 2002 we instigated a fundamental review of the whole approach to SHE matters within Yule Catto. From this review we set new and more exacting SHE targets which we are committed to achieving. We therefore fully expect to see continuous improvements in all aspects of our SHE performance during 2003 and onwards.”

Alex Walker, Group Chief Executive, Director responsible for SHE

Figure 1: > 3 day lost time accident frequency rate (per 100,000 hours)



## SHE Management Arrangements

The Board of Directors and Group Executive Committee manage the strategy and review of SHE performance within the Group. They are assisted in this by the Group SHE Department, which provides the Board and Group Executive Committee with regular briefings and reports, sets standards, provides guidance, brokers best practice and audits the sites. We are committed to Responsible Care, the global chemical industry's commitment to continually improving SHE performance, and this underpins our management approach.

We have deployed a state-of-the-art computerised accident and incident reporting and investigation system to facilitate root cause identification of all accidents and near misses so that we can learn from our mistakes. This has been accompanied by training at all our companies in investigation techniques.

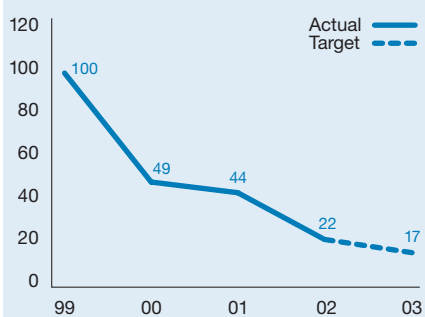
Yule Catto representatives continue to fully participate in a variety of chemical industry groups which contribute to the continual improvement in product and process safety.

## Health & Safety

Our goal is zero fatalities and zero accidents to our employees, contractors and visitors. In order to achieve this goal, in 2002 we set ourselves a target of 0.75 reportable lost time accidents per 100,000 hours worked. We are very pleased to report that we improved on this, and we have now set ourselves a further challenging target for 2003, shown in Figure 1. To support this, we have also set ourselves targets to reduce non-reportable lost time accidents and minor injuries, which also fell during 2002.

# Our ultimate goal is zero breaches of environmental permit conditions. In order to achieve this goal by continually improving our performance, we have set ourselves a target to reduce reportable incidents by 25% in 2003.

Figure 2: Number of breaches of environmental permits



# 25%

target to reduce reportable environmental incidents

## Environment

Our ultimate goal is zero breaches of environmental permit conditions. In order to achieve this goal by continually improving our performance, we have set ourselves a target to reduce reportable environmental incidents by 25% in 2003. This reduction will continue to build on the excellent reductions that we have achieved over recent years, as shown in Figure 2.

During the course of 2003 we are committed to examining the ways in which we currently collect, analyse and report environmental data to align ourselves more closely with initiatives in the chemical industry concerning sustainable development and corporate social responsibility.

We plan to focus on energy reduction and waste minimisation, and we expect to see significant reductions in both areas during 2003.

## Process safety and asset protection

During 2002 we experienced four fires at our factories, with varying levels of damage and business interruption. As a result of this and other initiatives, we have developed a sophisticated methodology for assessing risks and control measures in major hazard areas.

Our goal is to have no incidents resulting in major damage to plant or equipment. To achieve this we plan to focus on operational risk management, and proactive investment in risk control equipment where justified. We will work closely with our insurers and other interested stakeholders in this crucial area.

## Sustainable development

Sustainability requires the understanding of complex and sometimes poorly understood concepts, from which society must make difficult choices. As reported in our 2001 report, we engaged with an external organisation called 'TruCost' to review our current position regarding the real cost of our manufacturing activities. We concluded from this that it would be better to pilot the process at one of our companies to establish how it works in practice, before deciding if it offers any benefit to Yule Catto as a group. As a result, one of our subsidiary companies will implement the process in detail during 2003 and progress will be closely reviewed.

#### Executive Directors

##### A. Walker #

Joined the Group in 1972. He was appointed to the Board in 1986 and is Chief Executive. He is non-executive director of Rotork plc. Age 56.

##### S. V. Cummins #

Joined the Group in 1999. He was appointed to the Board in 2000 and is Finance Director. Age 40.

#### 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 61.

##### Dr M. J. Peagram

Joined the Board in 1998 as Deputy Chairman. He is Chairman of CRC Group plc and Enact Pharma plc and was formerly Chairman of Holliday Chemical Holdings PLC. Age 59.

##### 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 50.

##### R. H. Hunting \*+ #

Joined the Board in 2000. He is Chairman of Hunting PLC. Age 56.

##### Dato' Lee Hau Hian #

Joined the Board in 1993 and stood down in 2000 to become an alternate director. He re-joined the Board on 5 September 2002. He is a director of Kuala Lumpur Kepong Bhd and Batu Kawan Bhd. Age 49.

##### 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 52.

##### G. Montezemolo + \$

Joined the Board in 2001. He is a Director of A T Kearney, management consultants. Age 61.

##### P. J. Welch \*+ \$

Joined the Board in 1998. He is Chairman of WSP Group plc. Age 63.

##### P. S. Wood \* \$

Joined the Board in 2001. He is Chief Executive of BSS Group plc. Age 55.

\* Member of Audit Committee

+ Member of Nomination Committee

\$ Member of Remuneration Committee

# Standing for re-election or re-appointment at 2003 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  
Barclays Bank PLC  
Crédit Industriel et Commercial  
Danske Bank A/S  
HSBC Bank plc  
The Royal Bank of Scotland plc

#### Merchant Bankers

Merrill Lynch International

#### Stockbrokers

Merrill Lynch International

#### Registrars

Computershare Investor Services PLC  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR

#### Auditors

Deloitte & Touche

#### Solicitors

Linklaters  
Hammonds  
Pinsent Curtis Biddle

Yule Catto & Co plc  
Annual Report  
**Report of the Directors**

for the year ended  
31 December 2002

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

#### Results and dividends

	£000
Profit attributable to shareholders	17,348
Interim dividend	(7,380)
Final dividend	(10,715)
Retained loss for the financial year	(747)

The interim dividend of 5.1p per share was paid on 21 November 2002. The directors recommend a final dividend of 7.4p per share payable on 4 July 2003 to those shareholders registered at the close of business on 6 June 2003. A dividend reinvestment 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 17.

#### 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 €8.1m.

#### Fixed assets

The last major revaluation of the group's land and buildings took place in 1989. The movements in fixed assets during the year are set out in note 11 to the financial statements.

#### Directors

The present membership of the Board is shown on page 20. All served throughout the year apart from Dato' Lee Hau Hian who was appointed on 5 September 2002. Raja Alias retired on 5 September 2002.

Mr A. Walker, Mr S. V. Cummins, Mr R. H. Hunting and Dato' Lee Oi Hian retire by rotation and will be seeking re-election at the forthcoming Annual General Meeting. Dato' Lee Hau Hian also retires at the forthcoming Annual General Meeting and will be seeking re-appointment.

Mr Walker and Mr Cummins both have service contracts which contain a notice period of one year. None of the other directors seeking re-election or re-appointment 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 26 to 31.

#### Share capital

During 2002 no shares were issued or re-purchased. A total of 92,925 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 21 February 2003, 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%
Legal & General Investment Management Ltd	4,389,169	3.03%

#### 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.

Yule Catto & Co plc  
Annual Report  
**Report of the Directors  
continued**

for the year ended  
31 December 2002

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**Authority to purchase own shares**

The company has a general authority, which expires at the conclusion of the 2003 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 2002 Annual General Meeting. A resolution will be tabled at the 2003 Annual General Meeting to give the company general authority to make market purchases of not more than 21,575,783 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 2002 were 27 days (2001 40 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 (2001 £79,000). There were no political donations during the year.

**Auditors**

Following the retirement of Arthur Andersen as auditors during the year the directors appointed Deloitte & Touche to fill the resulting casual vacancy, using their powers under the Companies Act 1985. A resolution to re-appoint Deloitte & Touche 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 22 May 2003 at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR.

By Order of the Board

**R Atkinson**

**Secretary**

12 March 2003

Yule Catto & Co plc  
Annual Report  
**Corporate Governance**

for the year ended  
31 December 2002

It is the policy of the Board to seek to adhere to the best practices in corporate governance. Set out below is a statement of the extent to which this policy was achieved in 2002, including statements on compliance with the Combined Code and the application of its Principles of Good Governance as required by the Listing Rules of the Financial Services Authority.

#### **Statement of compliance with the Code of Best Practice**

In June 1998 the Committee on Corporate Governance published the Combined Code containing Principles of Good Governance and a Code of Best Practice. The company considers that it has complied throughout the financial year ended 31 December 2002 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 with the exception of one meeting of the Audit Committee at which Mr R H Hunting was absent. 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 20 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 Nomination Committee met twice during 2002.

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 26 to 31.

##### **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 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](http://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 32 and 33 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 overleaf. The directors endeavour to make the annual report and financial statements as informative and understandable as possible.

for the year ended  
31 December 2002

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The Audit Committee, which is chaired by Mr P. J. Welch and whose members are identified on page 20, 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. The current auditors were appointed in 2002 and details of audit and non-audit fees paid to them in 2002 is set out in note 2. Non-audit fees principally relate to taxation advice. The Audit Committee met formally twice during 2002 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 mis-statement 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, and has been operated throughout 2002 and up to the date of approval of the Annual Report and Accounts.

During 2002, an external consultant was engaged to review the entire process and to recommend any changes that should be made. As a result of this work, a series of pilot projects will be conducted during early 2003 in order to further improve the process, and the process will be changed accordingly before full deployment across the entire 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 reports, and their interaction and daily dealings with those reporting to them, customers, suppliers and other parties. Where a significant risk is identified, its causes, potential business impact and the planned risk control actions are reported. Operational reviews are undertaken by the group Executive Committee on a regular basis, and one of the functions of those reviews is to identify key risks and initiate and monitor planned risk control activities.

The nature of the risks identified as a result of this process primarily relate to matters of an operational nature and the most significant of those which faced the group in 2002 are reviewed 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 19 reviews the group's performance in this connection in 2002. A number of other risks have been identified from the process which arise from external influences such as: changes to UK regulation surrounding pension scheme funding and accounting; EU proposals for the legislative regime regulating the chemicals industry; and cost and capacity issues relating to the transfer of risk to the insurance market. Plans have been formulated and implemented to deal with the impact of these matters in the short term. However, they will require careful ongoing evaluation and management. These are consistent with the risks identified in 2001.



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 includes 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 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 approve 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 pages 18 to 19 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.

Yule Catto & Co plc  
Annual Report  
**Directors' Remuneration  
Report**

for the year ended  
31 December 2002

26 27

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 (who took over as Chairman from Dr M. J. Peagram on 6 March 2002), 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 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. The Remuneration Committee met twice during 2002.

#### Remuneration Policy

The company's policy is 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. While 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 12 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 profit and cash flow targets and personal business objectives. In 2002 the bonuses were subject to limits of 40%, 30% 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 2002 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 2004 has increased by at least 50% compared with the company's adjusted earnings per share for the year ended 31 December 2001 (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 30 per cent 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 30 per cent and 50 per cent 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 to the remaining half after the fourth anniversary of the date the award is made. The Remuneration Committee will set performance conditions for future awards under the Performance Plan such that they will only normally be exercisable if stretching earnings per share growth targets are met. 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 salary (excluding benefits in kind).

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 the 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). <sup>Note</sup> 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 2002 the performance conditions relating to the awards made in 1999 were assessed. As a result of the growth in the company's earnings per share over the three year period from 1999 to 2001 ranking it eighth in the comparator group of twenty six companies each participant received 87% of the shares awarded in 1999.

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 presently practical 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 base salary (excluding benefits in kind) in any year.

During 2002, 298,807 shares and 5,372 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.

#### • 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.

<sup>Note</sup> 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.

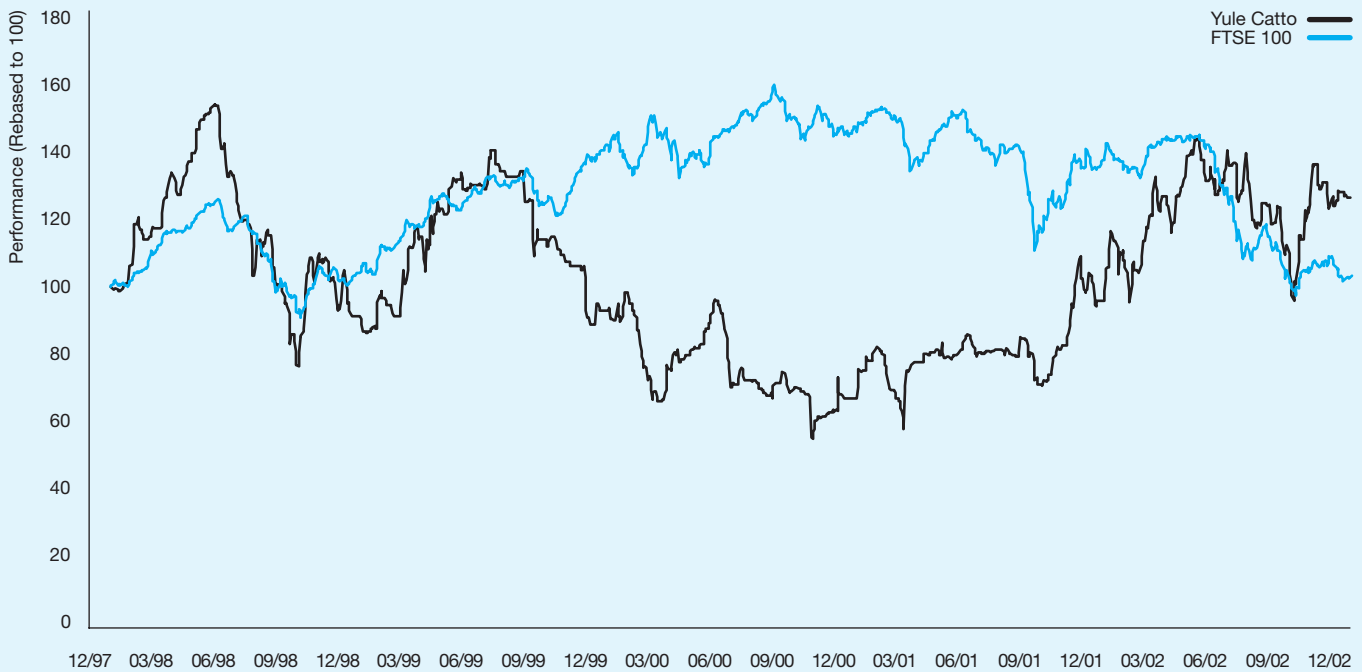
Yule Catto & Co plc  
Annual Report  
**Remuneration Report  
continued**

for the year ended  
31 December 2002

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• **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 2003 Annual General Meeting for approval.

Yule Catto & Co plc  
Annual Report  
**Directors' Remuneration**

for the year ended  
31 December 2002

	2002 £000	2001 £000
The total amounts for directors' remuneration and other benefits were:		
Emoluments	1,187	1,027
Pensions to former directors	1	1
	<b>1,188</b>	<b>1,028</b>

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

	Base salary 2002 £	Bonuses 2002 £	Benefits 2002 £	Total 2002 £	Total 2001 £
A. Walker – Highest paid director	365,000	182,500	35,870	583,370	464,991
S. V. Cummins	200,000	100,000	17,693	317,693	243,989

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 01/01/02 £	Increase in accrued pension exclude inflation £	Accrued pension at 31/12/02 £
A. Walker	195,858	15,730	217,346
S. V. Cummins	3,479	1,490	5,071

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 01/01/02 £	Increase in transfer value during the year £	Transfer value at 31/12/02 £
A. Walker	2,655,638	371,874	3,027,512
S. V. Cummins	23,257	6,971	30,228

No contributions were made by the directors during the year. 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 £40,000.

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

	Fees 2002 £	Benefits 2002 £	Total 2002 £	Total 2001 £
A. E. Richmond-Watson – Chairman	90,000	–	90,000	90,000
R. M. Alias (retired 5th September 2002)	15,333	–	15,333	23,000
The Hon. A. G. Catto	23,000	–	23,000	23,000
Dato' Lee Hau Hian	7,667	–	7,667	–
Dato' Lee Oi Hian	23,000	–	23,000	23,000
R. H. Hunting	23,000	–	23,000	23,000
G. Montezemolo	23,000	–	23,000	18,488
Dr M. J. Peagram	33,000	–	33,000	60,422
P. B. Sawdy (retired 23 May 2001)	–	–	–	11,500
P. J. Welch	25,000	–	25,000	25,000
P. S. Wood	23,000	–	23,000	21,083
	<b>286,000</b>	<b>–</b>	<b>286,000</b>	<b>318,493</b>

Fees in respect of the services of P. B. Sawdy were paid to Peter Sawdy Associates.  
Fees in respect of the services of P. J. Welch were paid to Frankfield Ltd.

Yule Catto & Co plc  
Annual Report  
**Directors' Interests**

for the year ended  
31 December 2002

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**Shareholdings**

Given below are details of the interests of the directors in the share capital of the company at 31 December 2002 and 31 December 2001 (or for those directors appointed during the year at the date of their appointment).

	Ordinary shares		Options	
	2002	2001	2002	2001
R. M. Alias	Nil	Nil		
The Hon A. G. Catto	1,574,375	1,732,108		
	2,633,790 (a)	2,876,297 (a)		
S. V. Cummins	10,992	10,563	171,297	105,857
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	6,678,502	8,378,502	203,749	203,749
A. E. Richmond-Watson	798,647	798,647		
	159,632 (a)	159,632 (a)		
A. Walker	202,173	202,083	484,099	376,179
P. J. Welch	61,827	61,827		
P. S. Wood	2,500	2,500		

(a) Non-beneficial interest

Between 31 December 2002 and 21 February 2003 there were no changes in the directors' holdings.

## Executive and savings-related options

At 01.01.02		Granted	Lapsed	Exercised	At 31.12.02	Exercise price	Notional value £	Exercise period
<b>A. Walker</b>								
100,000	(a)	–	–	–	100,000	299.0p	–	1997-2004
9,403	(b)	–	–	–	9,403	–	26,186	2000-2004
13,995	(b)	–	–	–	13,995	–	38,974	2001-2005
54,152	(b)	–	7,040	(e)	47,112	–	131,203	2002-2006
91,429	(b)	–	–	–	91,429	–	254,626	2003-2007
7,200	(f)	–	–	–	7,200	150.0p	9,252	2006
100,000	(c)	–	–	–	100,000	–	278,497	2004-2008
–		114,960	(d)	–	114,960	–	320,162	2005-2012
376,179					484,099		1,058,900	
<b>S. V. Cummins</b>								
45,715	(b)	–	–	–	45,715	–	127,313	2003-2007
7,200	(f)	–	–	–	7,200	150.0p	9,252	2006
52,942	(c)	–	–	–	52,942	–	147,443	2004-2008
–		62,992	(d)	–	62,992	–	175,433	2005-2012
–		2,448	(f)	–	2,448	261.0p	428	2009-2010
105,857					171,297		459,869	
<b>Dr M. J. Peagram</b>								
101,874	(g)	–	–	–	101,874	170.6p	109,922	1999-2006
101,875	(g)	–	–	–	101,875	222.7p	56,846	2000-2007
203,749						203,749		166,768

- (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.
- (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.
- (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.
- (e) Options lapsed under the Longer-Term Performance Share Plan as the performance target was only partially achieved.
- (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 2002 of 278.5 pence.

By Order of the Board  
**R Atkinson**  
**Secretary**  
 12 March 2003

Yule Catto & Co plc  
Annual Report  
**Statement of Directors'  
Responsibilities**

for the year ended  
31 December 2002

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**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.

Yule Catto & Co plc  
Annual Report  
**Independent Auditors'  
Report**

for the year ended  
31 December 2002

**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 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the statement of accounting policies and the related notes 1 to 32. 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 29 to 31, and the details of performance criteria in respect of share options on pages 26 to 27, which all 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 statement 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 statement 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 2002 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**

Chartered Accountants and Registered Auditors  
London

12 March 2003

Yule Catto & Co plc  
Annual Report  
**Consolidated Profit and  
Loss Account**

for the year ended  
31 December 2002

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		2002 £000	2001 £000 Restated (see note 31)
	Note		
Turnover of company and subsidiaries	2	501,562	443,930
Share of turnover of joint ventures	2	9,216	30,891
<b>Total turnover</b>	<b>1</b>	<b>510,778</b>	<b>474,821</b>
Operating profit before amortisation		65,252	48,989
Amortisation of goodwill	10	(15,244)	(13,893)
<b>Operating profit of company and subsidiaries</b>		<b>50,008</b>	<b>35,096</b>
Share of operating profit of joint ventures	2	1,437	3,881
<b>Total operating profit</b>	<b>2</b>	<b>51,445</b>	<b>38,977</b>
Sale and termination of businesses	3	–	(13,498)
Loss on disposal of fixed assets	3	(1,825)	–
Interest payable (net)	4	(14,127)	(12,590)
<b>Profit on ordinary activities before taxation</b>		<b>35,493</b>	<b>12,889</b>
Taxation on profit on ordinary activities	5	(16,293)	(12,003)
<b>Profit on ordinary activities after taxation</b>		<b>19,200</b>	<b>886</b>
Minority interests	22	(1,852)	(1,316)
<b>Profit/(loss) attributable to shareholders</b>	<b>6</b>	<b>17,348</b>	<b>(430)</b>
Ordinary dividends	7	(18,095)	(17,245)
<b>Retained loss for the financial year</b>	<b>21</b>	<b>(747)</b>	<b>(17,675)</b>
<b>Ebit *</b>		<b>66,689</b>	<b>52,870</b>
<b>Profit before taxation *</b>		<b>52,562</b>	<b>40,280</b>
<b>Profit after taxation and minorities *</b>		<b>34,417</b>	<b>26,961</b>
Earnings per share			
– Adjusted	8	23.9p	18.6p
– Basic	8	12.0p	(0.3)p
<b>Diluted earnings per share</b>	<b>8</b>	<b>11.9p</b>	<b>(0.3)p</b>

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

\*Excludes amortisation, sale and termination of business and loss on disposal of fixed assets.

Yule Catto & Co plc  
Annual Report  
**Balance Sheets**

for the year ended  
31 December 2002

	Note	Group 2002 £000	Group 2001 £000 Restated (see note 31)	Company 2002 £000	Company 2001 £000 Restated (see note 31)
<b>Fixed assets</b>					
Goodwill	10	242,724	257,968	–	–
Tangible fixed assets	11	173,291	172,535	8,149	10,012
		416,015	430,503		
<b>Investments in joint ventures</b>					
Share of gross assets		5,465	5,437	–	–
Share of gross liabilities		(2,451)	(2,128)	–	–
	12	3,014	3,309	–	–
Investments	13	51	64	59,299	183,539
		419,080	433,876	67,448	193,551
<b>Current assets</b>					
Stocks	14	60,740	59,872	–	–
Debtors	15	111,403	98,145	341,858	100,013
Cash at bank and in hand		6,553	8,728	664	3,556
		178,696	166,745	342,522	103,569
<b>Creditors – due within one year</b>					
Borrowings	16	(57,527)	(71,483)	(111,516)	(63,247)
Dividends	7	(10,715)	(10,218)	(10,715)	(10,218)
Other creditors	18	(158,959)	(148,392)	(11,096)	(7,752)
<b>Net current (liabilities)/assets</b>		<b>(48,505)</b>	<b>(63,348)</b>	<b>209,195</b>	<b>22,352</b>
<b>Total assets less current liabilities</b>		<b>370,575</b>	<b>370,528</b>	<b>276,643</b>	<b>215,903</b>
<b>Creditors – due after more than one year</b>					
Borrowings	16	(160,217)	(160,410)	(159,798)	(159,812)
Other creditors		(71)	(81)	–	–
		(160,288)	(160,491)	(159,798)	(159,812)
<b>Provisions for liabilities and charges</b>	19	<b>(25,059)</b>	<b>(24,806)</b>	<b>(95)</b>	<b>(132)</b>
<b>Net assets</b>		<b>185,228</b>	<b>185,231</b>	<b>116,750</b>	<b>55,959</b>
<b>Capital and reserves</b>					
Called up share capital	20	14,480	14,480	14,480	14,480
Share premium	21	31,829	31,829	31,829	31,829
Revaluation reserve	21	2,758	2,922	844	844
Capital redemption reserve	21	949	949	949	949
Profit and loss account	21	130,298	130,851	68,648	7,857
<b>Shareholders' funds – all equity</b>		<b>180,314</b>	<b>181,031</b>	<b>116,750</b>	<b>55,959</b>
Minority interests	22	4,914	4,200	–	–
<b>Capital employed</b>		<b>185,228</b>	<b>185,231</b>	<b>116,750</b>	<b>55,959</b>

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

Approved on 12 March 2003.

**A Walker**  
**S V Cummins** } **Directors**

Yule Catto & Co plc  
Annual Report  
**Consolidated Cash Flow  
Statement**

for the year ended  
31 December 2002

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	Note	2002 £000	2001 £000	£000
Net cash inflow from operating activities	23			79,615
Dividends received from joint ventures				3,885
Returns on investments and servicing of finance				
Interest received		179	373	
Interest paid		(13,828)	(12,617)	
Dividends paid to minority interests		(923)	(1,239)	
Net cash outflow from returns on investments and servicing of finance				(13,483)
Taxation				
UK corporation tax (paid)/received		(46)	1,161	
Overseas corporate tax paid		(10,851)	(8,347)	
Total tax paid				(7,186)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(20,862)	(34,088)	
Sale of tangible fixed assets		1,910	2,941	
Investments net of disposals		12	(21)	
				(31,168)
Free cash flow before dividends				31,663
Acquisitions and disposals				
Purchase of businesses				(69,028)
Sale of businesses				(1,264)
Equity dividends paid				(17,018)
Cash inflow/(outflow) before financing				(55,647)
Financing				
(Repayment)/proceeds of short term borrowings	24	(14,912)	14,072	
(Repayment)/proceeds of long term borrowings	24	(193)	45,224	
Net cash (outflow)/inflow from financing				59,296
(Decrease)/increase in cash	25			3,649
<b>Reconciliation of cash flow before financing to net borrowings</b>				
Cash inflow/(outflow) before financing				(55,647)
Exchange movements				(2,733)
Movement in net borrowings				(58,380)

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

Yule Catto & Co plc  
Annual Report  
**Consolidated Statement  
of Total Recognised  
Gains & Losses**

for the year ended  
31 December 2002

	Note	2002 £000	2001 £000 Restated (see note 31)
Profit/(loss) attributable to shareholders	6	17,348	(430)
Exchange adjustments	21	30	(3,220)
<b>Total recognised gains and losses for the year</b>		<b>17,378</b>	<b>(3,650)</b>
Prior year adjustment (as explained in note 31)		(383)	
<b>Total gains and losses recognised since last annual report</b>		<b>16,995</b>	

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 2002

	Note	2002 £000	2001 £000 Restated (see note 31)
Profit/(loss) attributable to shareholders	6	17,348	(430)
Exchange adjustments	21	30	(3,220)
		17,378	(3,650)
Dividends	7	(18,095)	(17,245)
Goodwill written back – sale of business		–	9,181
Elimination of previous equity accounting of Harlow Chemical Company Limited		–	(3,841)
<b>Net reduction in shareholders' funds</b>		<b>(717)</b>	<b>(15,555)</b>
Shareholders' funds at 1 January 2002 as previously stated		193,777	208,949
Prior year adjustment (as explained in note 31)		(12,746)	(12,363)
Shareholders' funds at 1 January 2002 as restated		181,031	196,586
Net reduction in shareholders' funds		(717)	(15,555)
<b>Shareholders' funds at 31 December</b>		<b>180,314</b>	<b>181,031</b>

Yule Catto & Co plc  
Annual Report  
**Principal Accounting  
Policies**

for the year ended  
31 December 2002

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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 FRS 15 '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.

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**1 Analysis of total turnover, profit and net assets**

	Total turnover 2002 £000	Profit 2002 £000	Net assets 2002 £000	Total turnover 2001 £000	Profit 2001 £000 Restated (see note 31)	Net assets 2001 £000 Restated (see note 31)
<b>Analysis by activity</b>						
Polymer Chemicals	260,031	37,553	89,795	238,829	31,113	84,974
Pharma & Fine Chemicals	106,499	22,722	38,988	85,621	11,104	32,104
Performance Chemicals	144,248	10,780	29,348	147,454	15,317	32,917
Building Products	–	–	–	2,917	(243)	2,202
Holding companies	–	(4,366)	238,288	–	(4,421)	256,199
	510,778			474,821		
Operating profit*		66,689			52,870	
Sale and termination of businesses		–			(13,498)	
Loss on disposal of fixed assets		(1,825)			–	
Interest payable		(14,127)			(12,590)	
Profit before taxation*		50,737			26,782	
Amortisation of goodwill		(15,244)			(13,893)	
Profit before taxation		35,493			12,889	
Net borrowings			396,419 (211,191)			408,396 (223,165)
Net assets			185,228			185,231

Of the amounts included within the Polymer Chemicals line of the above analysis by activity, the following relate to the joint ventures; turnover **£9,216,000** (2001 £30,891,000), operating profit **£1,437,000** (2001 £3,881,000) and net assets **£3,014,000** (2001 £3,309,000).

\* Before amortisation of goodwill.

	Total turnover 2002 £000	Operating profit* 2002 £000	Net assets 2002 £000	Total turnover 2001 £000	Operating profit* 2001 £000	Net assets 2001 £000 Restated (see note 31)
<b>Analysis by region of operation</b>						
Europe	419,904	56,999	346,854	389,493	45,882	358,650
Asia	60,032	5,681	42,937	55,702	4,112	41,582
Rest of World	30,842	4,009	6,628	29,626	2,876	8,164
	510,778	66,689	396,419	474,821	52,870	408,396
Net borrowings			(211,191)			(223,165)
Net assets			185,228			185,231

Of the turnover made by operations based in Europe £224,353,000 (2001 £218,728,000) relates to operations based in the United Kingdom, £57,957,000 (2001 £49,869,000) relates to operations based in Germany and £137,594,000 (2001 £120,896,000) relates to operations based elsewhere.

	2002 £000	2001 £000
<b>Analysis of total turnover by destination</b>		
United Kingdom	130,380	124,819
Other Europe	193,069	177,954
Asia	82,848	85,010
Africa and Middle East	34,872	31,614
Rest of World	69,609	55,424
	510,778	474,821

\* Before amortisation of goodwill.

#### Discontinued operations

Of the amounts included above, the following relate to discontinued operations; turnover £nil (2001 £2,917,000), operating loss £nil (2001 £243,000). These amounts relate to building product activities based in the United Kingdom with turnover restricted to the United Kingdom.

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**2 Operating profit**

	Company and subsidiaries 2002 £000	Joint ventures 2002 £000	Total 2002 £000	Company and subsidiaries 2001 £000 Restated (see note 31)	Joint ventures 2001 £000	Total 2001 £000 Restated (see note 31)
Turnover	501,562	9,216	510,778	443,930	30,891	474,821
Cost of sales	(355,089)	(6,675)	(361,764)	(311,560)	(19,559)	(331,119)
Gross profit	146,473	2,541	149,014	132,370	11,332	143,702
Distribution costs	(42,281)	(524)	(42,805)	(40,561)	(1,609)	(42,170)
Administrative expenses						
– Amortisation of goodwill	(15,244)	–	(15,244)	(13,893)	–	(13,893)
– Other	(38,940)	(580)	(39,520)	(42,820)	(5,842)	(48,662)
Operating profit	50,008	1,437	51,445	35,096	3,881	38,977
Add back: amortisation of goodwill	15,244		15,244	13,893		13,893
Operating profit excluding amortisation of goodwill	65,252		66,689	48,989		52,870

	Company and subsidiaries 2002 £000	Joint ventures 2002 £000	Total 2002 £000	Company and subsidiaries 2001 £000	Joint ventures 2001 £000	Total 2001 £000
<b>Discontinued operations</b>						
Turnover	–	–	–	2,917	–	2,917
Cost of sales	–	–	–	(1,987)	–	(1,987)
Gross profit	–	–	–	930	–	930
Distribution costs	–	–	–	(468)	–	(468)
Administrative expenses	–	–	–	(705)	–	(705)
Operating loss	–	–	–	(243)	–	(243)

	2002 £000	2001 £000
Operating profit is stated after charging:		
Depreciation	20,671	19,731
Hire of plant and equipment	2,076	2,683
Other lease rentals	3,215	2,312
Audit fee paid to group auditors	385	389
Audit fee paid to other auditors	–	34
Non audit services paid to group auditors	123	512
Non audit services paid to other auditors	659	10

The audit fee of the holding company amounted to **£5,000** (2001 £5,000).

The non audit services provided by the group auditors comprises tax and related legal services.

In addition to the amounts charged to operating profit, **£280,000** (2001 £394,000) was paid to the group auditors, **Deloitte & Touche** (2001 Arthur Andersen) in respect of acquisitions and disposals of businesses.

Research and development expenditure, including the group's share of that incurred by the joint ventures, amounted to **£12,291,000** (2001 £10,916,000).

### 3 Exceptional items

	2002 £000	2001 £000
Loss on sale of businesses before goodwill	–	(4,317)
Related goodwill	–	(9,181)
Loss on sale of businesses	–	(13,498)
Loss on disposal of fixed assets	(1,825)	–
	(1,825)	(13,498)
Tax on exceptional items	–	–
	(1,825)	(13,498)

The loss on disposal of fixed assets relates to the writing off of the environmental plant in one of our French facilities, which was destroyed by a fire. The 2001 sale of business relates to discontinued operations.

### 4 Interest payable (net)

	2002 £000	2001 £000
Interest payable on bank loans and overdrafts		
Repayable within 5 years – not by instalments	5,146	4,594
– by instalments	3,279	1,793
Interest payable on other loans	6,785	6,911
	15,210	13,298
Less: interest receivable	(179)	(373)
	15,031	12,925
Interest payable by joint ventures	15	203
	15,046	13,128
Less: finance costs capitalised	(919)	(538)
	14,127	12,590

Finance costs have been capitalised based on a capitalisation rate of 5%.

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**5 Taxation on profit on ordinary activities**

	2002 £000	2001 £000 Restated (see note 31)
<b>Current tax</b>		
UK corporation tax	1,872	(206)
Overseas taxation	13,772	10,866
Charge for the year	15,644	10,660
<b>Deferred tax</b>		
Origination and reversal of timing differences	637	425
Effect of decrease in tax rate on opening liability	(67)	–
	570	425
Share of associates' tax	79	918
<b>Total tax on profit on ordinary activities</b>	<b>16,293</b>	<b>12,003</b>

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:

	2002 £000	2001 £000
<b>Profit on ordinary activities before taxation</b>	<b>35,493</b>	<b>12,889</b>
Add back: amortisation of goodwill	15,244	13,893
Add back: exceptional items	1,825	13,498
Less: share of associates' profit before tax	(1,422)	(3,678)
<b>Group profit on ordinary activities before tax</b>	<b>51,140</b>	<b>36,602</b>
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	15,342	10,981
Effects of:		
Expenses not deductible for tax purposes	416	294
Capital allowances in excess of depreciation	(647)	(425)
Other temporary timing differences	10	–
Utilisation of tax losses	(820)	(703)
Higher tax rates on overseas earnings	1,343	513
<b>Group current tax charge for year</b>	<b>15,644</b>	<b>10,660</b>

## 6 Profit/(loss) attributable to shareholders

	2002 £000	2001 £000
Dealt with by Yule Catto & Co plc	80,868	17,325
Retained by subsidiaries	(63,462)	(17,382)
Retained by joint ventures	(58)	10
	17,348	(47)
Prior year adjustment	–	(383)
	17,348	(430)

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

## 7 Dividends

	2002 £000	2001 £000
Ordinary – interim of 5.1 pence per share (2001 4.9 pence)	7,380	7,027
– proposed final of 7.4 pence per share (2001 7.1 pence)	10,715	10,218
	18,095	17,245

## 8 Earnings per share

Earnings per share are calculated using the weighted average number of shares in issue during the year of 144,276,000 (2001 144,804,000).

	Earnings		Earnings per share	
	2002 £000	2001 £000 Restated (see note 31)	2002 p	2001 p Restated (see note 31)
Earnings – Basic	17,348	(430)	12.0	(0.3)
Amortisation of goodwill	15,244	13,893	10.6	9.6
Exceptional items				
Sale and termination of businesses	–	13,498	–	9.3
Loss on disposal of fixed assets	1,825	–	1.3	–
Adjusted earnings	34,417	26,961	23.9	18.6

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 FRS 3.

Diluted earnings per share of 11.9p (2001 loss of 0.3p) is calculated on profit attributable to ordinary shareholders of £17,348,000 (2001 loss of £430,000) and on 145,947,185 shares (2001 145,374,307), being the weighted average number of shares in issue during the year, as adjusted for unexercised share options in accordance with FRS 14.

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**9 Employees**

	2002 Number	2001 Number
The average monthly number of employees during the year by activity was:		
Polymer Chemicals	1,371	1,380
Pharma & Fine Chemicals	645	633
Performance Chemicals	1,393	1,447
Building Products	–	29
Holding companies	34	31
	3,443	3,520
Joint ventures	103	99
	3,546	3,619
	2002 £000	2001 £000
The aggregate remuneration of all group employees comprised:		
Wages and salaries	68,385	62,291
Social security costs	10,135	9,296
Other pension costs (see note 29)	3,809	3,550
	82,329	75,137

**10 Goodwill**

	£000
Group	
Cost	
Previously reported	302,501
Prior year adjustment (see note 31)	2,326
<b>At 1 January and 31 December 2002</b>	<b>304,827</b>
Amortisation	
Previously reported	(46,811)
Prior year adjustment (see note 31)	(48)
At 1 January 2002	(46,859)
Charge in the year	(15,244)
<b>At 31 December 2002</b>	<b>(62,103)</b>
Net book value	
<b>At 31 December 2002</b>	<b>242,724</b>
At 31 December 2001 (restated)	257,968

## 11 Tangible fixed assets

	Land and buildings			Plant and equipment £000	Total £000
	Freeholds £000	Leaseholds Long £000	Short £000		
<b>Group</b>					
Cost or valuation					
At 1 January 2002	64,811	4,773	210	317,596	387,390
Exchange adjustments	702	(9)	(21)	4,063	4,735
Additions	5,481	–	–	19,405	24,886
Disposals	(2,326)	–	–	(4,063)	(6,389)
<b>At 31 December 2002</b>	<b>68,668</b>	<b>4,764</b>	<b>189</b>	<b>337,001</b>	<b>410,622</b>
At cost	65,012	4,675	189	337,001	406,877
At professional valuation in 1985	3,656	89	–	–	3,745
<b>At 31 December 2002</b>	<b>68,668</b>	<b>4,764</b>	<b>189</b>	<b>337,001</b>	<b>410,622</b>
Depreciation					
At 1 January 2002	17,801	1,366	83	195,605	214,855
Exchange adjustments	673	(1)	(9)	3,796	4,459
Charge for the year	1,533	125	6	19,007	20,671
Eliminated on disposals	(416)	–	–	(2,238)	(2,654)
<b>At 31 December 2002</b>	<b>19,591</b>	<b>1,490</b>	<b>80</b>	<b>216,170</b>	<b>237,331</b>
Net book value					
<b>At 31 December 2002</b>	<b>49,077</b>	<b>3,274</b>	<b>109</b>	<b>120,831</b>	<b>173,291</b>
At 31 December 2001	47,010	3,407	127	121,991	172,535

Properties included at valuation would have been stated on a historical cost basis at cost of **£2,624,000** (2001 £2,676,000) and depreciation of **£930,000** (2001 £939,000).

Freehold land amounting to **£9,727,000** (2001 £10,737,000) has not been depreciated.

Cumulative finance costs capitalised, included in the cost of tangible fixed assets, amount to **£1,457,000** (2001 £538,000).

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**11 Tangible fixed assets (continued)**

	Land and buildings		Plant and equipment £000	Total £000
	Freeholds £000	Long Leaseholds £000		
<b>Company</b>				
Cost or valuation				
At 1 January 2002	10,507	89	1,539	12,135
Additions	–	–	124	124
Disposals	(1,925)	–	(45)	(1,970)
<b>At 31 December 2002</b>	<b>8,582</b>	<b>89</b>	<b>1,618</b>	<b>10,289</b>
At cost	5,817	–	1,618	7,435
At professional valuation in 1985	2,765	89	–	2,854
	8,582	89	1,618	10,289
Depreciation				
At 1 January 2002	996	32	1,095	2,123
Charge for the year	122	2	185	309
Eliminated on disposals	(247)	–	(45)	(292)
<b>At 31 December 2002</b>	<b>871</b>	<b>34</b>	<b>1,235</b>	<b>2,140</b>
Net book value				
<b>At 31 December 2002</b>	<b>7,711</b>	<b>55</b>	<b>383</b>	<b>8,149</b>
At 31 December 2001	9,511	57	444	10,012

Properties included at valuation would have been stated on a historical cost basis at cost of **£1,877,000** (2001 £1,877,000) and depreciation of **£301,000** (2001 £285,000).

Freehold land amounting to **£2,525,000** (2001 £3,095,000) has not been depreciated.

Cumulative finance costs capitalised, included in the cost of tangible fixed assets, amount to **£nil** (2001 £nil).

**12 Investment in joint ventures**

	2002 £000	2001 £000
<b>Share of assets</b>		
Share of fixed assets	1,061	1,289
Share of current assets	4,404	4,148
	5,465	5,437
<b>Share of liabilities</b>		
Liabilities due within one year	(2,451)	(2,128)
Share of net assets	3,014	3,309

**Reconciliation of movements in investment in joint ventures**

	2002 £000
At 1 January 2002	3,309
Share of profit before tax for the year	1,422
Share of taxation for the year	(79)
Share of dividends payable during the year	(1,401)
Exchange adjustments	(237)
<b>At 31 December</b>	<b>3,014</b>

### 13 Investments

	shares £000	Own investments £000	Other Total £000
<b>Group</b>			
<b>Cost</b>			
At 1 January 2002	1,037	64	1,101
Additions	523	–	523
Disposals	(106)	(13)	(119)
<b>At 31 December 2002</b>	<b>1,454</b>	<b>51</b>	<b>1,505</b>
<b>Adjustments to net tangible asset values</b>			
At 1 January 2002	(1,037)	–	(1,037)
Amortisation	(523)	–	(523)
Disposals	106	–	106
<b>At 31 December 2002</b>	<b>(1,454)</b>	<b>–</b>	<b>(1,454)</b>
<b>Net book value</b>			
<b>At 31 December 2002</b>	<b>–</b>	<b>51</b>	<b>51</b>
At 31 December 2001	–	64	64

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 2002, the Trust held 527,453 (2001 408,170) ordinary shares in the company with a market value of £1,469,000 (2001 £900,000). The dividends on these shares have been waived. All of the shares are under option. Costs are amortised over the life of the plans.

	Subsidiaries £000	Joint ventures £000	Other investments £000	Total £000
<b>Company</b>				
<b>Cost</b>				
At 1 January 2002	184,331	500	46	184,877
Transfer from group companies	1,549	–	–	1,549
Transfer to group companies	(125,777)	–	–	(125,777)
<b>At 31 December 2002</b>	<b>60,103</b>	<b>500</b>	<b>46</b>	<b>60,649</b>
<b>Provisions</b>				
At 1 January 2002	(1,118)	(220)	–	(1,338)
Amortisation	–	–	(12)	(12)
<b>At 31 December 2002</b>	<b>(1,118)</b>	<b>(220)</b>	<b>(12)</b>	<b>(1,350)</b>
<b>Net book value</b>				
<b>At 31 December 2002</b>	<b>58,985</b>	<b>280</b>	<b>34</b>	<b>59,299</b>
At 31 December 2001	183,213	280	46	183,539

Details of the principal group companies are given on pages 61 to 62.

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**14 Stocks**

	2002 £000	2001 £000
<b>Group</b>		
Raw materials and consumables	23,384	22,834
Work in progress	4,048	5,434
Finished goods	33,308	31,604
	<b>60,740</b>	<b>59,872</b>

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

**15 Debtors**

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Trade debtors	95,132	88,630	–	563
Amounts owed by subsidiaries		–	340,965	93,102
Other debtors	10,559	8,716	893	6,348
Prepayments and accrued income	5,712	799	–	–
	<b>111,403</b>	<b>98,145</b>	<b>341,858</b>	<b>100,013</b>
Receivable within one year	110,953	94,486	341,858	100,013
Receivable after more than one year	450	3,659	–	–
	<b>111,403</b>	<b>98,145</b>	<b>341,858</b>	<b>100,013</b>

**16 Borrowings**

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
<b>Amounts due within one year</b>				
Other bank loans and overdrafts	57,527	71,483	111,516	63,247
	<b>57,527</b>	<b>71,483</b>	<b>111,516</b>	<b>63,247</b>
<b>Amounts due after more than one year</b>				
Loans repayable by instalments				
Between 1 and 2 years	419	598	–	–
Between 2 and 5 years	59,729	59,809	59,729	59,809
Loans repayable otherwise than by instalments				
In more than 5 years	100,069	100,003	100,069	100,003
	<b>160,217</b>	<b>160,410</b>	<b>159,798</b>	<b>159,812</b>

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.

## 17 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 FRS 13 'Derivatives and Other Financial Instruments: Disclosures', short-term debtors and creditors have been excluded from the disclosures, other than 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 £120m syndicated bank facility, which comprises a term loan of £60m for medium term requirements, repayable in tranches and a revolving credit facility of £60m which expires in November 2006.
- Unsecured loan notes totalling just over £100m raised primarily from the US private placement market. With maturity between 2008 and 2010, this provides the group's long term requirements.
- Committed 364 day bank facilities, totalling £30m. The company has the option to extend these facilities until November 2004.

### 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 (2001 £nil).

### Interest rate risk profile

#### *Financial assets*

The group has no financial assets, other than short-term debtors and cash at bank (2001 £nil).

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**17 Treasury (continued)**

*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 2002 was:

	Total borrowings 2002 £000	Floating rate borrowings 2002 £000	Fixed rate borrowings 2002 £000	Weighted average fixed interest rate 2002 %	Weighted average time for which rate is fixed 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

	Total borrowings 2001 £000	Floating rate borrowings 2001 £000	Fixed rate borrowings 2001 £000	Weighted average fixed interest rate 2001 %	Weighted average time for which rate is fixed 2001 years
Sterling	207,607	27,607	180,000	6.8	5.6
Euro currencies	5,332	(24,033)	29,365	5.2	3.5
Other	18,954	18,954	–	–	–
	231,893	22,528	209,365	6.7	5.3

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.

2002  
£000

2001  
£000

**Maturity of financial liabilities**

The maturity of the group's financial liabilities at 31 December 2002 was as follows:

In one year or less on demand	57,527	71,483
In more than one year but not more than two years	419	598
In more than two years but not more than five years	59,729	59,809
In more than five years	100,069	100,003
	217,744	231,893

**Borrowing facilities**

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2002 in respect of which all conditions precedent had been met were as follows:

	2002 £000	2001 £000
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	25,000	50,000
	55,000	50,000

In addition to the committed facilities, the group has **£18.7m** (2001 £26.2m) of undrawn overdraft facilities.

### 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	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Cash	6,553	8,728	6,553	8,728	6,553	8,728
Short-term borrowings	(57,527)	(71,483)	(57,527)	(71,483)	(59,527)	(71,610)
Loans	(160,217)	(160,410)	(160,217)	(160,410)	(159,102)	(168,321)
			(211,191)	(223,165)		
Currency swaps	85,535	85,535	–	–	16,017	8,105
Interest rate swaps	201,258	194,365	–	–	(10,533)	(4,223)
Total net liabilities			(211,191)	(223,165)	(206,592)	(227,321)
Financial assets			6,553	8,728		
Financial liabilities			(217,744)	(231,893)		
			(211,191)	(223,165)		

Fair values have been obtained from the relevant institutions.

The difference between the carrying value and the fair value of the loans of **£(1,115,000)**, (2001 £7,911,000) 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 2002 (2001 £nil).

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 2002, the net compensation receivable would have been **£5,484,000** (2001 £3,882,000). During the year the effect of the hedging undertaken has been a credit of **£348,000** (2001 £1,494,000) to the group's profit and loss account.

The hedging undertaken ensures that a substantial proportion of the group's interest charge for 2003 and beyond is known with certainty. Should variable rates remain constant, the debit to the profit and loss account in 2003 in respect of the group's obligations under hedging contracts will be **£424,000** (2001 credit £393,000). If variable interest rates increase, the debit to the profit and loss account in 2003 in respect of the group's obligations under the hedging contracts will increase accordingly.

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**18 Other creditors**

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
<b>Amount due within one year</b>				
Trade creditors	77,033	75,329	918	1,698
Bills of exchange payable	1,329	1,240	–	–
Amounts owed to subsidiaries	–	–	–	367
Amounts owed to joint ventures	–	151	–	–
Corporate tax	33,068	27,818	322	–
Other taxation and social security	4,504	4,874	103	98
Other creditors	23,941	19,033	3,832	2,297
Accruals and deferred income	19,084	19,947	5,921	3,292
	<b>158,959</b>	<b>148,392</b>	<b>11,096</b>	<b>7,752</b>

**19 Provisions for liabilities and charges**

	Deferred taxation £000	Termination costs £000	Deferred income £000	Pension liabilities £000	Product warranties £000	Total £000
<b>Group</b>						
At 1 January 2002	5,389	510	62	3,381	410	9,752
Prior year adjustment (see note 31)	15,054	–	–	–	–	15,054
	20,443	510	62	3,381	410	24,806
Exchange adjustments	307	–	–	221	–	528
Transfers from/(to) profit and loss account	570	–	(43)	(71)	34	490
Utilised	–	(510)	–	155	(410)	(765)
<b>At 31 December 2002</b>	<b>21,320</b>	<b>–</b>	<b>19</b>	<b>3,686</b>	<b>34</b>	<b>25,059</b>

The provision for termination costs related to the closure of Holliday Dyes & Chemicals Limited, which was announced in November 2000.

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
<b>Company</b>	
At 1 January 2002	–
Prior year adjustment (see note 31)	132
	132
Transfers to profit and loss account	(37)
<b>At 31 December 2002</b>	<b>95</b>

**Deferred taxation**

	Group 2002 £000	Group 2001 £000 Restated (see note 31)	Company 2002 £000	Company 2001 £000 Restated (see note 31)
Accelerated capital allowances	20,227	19,355	95	132
Other timing differences	1,093	1,088	–	–
	<b>21,320</b>	<b>20,443</b>	<b>95</b>	<b>132</b>

## 20 Share capital

	2002 £000	2001 £000
<b>Authorised</b>		
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
	<b>22,500</b>	<b>22,500</b>
<b>Allotted, called up and fully paid</b>		
144,803,918 ordinary shares (2001 144,803,918)	14,480	14,480

### Share options

As at 31 December 2002 the following options were outstanding:

#### Executive share options

	Number	Option Price
Exercisable between 2003 – 2004	225,000	299.0p
Exercisable between 2003 – 2006	173,253	170.6p
Exercisable between 2003 – 2004	9,403	(a)
Exercisable between 2003 – 2007	253,064	222.7p
Exercisable between 2003 – 2005	26,064	(a)
Exercisable between 2003 – 2006	86,015	(a)
Exercisable between 2003 – 2007	253,697	(a)
Exercisable between 2004 – 2008	281,294	(a)
Exercisable between 2005 – 2012	304,179	(a)

#### SAYE options

	Number	Option Price
Exercisable in 2003	14,230	193.9p
Exercisable in 2003	84,574	272.0p
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 and the Longer-term Deferred Bonus Plan with a total exercise price of £94.

## 21 Share premium and reserves

	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
<b>Group</b>					
At 1 January 2002 as previously stated	31,829	2,922	949	143,597	179,297
Prior year adjustment (see note 31)	–	–	–	(12,746)	(12,746)
At 1 January 2002 as restated	31,829	2,922	949	130,851	166,551
Exchange adjustments	–	(162)	–	192	30
Retained loss for the year	–	–	–	(747)	(747)
Transfer in respect of depreciation on revalued amount	–	(2)	–	2	–
<b>At 31 December 2002</b>	<b>31,829</b>	<b>2,758</b>	<b>949</b>	<b>130,298</b>	<b>332,385</b>

Goodwill of £62,539,000 (2001 £47,295,000) has been amortised through the profit and loss account and £81,664,000 (2001 £81,664,000) has been written off to the reserves.

The reserves do not include any amount in respect of FRS 17.

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**21 Share premium and reserves (continued)**

	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
<b>Company</b>					
At 1 January 2002	31,829	844	949	7,989	41,611
Prior year adjustment (see note 31)	–	–	–	(132)	(132)
At 1 January as restated	31,829	844	949	7,857	41,479
Retained profit for the year	–	–	–	62,773	62,773
Exchange adjustments	–	–	–	(1,982)	(1,982)
<b>At 31 December 2002</b>	<b>31,829</b>	<b>844</b>	<b>949</b>	<b>68,648</b>	<b>102,270</b>

**22 Minority Interests**

	Equity £000
At 1 January 2002	4,230
Prior year adjustment (see note 31)	(30)
	4,200
Profit on ordinary activities after taxation	1,852
Dividends paid and proposed	(923)
Exchange adjustments	(215)
<b>At 31 December 2002</b>	<b>4,914</b>

**23 Reconciliation of operating profit to net cash inflow from operating activities**

	2002 £000	2001 £000 Restated (see note 31)
Operating profit	51,445	38,977
Share of profits of joint ventures	(1,437)	(3,881)
	50,008	35,096
Depreciation charge	20,671	19,731
Cash impact of termination of businesses	(510)	(5,443)
Amortisation of goodwill	15,244	13,893
Amortisation of shares in ESOP Trust	(523)	(509)
Profit on sale of tangible fixed assets	–	(71)
(Increase)/decrease in stocks	(279)	4,759
(Increase)/decrease in debtors	(11,093)	12,229
Decrease in creditors and provisions	(716)	(70)
<b>Net cash inflow from operating activities</b>	<b>72,802</b>	<b>79,615</b>
Net cash inflow from operating activities comprises:		
Continuing operating activities	72,802	80,088
Discontinued operating activities	–	(473)
	<b>72,802</b>	<b>79,615</b>

## 24 Analysis of changes in net debt

	1 January 2002 £000	Cash inflow (outflow) £000	Exchange movement £000	31 December 2002 £000
<b>Group</b>				
Cash	8,728	(2,270)	95	6,553
Overdrafts	(21,571)	(630)	(326)	(22,527)
	(12,843)	(2,900)	(231)	(15,974)
Borrowings due within one year	(49,912)	14,912	–	(35,000)
Borrowings due after more than one year	(160,410)	193	–	(160,217)
Net borrowings	(223,165)	12,205	(231)	(211,191)

## 25 Reconciliation of net cash outflow to movement in net debt

	2002 £000	2001 £000
(Decrease)/increase in cash and cash equivalents in the year	(2,900)	3,649
Cash outflow/(inflow) from decrease/(increase) in debt	15,105	(59,296)
Change in net debt from cash flows	12,205	(55,647)
Exchange movement	(231)	(2,733)
	11,974	(58,380)
Net debt at 1 January	(223,165)	(164,785)
Net debt at 31 December	(211,191)	(223,165)

## 26 Related party transactions

There were no related party transactions during the year (2001 £nil).

## 27 Commitments

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Capital expenditure authorised but not provided for in the accounts; Contracted	4,459	1,519	–	–
	Land and buildings 2002 £000	Land and buildings 2001 £000	Other 2002 £000	Other 2001 £000

Commitments under operating leases are as follows;

Operating leases which expire				
Within 1 year	–	74	453	677
Between 2 and 5 years	32	15	1,645	1,195
After 5 years	1,229	1,155	29	124
	1,261	1,244	2,127	1,996

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**28 Contingent assets, contingent liabilities and guarantees**

- (a) We have a long-standing commercial dispute relating to the amount of compensation owed to us under the terms of a contract executed in 1996. A satisfactory resolution might materialise during 2003, generating approximately £2.5 million of income.
- (b) The company has given guarantees amounting to **£14,526,000** (2001 £4,386,000) in respect of bank and other facilities of subsidiaries and joint ventures.
- (c) Other guarantees and contingent liabilities of the group amount to **£3,536,000** (2001 £4,343,000).
- (d) 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.

**29 Pension commitments**

The group operates a number of pension schemes throughout the world. In 2002, the total pension cost for the group was **£3,809,000** (2001 £3,550,000) of which **£1,256,000** (2001 £1,158,000) relates to overseas schemes.

**UK pension schemes**

The group participates in a funded defined benefits scheme (the Yule Catto Group Retirement Benefits Scheme). 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 2000. 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 7.0% pa and that salaries would increase at 4.5% pa. For retired members it was assumed that the investment return would be 5.5% pa, and for all members it was assumed that all pensions for which increases were due would increase at the rate of 3.0% pa. 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 £134,648,000 and on the basis used to determine pension costs these assets were assessed as being sufficient to cover 105% of the value of the benefits accrued to members, after allowing for expected future increases in earnings.

The group's defined benefit scheme was closed to new members with effect from 31 December 1998. On 1 January 1999 the group introduced a defined contribution scheme which is open to all eligible group employees.

**Pension disclosure required by FRS 17**

A full actuarial valuation was carried out at 6 April 2000 and updated to 31 December 2002 by a qualified actuary. The major assumptions used by the actuary were:

	2002	2001
Rate of increase in salaries	3.80%	4.00%
Rate of increase in pensions in payment	3.00%	3.00%
Discount rate	5.50%	5.83%
Inflation assumption	2.30%	2.50%

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:

	2002 %	2002 £ million	2001 %	2001 £ million
Equities	8.00%	79.9	8.00%	97.6
Bonds	5.25%	22.2	5.23%	23.2
Cash	5.00%	0.6	5.00%	1.4
Total fair value of assets		102.7		122.2
Present value of scheme liabilities		(158.7)		(149.0)
Deficit in the scheme		(56.0)		(26.8)
Related deferred tax asset		16.8		8.0
Net pension liability		(39.2)		(18.8)

The contribution rate for 2002 was 16.7% of pensionable earnings and the agreed contribution for next year is 16.7% of pensionable earnings.

## 29 Pension commitments (continued)

Analysis of the amount that would have been charged to operating profit under FRS 17:

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

Analysis of the amount that would have been charged to net finance income under FRS 17:

	2002 £000
Expected return on pension scheme assets	(9,000)
Interest on pension scheme liabilities	9,000
	<u>–</u>

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

	2002 £000
Actual return less expected return on pension scheme assets	(26,600)
Experience gains and losses arising on the scheme liabilities	4,200
Changes in assumptions underlying the present value of the scheme liabilities	(7,000)
	<u>(29,400)</u>

### History of experience gains and losses

	2002
<b>Difference between the expected and actual return on scheme assets:</b>	
Amount (£000)	(26,600)
Percentage of scheme assets	(24.90)%
<b>Experience gains and losses on scheme liabilities:</b>	
Amount (£000)	4,200
Percentage of the present value of scheme liabilities	2.60%
<b>Total actuarial loss recognised in the statement of total recognised gains and losses:</b>	
Amount (£000)	(29,400)
Percentage of the present value of scheme liabilities	17.90%

### Overseas pension schemes

The group operates a number of smaller overseas pension schemes. Of these the net deficit of the defined benefit schemes totals £2.5m. 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.

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### 30 Share price information

The middle market value of the listed ordinary shares at 31 December 2002 was 278.5 pence. During the year, the market price ranged between 215 pence and 334 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.

### 31 Prior year adjustment

The group policy for accounting for deferred taxation was changed during the year in line with the requirements of FRS 19. The comparative figures in the primary statements and notes have been restated to reflect the new policy.

The effects of the change in policy on the prior year accounts are summarised below:

	Group £000	Company £000
<b>Profit and loss account</b>		
Amortisation of goodwill	(48)	–
Taxation on ordinary activities before taxation		
Deferred taxation	(322)	–
Minority interests	(13)	–
Increase in loss for the financial year	(383)	–
<b>Balance sheet</b>		
Goodwill	2,278	–
Provisions for liabilities and charges		
Deferred taxation	(15,054)	(132)
Increase (decrease) in net assets	(12,776)	(132)

The current year impact of the implementation of FRS 19 is not considered to be material.

### 32 Ditar

On 3 February 2003, the entire share capital of Ditar Ridderkerk BV and Ditar Hasselt BV were acquired for a consideration of €8.1m.

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**Principal Subsidiaries  
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**Operating companies**

	Country of incorporation and operation	Effective Group interest in equity %
<a href="#">Arkem (Pty) Ltd</a> <i>Distributor of speciality chemicals and allied products</i>	South Africa	37.5#
<a href="#">Autoclenz Ltd</a> <i>Provision of vehicle valeting services</i>	England	100
<a href="#">Brencliffe Ltd</a> <i>Car and household cleaning products</i>	England	100
<a href="#">Dhahran Harco Chemical Industries Ltd</a> <i>Synthetic resin emulsions</i>	Saudi Arabia	49#
<a href="#">Harlow Chemical Co Ltd</a> <i>Synthetic resin emulsions and polyvinyl alcohol</i>	England	100
<a href="#">Holliday Dispersions Ltd</a> <i>Pigment dispersions</i>	England	100
<a href="#">Holliday Dispersions SA</a> <i>Pigment dispersions</i>	France	100
<a href="#">Holliday Encres SA</a> <i>Printing inks</i>	France	100
<a href="#">Holliday Chemical España SA</a> <i>Sales agent and distributor</i>	Spain	100
<a href="#">Holliday France SA</a> <i>Sales agent and distributor</i>	France	100
<a href="#">Holliday Pigments Ltd</a> <i>Ultramarine pigments</i>	England	100
<a href="#">Holliday Pigments SA</a> <i>Ultramarine pigments</i>	France	100
<a href="#">James Robinson GmbH</a> <i>Fine chemicals</i>	Germany	100
<a href="#">James Robinson India (Pvt) Ltd</a> <i>Fine chemicals Intermediates</i>	India	51
<a href="#">James Robinson Ltd</a> <i>Dyestuffs and fine chemicals</i>	England	100
<a href="#">Oxford Chemicals Ltd</a> <i>Flavour and fragrance chemicals</i>	England	100
<a href="#">PFW Aroma Chemicals BV</a> <i>Fragrance chemicals</i>	Netherlands	100
<a href="#">Reabrook Ltd</a> <i>Hygiene, pollution control and maintenance chemicals, vehicle cleaning products. Contract filling of aerosols</i>	England	100
<a href="#">Revertex Chemicals (Pty) Ltd</a> <i>Synthetic resin emulsions and allied products</i>	South Africa	75

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**Operating companies (continued)**

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

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	2002 £000	2001 £000	2000 £000	1999 £000	1998 £000
<b>Turnover</b>					
Subsidiaries	501,562	443,930	470,219	442,433	435,966
Joint ventures	9,216	30,891	41,774	89,758	96,310
<b>Total turnover</b>	<b>510,778</b>	<b>474,821</b>	<b>511,993</b>	<b>532,191</b>	<b>532,276</b>
<b>Ebitda<sup>1</sup></b>	<b>87,360</b>	<b>72,601</b>	<b>66,752</b>	<b>82,553</b>	<b>78,946</b>
Operating profit before amortisation <sup>1</sup>	66,689	52,870	48,065	66,057	63,897
Interest payable (net)	(14,127)	(12,590)	(11,913)	(11,847)	(12,947)
<b>Profit before taxation<sup>1</sup></b>	<b>52,562</b>	<b>40,280</b>	<b>36,152</b>	<b>54,210</b>	<b>50,950</b>
Net (borrowings)/cash	(211,191)	(223,165)	(164,785)	(202,374)	(166,529)
Free cash flow before dividends	29,803	31,663	10,255	36,385	27,776
Capital expenditure	20,862	34,088	25,095	17,723	27,536
Adjusted earnings per share	23.9p	18.6p <sup>2</sup>	16.9p <sup>2</sup>	24.5p <sup>2</sup>	24.1p <sup>2</sup>
Dividends per share	12.5p	12.0p	11.6p	11.2p	11.0p
Dividend cover	1.9	1.6	1.5	2.2	2.2

1. Excludes sale and termination of business and costs of fundamental restructuring and loss on disposal of fixed assets.

2. As a result of implementing FRS 19 'Deferred Taxation' the 2001 adjusted earnings per share has been restated. The comparatives for 2000, 1999 and 1998 have not been restated, as the effect is not material. The effect of this has been shown in note 31 of the accounts.

## Notice of Meeting

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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 22 May 2003 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 2002.
2. To consider the recommendation of the directors as to a final dividend for the year ended 31 December 2002 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 2002.
4. To re-elect as a director Mr. A. Walker who retires as a director by rotation.
5. To re-elect as a director Mr S. V. Cummins who retires as a director by rotation.
6. To re-elect as a director Mr R. H. Hunting 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-appoint as a director Dato' Lee Hau Hian.
9. To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:

That Deloitte & Touche be re-appointed auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.

10. To authorise the directors to determine the remuneration of the auditors.

### Special business

To consider, and if thought fit, to pass the following Resolutions, Resolution 11 being proposed as an Ordinary Resolution and Resolutions 12 and 13 being proposed as Special Resolutions:

11. That the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal value of £4,826,797 such authority to expire unless sooner revoked or altered by the Company in general meeting, on 21 May 2008 and being in substitution for any existing authority to allot relevant securities of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
12. That subject to the passing of the previous Resolution the directors be and they are hereby empowered 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 by the previous Resolution 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.

provided that this authority 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.

13. That the Company be and is hereby unconditionally and generally authorised 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 21,575,783;
  - 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.

By order of the Board

**R Atkinson**

**Secretary**

12 March 2003

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) 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 20 May 2003 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 20 May 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Yule Catto & Co plc

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Essex CM20 2BH

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