



# Leadership in speciality chemicals

Yule Catto & Co plc  
Annual Report for the year ended  
31 December 2004



YULE  
CATTO

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## Financial Highlights

for the year ended  
31 December 2004

# £31.0

million profit  
before taxation

(note a, b, c)

# 13.9p

adjusted earnings  
per share

# 13.4p

dividend per share

Good progress was made towards the long-term development of the group, with strong volume growth in polymers and further evolution in the pipeline for pharmaceutical active ingredients.

	Note	2004 £000	Total 2003 £000
Total turnover	a	549,444	550,114
Ebitda	a, b	66,871	96,474
Operating profit before amortisation	a, b	43,961	73,432
Total operating profit	a	28,492	57,985
Profit before taxation	a, b, c	31,011	59,914
Profit on ordinary activities before taxation	a	15,542	49,185
Profit attributable to shareholders	a	4,626	27,798
Adjusted earnings per share		13.9p	27.6p
Earnings per share – FRS3		3.2p	19.2p
Dividends per share		13.4p	13.0p
Net borrowings	d	187,641	177,276
Net cash inflow from operating activities		49,181	111,140
Free cash flow before dividends	b	13,344	62,979

Note:

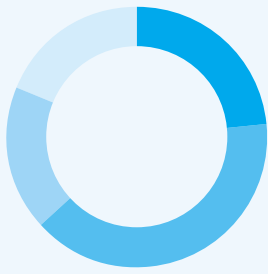
a Includes attributable share of joint ventures: turnover – £12,877,000 (2003 £10,487,000)

b As defined in note 33 to the Financial Statements on page 63

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

d See note 25 to the Financial Statements on page 59

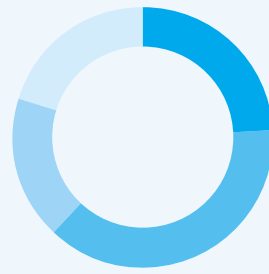
# Group Overview



## Turnover by Destination %<sup>a</sup>

<sup>a</sup> derived from note 1 to the financial statements on page 46

UK	23.4
Other Europe	39.8
Asia	18.0
Rest of World	18.8



## Turnover by Origin %<sup>a</sup>

<sup>a</sup> derived from note 1 to the financial statements on page 46

UK	24.1
Other Europe	37.9
Asia	17.8
Rest of World	20.2

### Polymer Chemicals

#### Key Products

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

#### Markets

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

### Pharma and Fine Chemicals

#### Key Products

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

#### Markets

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

### Performance Chemicals

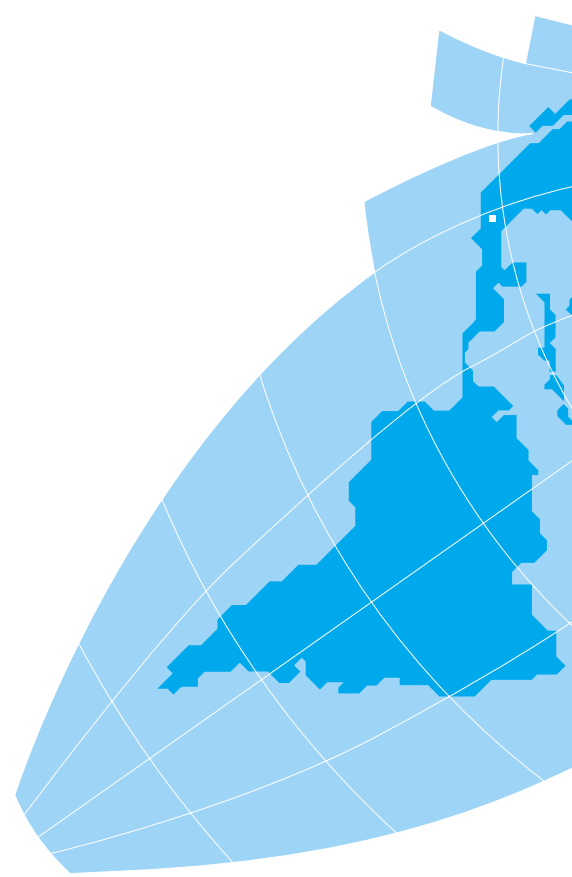
#### Key Products

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

#### Markets

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

### Principal Subsidiaries and Joint Ventures p64



£26.9

million operating  
profit for Polymer  
Chemicals

see note 1 to the financial statements on page 46

£16.2

million operating  
profit for Pharma and  
Fine Chemicals

see note 1 to the financial statements on page 46

£5.4

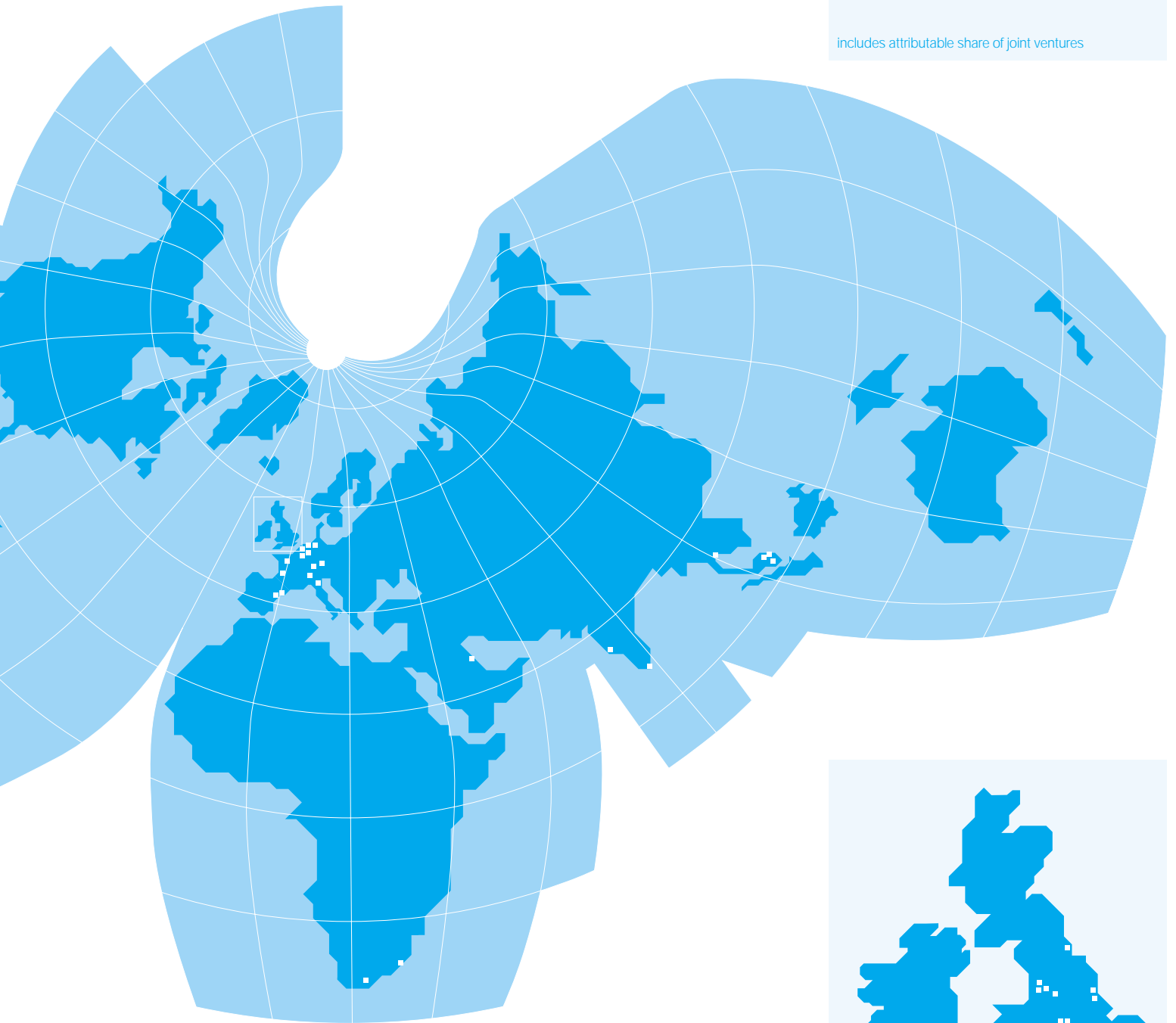
million operating  
profit for Performance  
Chemicals

see note 1 to the financial statements on page 46

£549

million<sup>a</sup> worldwide  
turnover

includes attributable share of joint ventures



# Overall we delivered a solid performance in the testing operating environment of 2004 and remain well positioned to deliver volume growth.

3.1%  
increase in dividend  
per share

## Turnover £million

2002	510.8
2003	550.1
2004	549.4

## Profit before tax\* £million

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

2002	52.6
2003	59.9
2004	31.0

After the exciting returns from the sale of omeprazole to the USA in 2003, we entered 2004 with the expectation that profit would be lower than the previous year. As things turned out, macro-economic conditions conspired to cause the price of oil to increase, leading to upward pressure on the input cost of monomers and a squeeze on margins. The weakening of the US Dollar also reduced the profitability of sales denominated in that and related currencies. The resultant impact on profit masked good progress that was made towards the long-term development of the group, with strong volume growth in polymers and further evolution in the pipeline for pharmaceutical active ingredients.

Total turnover of £549.4 million was in line with last year, however, at constant exchange rates, underlying growth was 5%. Profit before taxation has been struck at £31.0 million, which must be viewed as a solid achievement given the number of negative factors in play throughout the year.

The sharp escalation in the cost of monomers has been the most difficult issue faced by our operations. In total raw material costs for the Polymer division rose by £25 million in the year, requiring selling price increases to be revisited on a regular basis. The fact that an operating profit within £3 million of the prior year was delivered in such trying market conditions is a testament to the quality of our products and the skills of our management teams.

Movements in foreign currency exchange rates again had a detrimental bearing on results. Sterling appreciated against almost all of the currencies in which we have manufacturing operations, resulting in an adverse impact of nearly £2 million upon the translation of overseas results. The primary exposure on transactions is to the US Dollar, which weakened by a further 14%, creating an unfavourable effect of nearly £8 million.

The commitment to increase pension contributions by £6 million per annum has been reflected in the results for a full year for the first time in 2004. Higher payments from both the group and employees, a review of certain benefits and an improvement in stock market performance, saw the deficit on the pension fund reduce during the year.

Adjusted earnings per share of 13.9 pence were achieved. Long term prospects for the group remain sound, particularly should raw material price fluctuations abate. Your Directors therefore propose a final dividend of 7.9 pence per share taking the total for the year to 13.4 pence, an increase of 3.1% over the previous year. Subject to shareholder approval at the Annual General Meeting, the dividend will be paid on 4 July to members on the register at close of business on 3 June.

After a high level of capital expenditure in recent years, capital investment was lower in 2004 at £16.7 million, being 0.7 times depreciation. As anticipated, the high level of working capital reported at the half year has reduced. However, for the year as a whole there was upward pressure due to higher monomer costs, which increase the unit carrying value, together with a priority on securing raw materials during a period of restricted availability. The resultant free cash flow was £13.3 million and net debt at the year end was £187.6 million.

01



In September we issued £75 million of Guaranteed Senior Unsecured Loan Notes to institutional investors in the USA, which are repayable between 2012 and 2016. November saw the refinancing of a £60 million revolving credit facility with five European banks, expiring in November 2009. The two initiatives, together with £100 million of long term loans previously placed, provide long term security for our borrowing requirements.

In responding to a far from easy operating environment, the commitment and hard work of our employees around the world is our most valuable asset. We have experienced many new challenges during the year, which were addressed by customary resource and energy. On behalf of the Board of Directors, I should like to recognise the invaluable contribution of our employees and thank them for their efforts on behalf of Yule Catto.

Safety, health and environmental issues are of the highest importance within Yule Catto. In recent years we have seen a pleasing trend of improving statistics in this area, and to take matters a stage further we are fully committed to support the UK Chemical Industry Association through adoption of its recently published principles of sustainable development. This will broaden the categories targeted for improvement by introducing additional measures to reduce energy and waste. We will publish our objectives for the next five years in 2005.

02



Much effort has been directed at the detailed programme necessary to effect a smooth transition to International Financial Reporting Standards (IFRS), which became effective from 1 January 2005. The restated results for 2004, under IFRS, will be audited prior to their release on 8 September with the 2005 interim results. Following the introduction of IFRS, we anticipate greater volatility on reported earnings, in particular relating to the accounting for goodwill, financial instruments and foreign exchange.

**Outlook**

Volume continues to be strong within the Polymer business and the global infrastructure is in place to support further growth. Additional selling price increases are being implemented, which should alleviate some of the margin pressure experienced in 2004. We are well placed to sustain growth and exploit opportunities to return to historic levels of operating margin, but in the short-term results may be constrained by the impact of a tightness within the raw material supply chain.

01

With its food safety approval and unique colour, ultramarine is ideal for the colour coding of seeds for agricultural use.

02

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

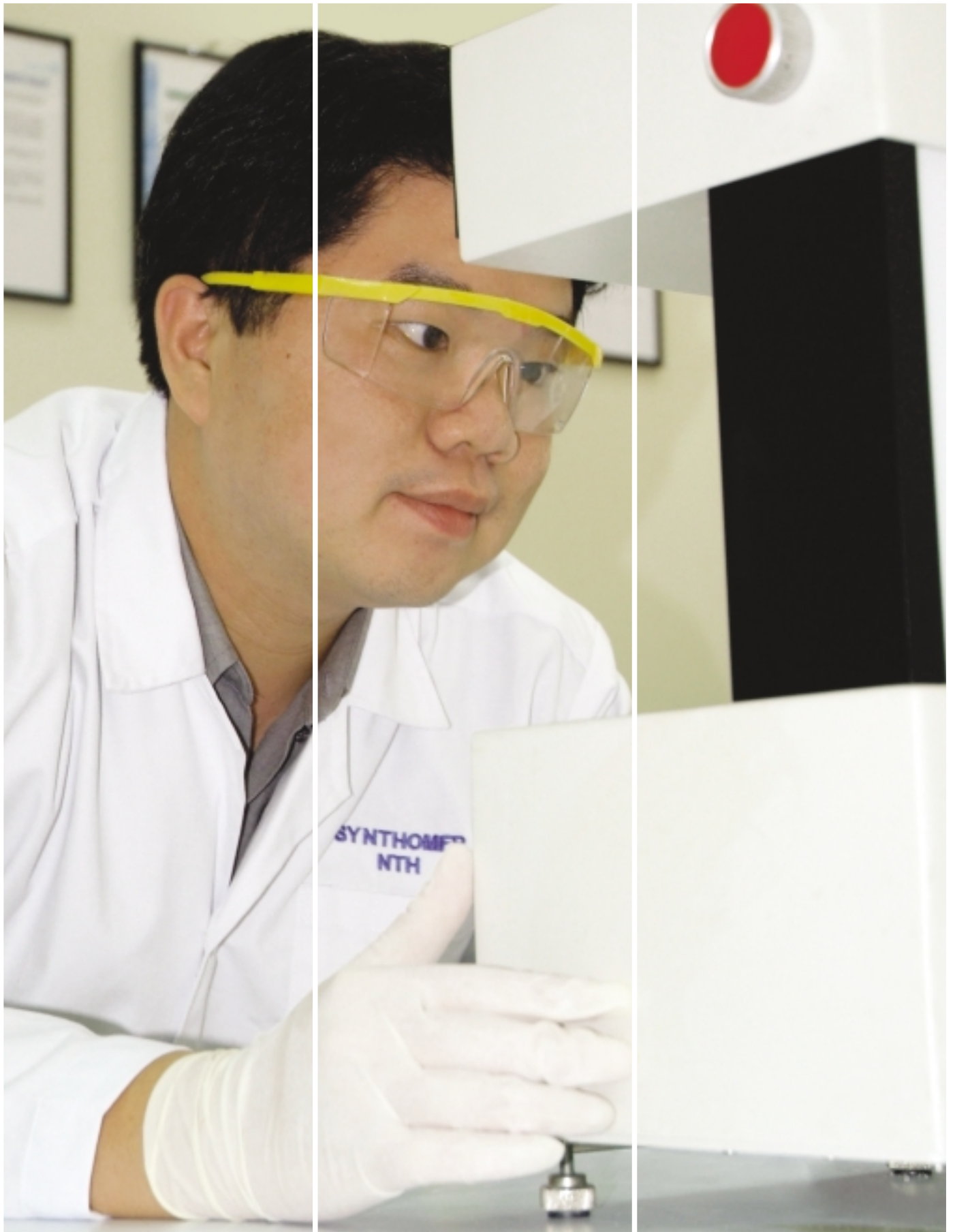
03

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

The strategy to increase the number of generic active pharmaceutical ingredients registered continues apace, with another eight drug master files targeted for filing in the USA in the current year. This will further improve the platform for the long-term development of the Pharma business. Delays in the approval of new chemical entities, together with adverse publicity surrounding certain products already in the market, is causing pharmaceutical companies to review their outsourcing requirement, thereby potentially creating uncertainty for us in the area of contract manufacturing.

Overall we delivered a solid performance in the testing operating environment of 2004 and remain well positioned to deliver volume growth. The investments of recent years in positioning manufacturing assets strategically and in strengthening our development facilities are in place. However, predicting the time scale within which these initiatives translate to results will depend on global factors affecting our suppliers and customers alike.

**Anthony Richmond-Watson**  
3 March 2005



Polymer  
Chemicals

## Volume continues to be strong within the Polymer business and the global infrastructure is in place to support further growth.

Polymer Chemicals is a major supplier of water based polymers and synthetic latices to the surface coatings, paper, adhesives and textile industries.

Polymer Chemicals major activity is the manufacture of aqueous dispersions and synthetic latices which form one of the cornerstones of Yule Catto's speciality chemicals product portfolio. Yule Catto companies have established an unrivalled reputation as leaders in polymer technology and are foremost manufacturers of polymer dispersions and related products to targeted sectors around the world.

Core products manufactured by Yule Catto include emulsions, SBR latices, industrial adhesives, polyvinyl alcohol, liquid polybutadiene, alkyd and polyester resins and pre-vulcanised natural latex. These products are essential raw materials for several industries including paper, carpets, surface coatings, plastics and textiles. Manufacturing facilities are located at sites throughout Europe, South East Asia, the Middle East and South Africa.

Against a backdrop of substantial supply-side difficulties, our Polymer Chemicals businesses did well to maintain progress towards our long-term strategic aims. Along with the pressure of rising oil-derived raw material prices throughout the year, there were unprecedented shortages of key monomers used in our products. This not only exacerbated price levels further, but also restricted the achievement of a number of identified growth opportunities. It is, therefore, pleasing to report record sales volumes, capacity utilisation improvements and the creation of new opportunities through product innovation.

The magnitude of the challenges facing our business in 2004 was most apparent in Europe as we endured serious raw material shortages. Fifteen force majeure were called by our suppliers as feedstock output was interrupted by oil cracker outages and plant production problems. As a consequence, an already tight supply versus demand balance came under strain and suppliers were forced either to allocate or temporarily halt supply. This had the effect of compounding the impact on raw material costs which were already moving upwards with the rise in crude oil prices. It was difficult to reflect the speed of change in input prices quickly in our selling prices with the result that margins declined across the year.

Recognition of these unusual circumstances and their implications has now been accepted by our customer base and selling prices are being increased, which will provide margin recovery as raw materials stabilise. The supply chain is likely to remain fairly tight but good work in changing polymer formulations and seeking out new suppliers means that supplies in the year ahead should be more secure. This will permit a resumption of the drive to achieve higher volumes for our newly established European facilities.

Turnover	■
£316.1 million	57.5%
Divisional operating profit	■
£26.9 million	55.4%



7%  
increase in divisional  
turnover



11%  
Volume growth  
of synthetic latex

Outside Europe, our businesses did not suffer to the same extent, primarily as supply lines are different. However, they did not escape the global impact of rising oil prices flowing through to higher raw material costs. Market acceptance was quicker and margins were maintained by virtue of successful price increase programmes. We were also able to benefit from the strategic capacity enhancements made in late 2003 in the Middle East and South Africa which, combined with the introduction of new polymers, provided the platform for improved results. Also playing its part was our Malaysian nitrile latex facility which attained new highs in terms of output. Further capacity expansion is now taking place in Saudi Arabia and we are progressing the design and planning stages for increased polymerisation facilities in Malaysia and Belgium.

The price of crude oil continues to be volatile and raw material input prices remain difficult to predict due to the tightness of supply. The most likely outlook is for more modest rises in coming months.

#### Synthetic Latex

Overall, volume of synthetic latex grew by 11% in the year. The achievement was greatly assisted by the Synthomer plant in Malaysia reaching full capacity and customers appreciating the benefits of indigenous production. Demand for dipping latex remains strong, with sales growing in excess of 15%. Support from our UK facilities has been initiated, as has the design study for a 35% increase in the capacity of the facility in Kluang. This will have the additional benefit of enabling our Malaysian plant to manufacture other products from our comprehensive range of SBR latices for sale throughout the region.

In Europe, our leadership in the carpet compound market was enhanced by the development of new customers. Unfortunately, in general, the carpet industry faced difficult conditions, particularly in the UK, where some traditional and well-known names have been forced to cease trading.

Freeing up capacity in Europe for construction and textile latices, generated by the transfer of dipping latex manufacture to Kluang, has enabled us to widen the customer profile in other latex activities. European latex volumes for speciality applications rose by 15% and only shortages of some specific raw materials restricted further growth. On the negative side, styrene monomer, one of the main raw materials, was the subject of a change from quarterly to monthly pricing by suppliers as a consequence of sharply rising benzene prices. Efforts to reflect this speed of movement in selling prices were only partially successful.



## Emulsions

Emulsion sales volume grew at over 8% across the group, which is a considerable achievement given the difficulty in meeting demand caused by many interruptions in the raw material supply chain. Positive as it was, the volume growth did not reach the high levels we had hoped for during the first full year of trading from our first emulsion facility in mainland Europe. Promotional activities were fully reactivated in the fourth quarter, with promising results as efforts to improve raw material supplies began to bear fruit. Significant business opportunities exist and planning for additional capacity in Mouscron, Belgium is in progress.

In the Middle East, record sales volumes and profits were achieved by our joint venture, DCI-Harco. Yet another new reactor is in the course of installation to meet continued strong demand from customers in Saudi Arabia and adjacent countries.



The strength of the Rand affected exports by our South African subsidiary, but demand from the local economy more than compensated. The performance was aided by the introduction of new polymers for construction, adhesives and surface coatings to enhance the product portfolio.

Our Far East group also had a successful year in emulsions. Closer co-ordination between regions, involving technical exchange, allowed Revertex Malaysia to configure its production facilities to manufacture an increased range of speciality emulsions. Local economies remain reasonably robust and management deployed close technical contact with customers to aid the reaction to raw material price rises through new product introductions.

### Polyvinyl Alcohol/Acetate

A debottlenecking programme enabled improved capacity utilisation and with the PVC industry, the main outlet for Synthomer's alcotex range, showing growth, the sales of polyvinyl alcohol were at record levels. Particularly encouraging was the development of new business in Asian markets, where the benefits of the unique technical properties of our alcotex primary stabilisers found favour in both rigid and flexible PVC resins. A large proportion of sales are exported from Europe to US Dollar denominated territories and currency weakness created pressures upon margins. Recovery through selling price increases is being achieved, but with the inevitable lag in implementation.

Polyvinyl acetate sales held up well despite disappointing sales to the automotive sound damping market. The introduction of new products opened up a new field for Synthomer, namely low profile polyester additives and we expect to build on sales in the USA.

**01** The new nitrile facility in Kluang, Malaysia – Synthomer Sdn Bhd – is operating at full capacity.

**02** Emulsion Polymers are the base for water based decorative emulsion paints.

**03** New storage facilities form part of the expansion of the DCI Harco manufacturing site.

**04** A typical application for polyester composites, a new market for our Specialities PVAc business.

### Other Speciality Products

In April, Revertex Malaysia joined forces with Kurian Abraham Private Ltd to form a joint venture, Revertex KA Latex (India) Private Ltd, to manufacture our speciality natural rubber latices in India. India is fast becoming a major producer of natural rubber and is already No.3 in the world. We envisage that the combination of an indigenous raw material source and our well-established technology will provide a sound extension to our natural rubber activities. The existing natural rubber business in Malaysia and Thailand showed good growth with sales for condom manufacture increasing in China and the USA.

Revertex Finewaters' position in the manufacture and sale of adhesives in Malaysia has been enhanced with a number of new products added to the already wide product range. Furthermore, export sales improved, particularly to Vietnam, Hong Kong, Thailand and Pakistan. However, the company was not immune from rising input costs and profitability fell back from the high levels of previous years.

Sales of alkyd resins in Asia reached record levels. Not only did we see organic and new customer growth from our own promotional activities, but benefits also accrued from an unexpected surge in demand as other suppliers experienced production problems.

New technical initiatives in the Lithene polybutadiene business resulted in a 23% growth year on year. The growth is expected to continue and a capacity enhancement project is programmed for 2005.



Pharma and  
Fine Chemicals

# The strategy to increase the number of generic active pharmaceutical ingredients registered continues apace.

Pharma and Fine Chemicals manufacture generic and ethical pharmaceutical actives, pharmaceutical intermediates and a range of fine chemicals for use in flavours and fragrances. Together they form a substantial base from which to grow rapidly in the pharmaceutical and fine chemical sector.

UQUIFA is now a major player in the pharmaceutical sector through the establishment of close partnerships with many of the world's leading pharmaceutical companies to manufacture ethical pharmaceuticals, actives and intermediates. Projects and product development are managed by headquarters based in Barcelona with manufacture located at sites in Spain, Mexico and Italy.

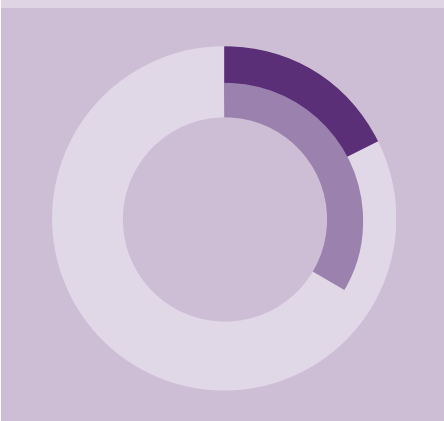
The flavours and fragrance business comprises of two facilities, located in UK and the Netherlands. They supply speciality synthetic aroma and fragrance chemicals to a global market. Customers include the major flavour and fragrance companies as well as leading manufacturers of household products.

Sales by our Pharma & Fine Chemicals businesses fell by 13.5%, which was unsurprising given the significant changes that took place in late 2003 in the omeprazole market in the USA. Margins were fairly consistent throughout the year, delivering a healthy level of operating profit.

The inevitable effect on selling prices of omeprazole becoming fully generic in the USA was a key feature of 2004. Development of other territories, however, enabled volume to be very close to the exceptional shipments of 2002. Zegerid™, a new patented immediate release version of this important proton pump inhibitor, was launched in October. An exclusive long-term supply contract is in place with our customer, Santarus. Close to the end of the year a larger dose variant received FDA approval, which should further enhance sales opportunities.

The fine chemical market for pharmaceuticals is passing through an interesting period as major drug manufacturers face an increasingly tough regulatory landscape. The cornerstone of our strategy continues to be the development of an extensive generic portfolio. Last year, this advanced through the filing of eight drug master files in a range of therapeutic categories in the important US market. Plans are in hand to continue this accelerated programme of filings in 2005. Investment to support our strategy will come on stream in the coming months, with a new technology centre in Spain and the completion of a new pilot plant in Italy.

Turnover	■
£96.9 million	17.6%
Divisional operating profit	■
£16.2 million	33.5%



Eight  
drug master files  
registered in the USA

## Pharma and Fine Chemicals continued

Major contracts in the ethical market have been secured, but uncertainties within our customer base are lengthening approval times and delaying project start dates. A number of clinical phase projects were successfully manufactured and a potential anti-Parkinson product in phase 2b is scheduled to move to industrial quantities in the coming year.

Challenges remain as ever, including the effect of a weakening US currency on margins of products sold from our European manufacturing base. Looking forward, however, we retain confidence in our development skills and the benefits of concentration on cost efficient plants and processes. The outlook for product approvals and regulatory permissions in the ethical sector may, in the near term, have an impact on the overall rate of progress achievable, but our generic development programme is gathering pace. Recently announced changes to EU rules to bring them closer to those of the US regarding process development ahead of patent expiry, should further assist in the pursuit of this strategy.

Trading for our flavour and fragrance activities was stable. Initiatives directed towards improving the operating cost base proved fruitful.

### Pharma

The Uquifa operations in Spain continued to enjoy the benefit of good volumes of omeprazole. This was particularly true of sales of pelletised material, which grew by over 50%. New equipment is at present being installed at the Sant Celoni facility to meet the increased customer demand for this added value variant.

Margin erosion for ranitidine was significantly diminished, assisted by recent work on process efficiency and, pleasingly, substantial volume growth was achieved in a competitive market. Positions within the antiviral, antibacterial and antidepressive sectors began to emerge with products whose patent expiry was some years ago. A product to the veterinary market also made good progress which, all in all, added up to a strong year for volume.

50%  
growth in sales of  
pelletised omeprazole



02



03



## Pilot plant busy in the months ahead

New business gained in the ethical sector stretched our development and engineering teams which successfully installed new facilities against a tight deadline. As well as long term contracts, this equipment brings new technologies to offer to our customer base. The pilot plant remains busy with good loadings in the months ahead.

Following the decontamination of the cephalosporins plant in Italy, a number of new products were introduced and contracts received. However, the regulatory and technical approval process has taken much longer than anticipated. In response, products are in the process of being moved from Spain and Mexico, where plant occupancy is at a high level, and a close control of operating costs and efficiencies is being maintained. Validation batches of new products using different technologies, only sited in our Italian plant, are scheduled in the early part of 2005.

04



Sales from our Mexican facility were strong, led by significant volumes of ethical intermediates to large pharmaceutical companies. As anticipated, volumes of the antibacterial ciprofloxacin started well with patent expiry mid-year in the USA. Contribution was ahead of expectations, but far from that seen for other products turning generic owing to the number of competitors at launch. Sales of an antipsychotic, zolpidem, are progressing well and we are well placed with major generic houses in the USA where it is scheduled to come off patent in 2006.

01

Newly completed Pharma Research Centre at Sant Celoni in Spain.

02

Substantial volume growth of ranitidine achieved in a competitive market.

03

Titration analysis at PFW, used to determine impurities in water.

04

High impact Aroma Chemical applications from Oxford Chemicals.

### Flavour and Fragrances

The pace of consolidation within the world's flavour and fragrance market abated during the course of the year. Unit sales prices continued to come under pressure from Far Eastern competition, but the higher quality of our products is showing signs of combating this threat.

Oxford Chemicals delivered a robust performance, with good profitability re-established, assisted by the cost-control measures implemented the previous year. The company's high level of expertise in sulphur chemistry is being deployed in support of Uquifa through the manufacture of pharmaceutical intermediates. New technologies for product manufacture are also being explored through collaboration with universities and a priority is being given to identifying sources of starting material for natural flavours.

The PFW fragrance business had a good year with new business secured in emerging markets. Good inter-group collaboration is seeing the larger scale facilities of PFW being used in support of Oxford Chemicals to reduce the manufactured cost of some key volume products.



Performance  
Chemicals

# Turnover for continuing businesses was sustained at close to 2003 levels, despite these market conditions, demonstrating a successful defence of market share.

Performance Chemicals companies supply a wide range of speciality chemicals including colorants, metal salts, industrial cleaning products and engineering maintenance chemicals. Other activities include aerosol filling and automotive preparation services.

Colorants are a major focus of activity including the manufacture of pigments, and intermediate products. Examples include hair colour intermediates, ultramarine pigments, colour dispersions.

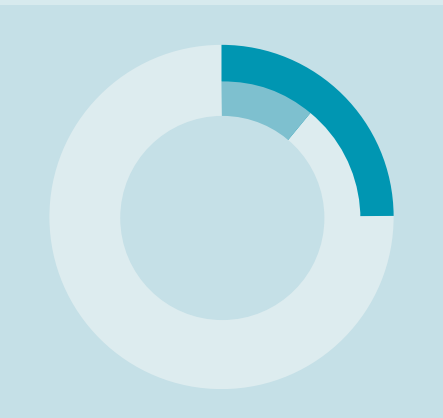
Holliday Pigments is the world's largest manufacturer of technical grade ultramarines and has over 65% market share. Ultramarines are used extensively in the coloration of plastics, cosmetics and surface coatings.

James Robinson is a leading supplier of hair dye intermediates, providing customers with technical solutions on the development and formulation of new hair colours. Investment in India has extended the range of photographic products whilst product innovation has created market leadership in the photochromic sector.

A mixture of adverse factors affected our Performance Chemicals businesses throughout the whole of 2004. This cumulatively resulted in a halving of operating profit from that achieved the previous year, which was disappointing. In particular, the sharp fall in the US Dollar against Sterling and Euro hit margins in the second half. Aggressive competition from overseas for sulphur derivatives and uncertainty in the timber treatment market were also a feature. Production output for ultramarine has steadily been re-established with the successful commissioning of a new flue gas desulphurisation unit (FGD) in France, replacing the one that had been destroyed by fire. Better fortunes were experienced with specialised intermediates directed at the personal care, photographic and houseware markets.

Turnover for continuing businesses was sustained at close to 2003 levels, despite these testing market conditions, demonstrating a successful defence of market share. In addition, the assault on operating costs continued, with substantial restructuring charges once more incurred. Progress was achieved in the construction of new cost effective facilities in pursuit of restructuring to deliver further efficiencies.

Turnover	■
£136.4 million	24.9%
Divisional operating profit	■
£5.4 million	11.1%



£136  
million divisional  
turnover



24%  
rise in sales of the  
photochromics  
business

#### Inorganic Chemicals

Uncertainty over the direction of our customer base in responding to the move away from copper chrome arsenate timber treatment to more environmentally acceptable systems impacted unfavourably. Ways of addressing this issue are under development, using new approaches to providing copper-based products for supply throughout Europe. High purity copper chromite for catalyst manufacture has been added to the range, with good customer acceptance.

Sales of tin products for use in non-toxic flame retardants, insulating glass systems and pharmaceutical manufacture showed good growth. The impact of a rising tin price was well managed. Iodine sales also delivered good results as the more recently introduced products gained market penetration.

Sulphur dioxide derivatives saw considerable market instability, due to pressures from competitive activity. Market share in the UK and Ireland has been successfully defended by focusing on good logistics and high level customer service. A new transport fleet is being introduced through outsourcing to a highly experienced logistics company. Changes were also instituted to the distribution network which will positively impact upon margins attainable.

To reflect the changed trading conditions, employee numbers have been reduced, with the result that William Blythe reported a loss for the year as a whole. The reorganisation of operations, coupled with product introductions and marketing initiatives, place the business in a better position going forward.

#### Organic Chemicals and Pigments

James Robinson delivered a pleasing performance across all of its activities. This result came from a combination of the benefits accruing from the restructuring of recent years and good demand in the market for our speciality products. Opportunities arose for higher volumes of our market-leading hair dye products from the merger of major customers. Sales have been strong and changes to the distribution network in key territories will benefit market penetration. Colour developer sales experienced good growth and our Indian joint venture moved into decent profitability. Investment is in progress in India to extend the range of intermediates manufactured. The photochromics business saw sales rise by 24% as new products were introduced and our proprietary neutral molecules gained wider acceptance. The alignment of the manufacturing facilities with market needs is progressing, underpinning results going forward.

The successful commissioning of the state-of-the-art FGD unit at our ultramarine facility in France provided the opportunity to rebuild sales volume to the level seen in 2002. The unit is performing well and the investment has received accolades from the French environmental authorities. Over half of all ultramarine sales are made in US Dollars and the weakening of that currency has a marked effect on operating margins. To combat this, selective price increases have been introduced, as has a review of the cost base. Projects to refine the manufacturing process have also recently been implemented. These are delivering improvements in quality and yield.

The world demand for ultramarine pigment continues to grow, with China and the Far East being particularly strong. In addition, the new application development programme of recent years is starting to see the number and quality of approvals increasing. The re-establishment of production levels will now enable growth in volume from our global customer base to be fully supported.

# Demand

for ultramarine pigment continues to grow

**01**  
Ultramarine developments from Holliday Pigments now offer new coating effects for cars where a unique colour is required.

**02**  
William Blythe manufactures a range of products used in the formulation of a variety of timber treatment formulations.

**03**  
James Robinson is a world leader in the manufacture and supply of dye intermediates for hair colouring products. The product offer is supported by technical service and formulation expertise.



## Other Activities

Demand from the industrial and retail sectors for our consumer chemicals products was relatively flat holding back efforts to grow sales. Results improved, but less than was anticipated from reductions implemented in the operating cost base.

Holliday Dispersions saw a difficult year, particularly in France, where customers still suffered the impact of depressed market conditions. In the UK, sales levels were successfully sustained, but margins came under pressure as raw material cost increases took effect in the second half.

The car preparation services offered by Autoclenz experienced buoyant trading and the business delivered new records for performance. This was assisted by greater levels of efficiency and pleasing growth in new development areas.

Brencliffe was impacted by some changes in its retail customer base in the early months of 2004. As the year unfolded, a high level of product innovation enabled this small company to return to forward momentum.

# Our aim is to continue to act responsibly and transparently on behalf of all our stakeholders.

2004

... our acceptance  
into "FTSE4Good"

"Managing the effects that our activities have on safety, health and the environment remains a fundamental part of how we conduct our business.

We are committed to improving our performance in this crucial area. To further emphasise its importance, we have decided to adopt the UK Chemical Industries Association's principles of sustainable development throughout the whole of Yule Catto. These will be progressively implemented over the coming years.

Our aim is to continue to act responsibly and transparently on behalf of all our stakeholders. We firmly believe that sustainable development is crucial to our long term development and our continuing ability to invest in our people and businesses within the communities in which we operate. Recognition of this in 2004 was our acceptance into "FTSE4Good", the London Stock Exchange's listing for companies committed to corporate social responsibility.

The good performance over the past five years provided much satisfaction, but we are far from complacent and seek to improve continuously in all areas, supported by well established management processes.

This report sets out the strategic direction that is being followed, our past performance and future plans. A well defined sustainable development implementation plan has been established, led by senior executives with the full support of the Board and Group Executive Committee.

We hope you find this report interesting and informative, and we welcome comments and questions on any aspect of our sustainable development programme."

Alex Walker, Group Chief Executive, 3 March 2005

The good performance over the past five years provided much satisfaction, but we are far from complacent and seek to improve continuously in all areas, supported by well established management processes.

Five  
years of improving  
performance

#### Our Strategy Leadership and Policies

The Board of Directors is responsible for establishing the safety, health & environmental (SHE) and sustainable development (SD) policy for Yule Catto. The Group Chief Executive has board level responsibility for SHE/SD issues and, assisted by the Group Safety, Health and Environmental Manager and Group Personnel Manager, has overall responsibility for policy implementation throughout the group. However, primary responsibility lies with Divisional Chief Executives and the executives within each business. Senior executives from within the Yule Catto group are actively involved with the Chemical Industries Association in the key areas of sustainable development.

#### Management Systems and Responsible Care

Yule Catto is a signatory to Responsible Care and this forms the basis of our worldwide SHE management system. We require all our businesses to demonstrate continuous SHE improvement, which is measured against agreed targets.

Performance is monitored through a comprehensive audit process, which examines management practice and operational performance across a range of SHE, product stewardship and loss control activities at our worldwide sites on a two yearly cycle.

The outcome of these audits, together with issues identified by individual businesses, result in clear annual improvement plans for each site. Regular reports are prepared for the Board and Executive Committee, setting out SHE performance and other relevant information.

SHE and sustainable development are integrated into business strategies via the annual budget process and within the longer term strategic planning processes. The significance of any SHE/SD related risks to the delivery of business goals is examined during the biannual business risk management review conducted by the senior management team of each business. The review process is described in the Corporate Governance report.

The SHE/SD strategy is supported by extensive, state-of-the-art, web-enabled monitoring and reporting information systems.

2004

saw a further decrease in reportable safety incidents

A well defined sustainable development implementation plan has been established, led by senior executives with the full support of the Board and Group Executive Committee.

#### Social Responsibility Managing Human Resources

As an international chemical manufacturing company that relies on the skills of its employees, the group and its subsidiaries are fully committed to operating in a socially responsible manner throughout all its operations.

We have established clear standards of business conduct and ethical behaviour as an integral part of our business processes on issues such as corruption and anti-competitive activities, which all our companies are required to comply with in conjunction with local legislative requirements.

The group is also conscious of its responsibilities to its employees and the wider community in which the group operates. Consequently, our companies are currently establishing clear standards, codes of conduct and processes to discharge these obligations with due regard to local legislation and employment practices and with consideration towards local cultures.

The objective is for all group companies to work towards creating a working environment free from discrimination, which encourages employees to participate in the development of the business and in the acquisition of skills and knowledge for the benefit of employees, the company and the wider community.

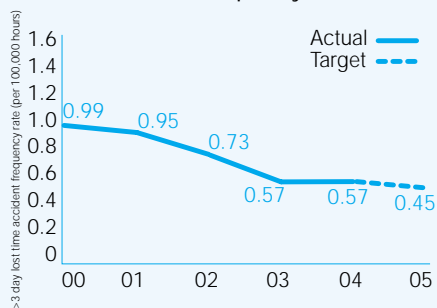
Operating companies are responsible for developing their own strategic plans to comply with group policy on social responsibility with due regard to local legislation and the cultural environment. To assist in the consistent and effective introduction of the group policy in all companies, a steering group chaired by the Group Personnel Manager has been established.

In addition the group is in the process of developing an auditing process and information system to help monitor and assist our progress towards achieving these standards, which will be piloted in 2006 and deployed fully in 2007.

# 2005

expects to deliver further improvements

## Lost time accident frequency rate



## Reportable safety incidents

2000	66
2001	26
2002	26
2003	4
2004	2

## Managing Health & Safety

A critical element of social responsibility is our commitment to preventing harm or ill health to our employees and others affected by our business.

Our aspirational goal continues to be zero accidents and incidents, and we strive to achieve this goal through close management attention to health & safety and through the use of behavioural safety management techniques.

The key metric used to assess our performance is the >3 day lost time accident frequency rate, and the graph shows how we have improved for the period 2000-2004. The plateau in our overall improving performance in 2004 is disappointing but we have recently vigorously reinforced the health and safety message throughout the group and expect to deliver further improvements in 2005. Key elements of our approach include:

- Systematic processes to report, investigate and share the lessons arising from all accidents, incidents and near misses;
- Recognising the achievement of health & safety performance targets through personal rewards where appropriate;
- Sustained focus on our comprehensive management and operational audit process; and
- Close management and monitoring of agreed improvement actions.

## Loss Control and Process Safety

Yule Catto is actively involved at a UK and European level in process safety management, particularly through its involvement in the European Process Safety Centre. We have been sponsoring the UK Health & Safety Executive DOSE/AWARD project over the last two years on the control of potentially environmentally harmful releases during uncontrolled venting from batch processes, and the final report is due during 2005. As a Responsible Care company, we will ensure this report is made widely available within the chemical industry.

We are pleased to have maintained a low level of safety reportable incidents, as illustrated. Neither of these incidents resulted in serious injury or business interruption.

# Our global warming burden per production tonne in 2004 fell by 24% and our energy consumption fell by 15%.

## 2004

saw a greater understanding of the impacts of REACH

### Reportable environmental incidents

2000	49
2001	44
2002	22
2003	4
2004	7

### Energy consumption

(GigaJoules used per production tonne)

2000	4.8
2001	5.6
2002	5.1
2003	4.5
2004	4.1

### Product Safety Management Our Approach

During the course of 2004, we undertook a review of our product stewardship practices across the entire group, using external consultancy support. This has identified many examples of good practice within group companies, but not unexpectedly it also identified a number of deficiencies. During 2005, we are committed to addressing these weaknesses and ensuring that we share information on good practice effectively and efficiently between our businesses.

### REACH

In common with the whole European chemical industry, Yule Catto welcomes the forthcoming Registration, Evaluation and Authorisation of Chemicals Regulations (REACH), which are intended to streamline the process by which new and existing products can be registered, assessed and marketed. However, it is essential that a practical and workable system is established.

During 2004, a greater understanding of the business impacts of REACH has been achieved. The regulations are scheduled to be implemented during 2006, and we are currently awaiting the outcome of a number of projects, run jointly by industry and regulators, which will set out the precise operational requirements of REACH. Yule Catto actively continues to contribute to these activities both directly and via European chemical industry trade bodies.

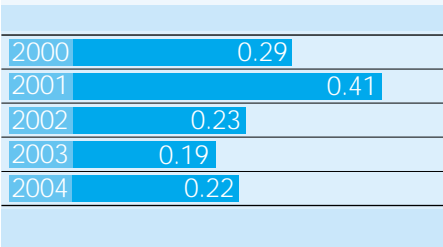
### Environment Responsibility

Within Yule Catto, our aim is to seek to continually reduce the environmental burden arising from our operations, and to have no reportable environmental incidents. During 2005, we are committed to the establishment of demanding, but achievable, reduction targets through to 2010 for a range of key environmental and resource based criteria.

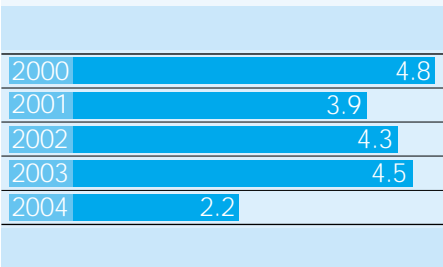
### Reportable Environmental Incidents

Incidents where a formal report has been submitted to the environmental authorities rose slightly from 2003, as illustrated. Of the seven reported incidents, three occurred at a single site, which, although using the best available techniques, is collaborating with the environmental authorities to further reduce emissions. Whilst accepting that our performance must improve, the underlying performance as measured by reportable environmental incidents remains stable, and continues the sustained reduction we have achieved over the last six years.

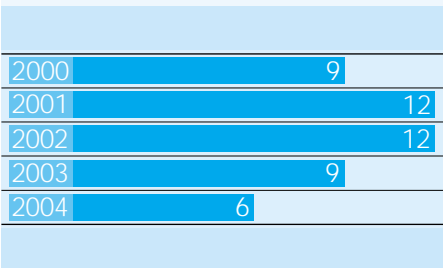
**Global warming burden**  
(tonnes carbon dioxide equivalent release per production tonne)



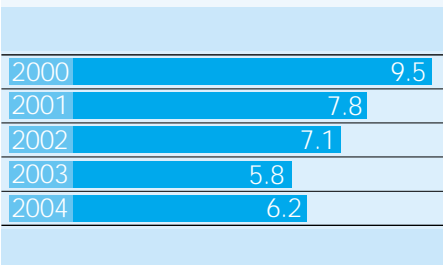
**Atmospheric acidification burden**  
(kgs sulphur dioxide equivalent released per production tonne)



**Hazardous waste disposed to land**  
(kgs waste per production tonne)



**Water consumption**  
(m<sup>3</sup> waste per production tonne)



**Global Warming**

The main contribution to global warming within Yule Catto is from the release of CO<sub>2</sub> due to the combustion of fossil fuels and indirectly from using electricity. Whilst there has been a small increase during 2004 due to changes in product mix, our commitment to energy efficiency has resulted in our global warming burden per production tonne in 2004 falling by 24% and our energy consumption falling by 15%, both expressed per tonne of product manufactured against our baseline year of 2000.

**Atmospheric Acidification Burden**

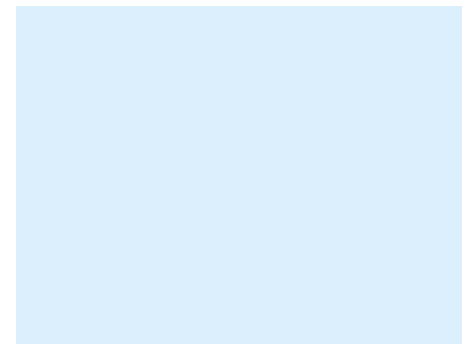
The Group has invested in state-of-the-art environmental technology to reduce acid gas emissions at our factories in France and the UK, both of which have either won or have been short listed for national prizes for environmental excellence. Whilst there was an increase in 2002/3 due to a fire at the factory in France, there has been a significant reduction in 2004 and an overall reduction in atmospheric acidification of 54% per tonne of product manufactured since 2000.

**Hazardous Waste**

It is very pleasing to report that the waste minimisation and process redesign efforts of our technical and operations staff has continued the reduction in the amount of hazardous waste produced, which, since 2000, has reduced by 33%. We will continue to concentrate on this crucial area during 2005.

**Water consumption**

In many parts of the world, water is becoming a scarce resource. We have focused significant attention on reducing the amount used through water minimisation projects, product redesign and recycling. Since 2000 (our baseline year) we have reduced water consumption by 35% per tonne of product manufactured.



## Executive Directors

### A. Walker – Chief Executive

Joined the Group in 1972. He was appointed to the Board in 1986 and is Chief Executive. He is a non-executive director of Rotork plc. Age 58.

### S. V. Cummins – Finance Director

Joined the Group in 1999. He was appointed to the Board in 2000 and is Finance Director. Age 42.

## Non-Executive Directors

### A. E. Richmond-Watson# – Chairman

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 63.

### Dr M. J. Peagram – Deputy Chairman

Joined the Board in 1998 as Deputy Chairman and was formerly Chairman of Holliday Chemical Holdings PLC. Age 61.

### 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 52.

### R. H. Hunting\*+

Joined the Board in 2000. He is Chairman of Hunting PLC. Age 58.

### Dato' Lee Hau Hian#

Joined the Board in 1993 and stood down in 2000 to become an alternate director. He re-joined the Board in 2002. He is a director of Kuala Lumpur Kepong Bhd and Batu Kawan Bhd. Age 51.

### 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 54.

### G. Montezemolo\*+\$

Joined the Board in 2001. He is a director of A T Kearney, management consultants. Age 63.

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

Joined the Board in 1998. He was Chairman of WSP Group plc until 30 June 2003 and has been a director of several other listed companies. He is a member of the Institute of Chartered Accountants of England and Wales. Age 65.

### P. S. Wood\*+\$ – Senior Independent Director

Joined the Board in 2001. He is Chief Executive of The BSS Group PLC and Chairman of White Young Green plc. He is a member of the Institute of Chartered Accountants of England and Wales. Age 57.

\* Member of Audit Committee

+ Member of Nomination Committee

\$ Member of Remuneration Committee

# Standing for re-election at 2005 AGM

## Registered Office

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

## Secretary

Richard Atkinson

## Bankers

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

## Merchant Bankers

Merrill Lynch International

## Stockbrokers

Merrill Lynch International

## Registrars

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

## Auditors

Deloitte & Touche LLP

## Solicitors

Linklaters  
Hammonds  
Pinsents

# Report of the Directors

## for the year ending 31 December 2004

The directors submit their annual report and the audited financial statements for the year ended 31 December 2004.

### Results and dividends

	£000
Profit attributable to shareholders	4,626
Interim dividend	(7,936)
Final dividend	(11,440)
Retained profit for the financial year	(14,750)

The interim dividend of 5.5p per share was paid on 19 November 2004. The directors recommend a final dividend of 7.9p per share payable on 4 July 2005 to those shareholders registered at the close of business on 3 June 2005. A dividend re-investment plan is available to shareholders and this alternative will continue to be offered until further notice.

### Principal activities and review of operations

The principal activities of the company and a review of its operations are set out on pages 6 to 23.

### Fixed assets

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

### Directors

The present membership of the Board is shown on page 24. All directors served throughout the year.

Mr A E Richmond-Watson, the Hon A G Catto, Dato' Lee Oi Hian and Dato' Lee Hau Hian retire by rotation and will be seeking re-election at the forthcoming Annual General Meeting.

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

Details of directors' emoluments and the interests of each director in the share capital of the company are shown in the Remuneration Report on pages 32 to 37.

### Share capital

During 2004 no shares were issued or re-purchased. A total of 73,611 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 19 February 2005, 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

### Employment policies

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

### Authority to purchase own shares

The company has a general authority, which expires at the conclusion of the 2005 Annual General Meeting, to make market purchases of not more than 14,480,391 of the company's ordinary shares in accordance with the terms of the special resolution passed at the 2004 Annual General Meeting. A resolution will be tabled at the 2005 Annual General Meeting to give the company general authority to make market purchases of not more than 14,480,391 of the company's ordinary shares.

### Employee involvement

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

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

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

### UK pension funds

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

### Creditor payment policy

The group's policy is to make payments to creditors and other suppliers in accordance with terms of payment agreed at the time the contract of supply is made, subject to all the terms and conditions of the order being satisfied by the supplier. Trade creditor days of the company for the year ended 31 December 2004 were 33 days (2003 27 days) based on the ratio of trade creditors at the year end to the amounts invoiced during the year by trade creditors.

### Charitable donations

Charitable donations in the year amounted to £116,000 (2003 £78,000). There were no political donations during the year.

### Auditors

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

### Annual General Meeting

The Annual General Meeting will be held at noon on Thursday 26 May 2005 at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR.

By Order of the Board

**R Atkinson**

Secretary

3 March 2005

This is the first compliance statement to be produced in relation to the new Combined Code on Corporate Governance ("the Code") which was published in July 2003 by the Financial Reporting Council (and applies for reporting years beginning on or after 1 November 2003).

## Statement of Compliance

The company considers that it has complied throughout the financial year ended 31 December 2004 with the provisions set out in Section 1 of the Code.

## Application of the Code

The main and supporting principles of Section 1 of the Code were applied as follows:

## The Board

### Operation of the Board

The activities of the company are controlled by the Board which currently comprises two executive directors and nine non-executive directors. 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. The non-executive directors all have wide business and boardroom experience gained in a broad range of commerce.

The Board has reserved to itself a schedule of matters which includes setting long term objectives for the group and the strategies to be employed in achieving them, setting policies in the areas of safety, health and the environment, recruitment and employment, risk management and treasury and, subject to materiality thresholds, decisions on the raising of capital, financial commitments, acquisitions and disposals and the prosecution, defence and settlement of litigation.

The Board meets quarterly to review current and projected performance and to determine strategic issues. 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 Board has established Audit, Nomination and Remuneration committees which are discussed below.

The Board has delegated to the Chief Executive responsibility for the development and preparation of the business plan for the group and the annual group budget for recommendation to the Board. As the senior executive director, the Chief Executive is responsible for all aspects of day to day operational control of the group and execution of the group strategy. The Chief Executive has established and chairs an Executive Committee (whose other members are the divisional chief executives, the Finance Director and the Company Secretary) to assist him in the performance of his duties and which meets once a month. The Chairman receives the minutes of the Executive Committee and all directors receive a monthly trading summary and commentary.

### Board membership and balance

The Chairman, Deputy Chairman, Chief Executive and senior independent director are identified on page 24. The chairmen and members of the Audit, Nomination and Remuneration committees are identified below. Mr P S Wood replaced Dr M J Peagram as the Senior Independent Director with effect from 1 June 2004.

The Board met on four occasions in 2004 and in addition all Board members attended an off site two day strategy review forum together with the group's senior managers. All Board and Committee meetings were fully attended during 2004 except for the Board meeting held in May when Mr Montezemolo was unable to attend.

The Board considers the following non-executive directors to be independent in accordance with the provisions of the Code: Mr R H Hunting, Mr G Montezemolo, Dr M J Peagram, Mr P J Welch and Mr P S Wood. Notwithstanding Dr M J Peagram's previous executive positions with Holliday Chemical Holdings PLC (which the group acquired in 1998) and resultant residual share options and his shareholding in the company he is, after careful consideration and assessment of his performance, regarded as entirely independent in character and judgement.

## Performance evaluation

Performance evaluations of the Board, its committees and its directors were carried out in 2004 by the following internal processes:

- an assessment of the performance of individual non-executive directors is carried out by the Chairman through a rolling programme of one-to-one discussions, using performance evaluation questions as the centre piece for those discussions. Every non-executive director is assessed in this way once a year;
- the performance of the executive directors is reviewed annually at a meeting of the non-executive directors chaired by the Chairman in September;
- a meeting of the non-executive directors (in the absence of the Chairman) chaired by the senior independent director is held annually in December to evaluate the performance of the Chairman, taking into account the views of the executive directors;
- the Board and its Committees carry out an annual self assessment of performance led by the Chairman and the chairman of each committee respectively. The results of assessment questionnaires completed by those chairmen are reviewed by the relevant committees and the Board and are shared with and discussed by the Board as a whole at its meeting in September each year.

Non-executive directors are appointed for three year terms. Those non-executive directors who have served longer than nine years on the Board are subject to annual re-election by shareholders with other directors subject to re-election at least every three years.

## Shareholder communications

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 has adopted a set of shareholder communication principles in order to ensure that Board members develop an understanding of the views of the group's major shareholders. These principles require the Chairman to be present with the Chief Executive and the Finance Director at sufficient shareholder presentations and meetings so that he fully understands the issues and concerns of major shareholders. The Chairman reports on shareholder relations at each Board meeting. Communications with shareholders relating to corporate governance matters are conducted by the Chairman with the assistance of the chairmen of the Audit, Nomination and Remuneration committees. Written reports on all meetings between non executive directors and institutional shareholders and their representative bodies are presented to the Board at the first opportunity following such meetings as is all correspondence with them.

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

The company makes use of its website [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 corporate governance and other investor information.

## Board Committees

The Board has formally established Audit, Nomination and Remuneration Committees each with their own terms of reference which set out their respective roles and the authority delegated to them by the Board. Copies of the terms of reference are available upon request from the Company Secretary and can also be downloaded from the company's website.

### Audit Committee

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

The Committee considered whether there is a need for an internal audit function during the year and recommended to the Board that such a function was not required. The Board accepted this recommendation and considers that there are in place appropriate procedures for assuring the integrity and effectiveness of the group's governance, risk management and control processes such that an internal audit function is not required at this time.

The current auditors were appointed in 2002 and details of audit and non-audit fees paid to them in 2004 is set out in note 3. Non-audit fees principally relate to taxation advice. The Board accepts the Committee's recommendation that the current auditors be proposed for re-appointment at the forthcoming Annual General Meeting.

The Committee met formally three times during 2004 and the Chairman of the Committee had regular dialogue with the auditors during the course of the year.

### Nomination Committee

The Nomination Committee comprises Mr R H Hunting (Chairman), Mr G Montezemolo and Mr P J Welch. The Committee is responsible for: the regular review of the structure, size and composition of the Board and the making of recommendations with regard to any changes; leading the process for Board appointments and nominating candidates for non-executive positions; and considering succession planning. The Nominations Committee held three formal meetings during 2004.

### Remuneration Committee

All matters relating to the Remuneration Committee and remuneration are covered in the Remuneration Report, set out on pages 32 to 37.

## Accountability

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 38 and 39 respectively. The report by the directors that the business is a going concern and a report on the approach to internal control are set out below. The directors endeavour to make the annual report and financial statements as informative and understandable as possible.

## 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 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 fully eliminated. The internal control system adopted can therefore only provide reasonable, not absolute, assurance about meeting such business objectives or against material misstatement or loss.

A process for identifying, evaluating and managing significant business risks faced by the group has been in place since 2000. This has since been built upon so as to embed further the process into the businesses and to enhance the usefulness of the relevant processes and information. The process has been operated throughout 2004 and up to the date of approval of the Annual Report and Accounts and accords with the Turnbull Guidance.

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

Individual directors within Yule Catto's businesses identify and assess key risks associated within their area of responsibility based on formal management information and interaction with colleagues, customers, suppliers and other parties.

The individual submissions are consolidated, reviewed and agreed at a Board meeting of the subsidiary. A business risk report is prepared that is closely linked to business strategy and takes account of key internal and external factors. Risks are prioritised using a risk matrix.

These business risk reports then form the basis of a single corporate risk report that is reviewed and discussed by the Yule Catto Audit Committee.

The individual business risk reports are formally reviewed at a board meeting of the subsidiary every six months, out of which a revised report is submitted which identifies changes in the risk environment.

This process was last reviewed by the Yule Catto Board of Directors in March 2004.

The nature of the risks identified as a result of this process during the year primarily relate to matters of an operational nature and the most significant of those which faced the group in 2004 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 corporate social responsibility report on pages 18 to 23 reviews the group's performance in this connection in 2004.

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

- A review of the external audit work plan;
- Consideration of reports from management and external parties, including the auditors, on the system of internal financial control and any material control weaknesses;
- Quarterly review of safety, health and environmental performance;
- Discussion with management of the actions taken on any possible problem areas for the business identified by board members or in the audit report; and
- 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; and
- In compliance with Provision C.2.1 of the Code the Board reviews the effectiveness of the group's system of internal control at least annually.

#### **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. The SHE statement on pages 18 to 23 incorporates the ABI guidelines and includes a report on the initiatives the company has adopted regarding sustainable development.

#### **Social and ethical matters**

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

# Directors' Remuneration Report

for the year ending  
31 December 2004

The following report complies with the Directors' Remuneration Report Regulations 2002 and satisfies the requirements of the Listing Rules of the Financial Services Authority and the new Combined Code on Corporate Governance.

## Remuneration Committee

The Remuneration Committee comprises Mr P S Wood (Chairman), Mr P J Welch and Mr G Montezemolo. The Committee is responsible for determining the company's policy on executive remuneration and the specific remuneration for each of the executive directors including pension rights. The Committee is also responsible for reviewing the remuneration of senior executives throughout the group. The Committee was assisted in its deliberations on executive directors' remuneration by Monks Partnership ("Monks") and the Chief Executive. With the approval of the Remuneration Committee, Monks were 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 Remuneration Committee appointed Hewitt Bacon & Woodrow Limited ("Hewitt") during the year to conduct a review of incentive arrangements. Hewitt has not provided any other services to the company during the year. The Board as a whole determines the remuneration of the non-executive directors, including members of the Remuneration Committee but the non-executive directors do not participate in the decision on their own remuneration. The Remuneration Committee met three times during 2004 and each meeting was fully attended by the Committee's members.

## Remuneration Policy

### Non-executive directors' remuneration

It is the Board's policy to review fees paid to non-executive directors on a regular basis. The last review of non-executive director remuneration was carried out in 2003.

Each non-executive director (other than the Chairman and the Deputy Chairman) receives a fee of £26,000 per annum. Fees of £100,000 per annum and £33,000 per annum are paid to the Chairman and Deputy Chairman respectively.

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

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

### Executive directors' remuneration

The company's policy for 2004 was and continues to be for 2005 and subsequent years to structure executive pay in such a way that key executives may be recruited, motivated and retained through being offered remuneration packages that are competitive. For that purpose, the Committee uses data provided by external independent surveys relevant to the industry or sector in which each Yule Catto subsidiary operates. Whilst not adopting set formulae the Committee is also sensitive to the pay and employment conditions elsewhere in the group when considering annual salary increases and total remuneration.

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

#### • Annual cash bonuses

The annual cash bonus payment for the executive directors is an amount equal to the percentage of basic pay calculated by reference to the annual growth in the company's adjusted earnings per share (after deducting the annual rise in the rate of headline inflation (RPI)) multiplied by a factor of 2.5 subject to a limit of 50% of basic pay. For divisional chief executives, managing directors of subsidiary companies and senior head office employees the annual cash bonus payments are based on appropriate combinations of profit, cash flow and safety and environmental targets and personal business objectives. In 2004 the bonuses were subject to limits of 40%, 35% and 30% of basic pay respectively. The structures of the bonuses and awards under it are reviewed periodically and are determined by the Remuneration Committee.

- **Share plans**

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

The Performance Plan was introduced in 2002 following shareholder approval at that year's Annual General Meeting and covers the executive directors, divisional chief executives and senior head office employees. An award consists of a right to acquire shares which can be exercised for a nominal price, subject to the company satisfying performance conditions. For awards to be made in 2005 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 in 31 December 2007 has increased by more than the annual rise in RPI plus 6% per annum compared with the company's adjusted earnings per share for the year ended 31 December 2004 (with adjusted earnings per share to be calculated on a consistent basis). The award will not vest in respect of any shares unless the company's earnings per share over the same period has increased by at least the annual rise in RPI plus 3% per annum at which point the award will vest in respect of 30 per cent of the shares under the award. The proportion of the award which will vest for an increase in the company's earnings per share over the same period between these points will be calculated on a straight line basis. In addition an award which vests in accordance with these targets will only be exercisable and allocated shares may only be transferred as to one half after the third anniversary of the date the award is made and as to the remaining half after the fourth anniversary of the date the award is made. The value of shares awarded under the Performance Plan in any financial year to any individual may not exceed 100 per cent of his annual basic salary.

As a result of the company's earnings per share performance in 2004 the performance conditions attaching to the awards made under the Performance Share Plan in 2002 have not been met.

The Performance Plan replaced the company's Longer-term Performance Share Plan which covered the same group of executives. The final awards were made under that plan in 2001 (which also consisted of a right to acquire shares which could be exercised for a nominal price) and the performance conditions attaching to those awards were 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> In 2004 the performance conditions relating to the awards made in 2001 were assessed and as a result of the growth in the company's earnings per share over the three year period from 2001 to 2004 ranking it in the top quartile of the comparator group each participant received 100% of the shares awarded in 2001, the value of which did not exceed 50% of any person's annual salary (excluding benefits in kind). The awards must be exercised as to one third after the third, fourth and fifth anniversary of the date of grant.

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

During 2004, 428,731 shares and 6,210 shares were awarded under the Performance Plan and the Deferred Plan respectively.

The impact of the obligation on the company to prepare its consolidated accounts in accordance with international financial reporting standards from 1 January 2005 on performance conditions that have been and may be set in connection with the Share Plans will be considered by the Committee during the course of 2005.

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. 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.

<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, Kemira oyi, Lonza Biologics plc, Rhodia sa, Scapa Group plc, Victrex plc, Yorkshire Chemicals plc, Zotefoams plc.

# Directors' Remuneration Report continued

## • 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.

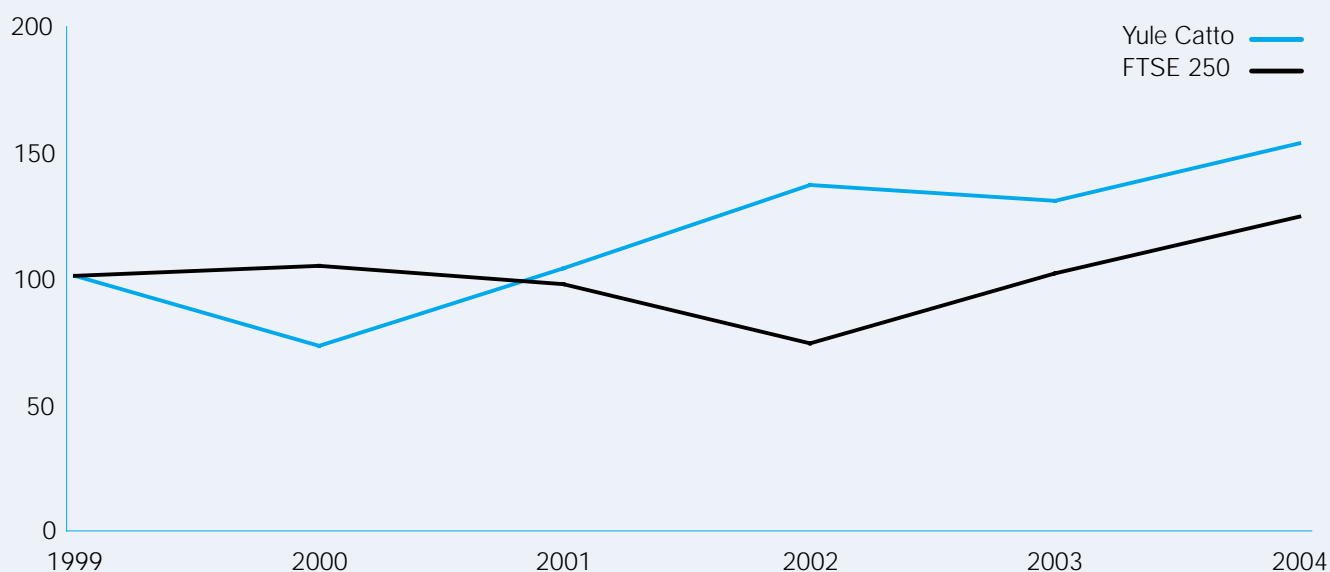
## • Non-executive directorships held by the executive directors

Mr A Walker is a non-executive director of Rotork plc and fees due in respect of that position in 2004 totalling £24,000 were paid to the company.

## • 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.

Yule Catto total shareholder return versus FTSE 250 total return (cumulative) years ended 31 December



## AGM approval

The directors' remuneration report has been submitted to the 2005 Annual General Meeting for approval.

# Directors' Remuneration

	2004 £000	2003 £000
The total amounts for directors' remuneration and other benefits were:		
Emoluments	983	1,130
Pensions to former directors	1	1
	984	1,131

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

	Base salary 2004 £	Bonuses 2004 £	Benefits 2004 £	Total 2004 £	Total 2003 £
A Walker – Highest paid director	395,000	–	25,621	420,621	526,727
S V Cummins	225,000	–	22,728	247,728	303,066

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 01/01/04 £	Increase in accrued pension excluding inflation £	inflation £	Accrued pension at 31/12/04 £
A Walker	233,657	8,715	8,178	250,550
S V Cummins	6,723	1,583	236	8,542

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 01/01/04 £	Increase in transfer value during the year £	Directors contributions during the year £	Transfer value at 31/12/04 £
A Walker	3,730,077	744,956	7,900	4,482,933
S V Cummins	51,318	17,730	2,025	71,073

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 £45,000 (2003 £43,000).

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

	2004 £	2003 £
A E Richmond-Watson – Chairman	100,000	95,000
The Hon. A G Catto	26,000	24,500
Dato' Lee Hau Hian	26,000	24,500
Dato' Lee Oi Hian	26,000	24,500
R H Hunting	26,000	24,500
G Montezemolo	26,000	24,500
Dr M J Peagram	33,000	33,000
P J Welch	26,000	25,500
P S Wood	26,000	24,500
	315,000	300,500

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

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

# Directors' Interests

## Shareholdings

Given below are details of the interests of the directors in the share capital of the company at 31 December 2004 and 31 December 2003.

	Ordinary shares		Options	
	2004	2003	2004	2003
The Hon A G Catto	1,345,577	1,411,572		
	4,020,806 (a)	2,631,824 (a)		
S V Cummins	59,117	26,231	295,191	235,102
R H Hunting	2,500	2,500		
Dato' Lee Hau Hian	10,613	2,613		
Dato' Lee Oi Hian	27,248	27,248		
G Montezemolo	1,000	1,000		
Dr M J Peagram	5,378,502	5,378,502	203,749	203,749
A E Richmond-Watson	798,647	798,647		
	159,632 (a)	159,632 (a)		
A Walker	367,285	287,563	522,230	438,521
P J Welch	86,827	86,827		
P S Wood	2,500	2,500		

(a) Non-beneficial interest.

Between 31 December 2004 and 18 February 2005 there were no changes in the directors' holdings.

## Executive and savings-related options

	At 01.01.04	Number of options during the year			At 31.12.04	Exercise price	Market price at date of exercise	Potential pre-tax gain at date of exercise £	Notional value £	Exercise period
		Granted	Lapsed	Exercised						
A Walker	15,704 (a)	-	-	15,704	-	223.25p	35,058	-	2002-2006	
	60,952 (b)	-	-	30,476	30,476	238.0p	72,532	86,397	2003-2007	
	7,200 (c)	-	-	-	7,200	150.0p	-	9,612	2006	
	100,000 (b)	-	-	33,334	66,666	232.0p	77,334	188,996	2004-2008	
	114,960 (d)(i)	-	-	-	114,960	-	-	325,909	2005-2012	
	139,705 (d)(ii)	-	-	-	139,705	-	-	396,061	2006-2013	
	-	163,223(d)(iii)	-	-	163,223	-	-	462,734	2007-2014	
	438,521				522,230					
S V Cummins	30,476 (b)	-	-	15,238	15,238	238.0p	36,265	43,199	2003-2007	
	7,200 (c)	-	-	-	7,200	150.0p	-	9,612	2006	
	52,942 (b)	-	-	17,648	35,294	232.0p	40,942	100,056	2004-2008	
	62,992 (d)(i)	-	-	-	62,992	-	-	178,579	2005-2012	
	79,044 (d)(ii)	-	-	-	79,044	-	-	224,087	2006-2013	
	-	92,975(d)(iii)	-	-	92,975	-	-	263,581	2007-2014	
	2,448 (c)	-	-	-	2,448	261.0p	-	551	2009-2010	
	235,102				295,191					
Dr M J Peagram	101,874 (e)	-	-	-	101,874	170.6p	-	115,016	1999-2006	
	101,875 (e)	-	-	-	101,875	222.7p	-	61,940	2000-2007	
	203,749				203,749					

- (a) Options granted under the Longer-Term Performance Share Plan at 300 pence (total exercise price) conditional upon a performance target that was only partially achieved.
- (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 Yule Catto Employee Savings-Related Share Option Scheme.
- (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. Performance targets are as follows:
- 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.
  - For awards made in 2003 an award will vest in respect of 100 per cent of the shares only if the company's adjusted earnings per share over a three year period ending on 31 December 2005 has increased by more than the annual rise in RPI plus 6% per annum compound compared with the company's adjusted earnings per share for the year ended 31 December 2002 (with adjusted earnings per share to be calculated on a consistent basis). The award will not vest in respect of any shares unless the company's earnings per share over the same period had increased by at least the annual rise in RPI plus 3% per annum compound at which point the award will vest in respect of 30 per cent of the shares under the award. The proportion of the award which will vest for an increase in the company's earnings per share over the same period between these points will be calculated on a straight line basis.
  - When setting the performance conditions for awards made in 2004 the Remuneration Committee was conscious that in setting such conditions it must take into account the fact that the company's results in 2003 were boosted by the launch of generic omeprazole in the USA. Accordingly the conditions in 2004 were based upon the 2003 adjusted earnings per share figure of 27.6p reduced by 7.6p to take account of this highly unusual factor but otherwise in accordance with the performance conditions for 2003.
- (e) 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 2004 of 283.5 pence. During the year the market price ranged between 218.0 pence and 296.5 pence.

# Statement of Directors' Responsibilities

## Financial statements, including adoption of going concern basis

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

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

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

## Other matters

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

# Independent Auditors' Report

## To the Members of Yule Catto & Co plc

We have audited the financial statements of Yule Catto & Co plc for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the related notes 1 to 33 together with the reconciliation of cash flow before financing to net borrowings, the reconciliation of movements in group shareholders' funds and principal accounting policies. These financial statements have been prepared under the accounting policies set out therein. We have also audited the amounts disclosed relating to emoluments, share interests and options, long-term incentive scheme interests and pension benefits of the directors on pages 35 to 37, which form part of the Remuneration Report.

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

## Respective responsibilities of directors and auditors

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

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

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the July 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

## Basis of audit opinion

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

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

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

## Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London  
3 March 2005



# Balance Sheets

## 31 December 2004

	Note	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
<b>Fixed assets</b>					
Goodwill	11	216,352	231,821	–	–
Tangible fixed assets	12	166,440	175,067	3,050	3,370
		382,792	406,888	3,050	3,370
<b>Investments in joint ventures</b>					
Share of gross assets		6,210	5,015	–	–
Share of gross liabilities		(3,157)	(1,763)	–	–
	13	3,053	3,252	–	–
Investments	14	25	38	59,376	59,288
		385,870	410,178	62,426	62,658
<b>Current assets</b>					
Stocks	15	71,235	66,947	–	–
Debtors	16	109,492	100,182	298,858	285,833
Cash at bank and in hand		17,834	9,856	165	20
		198,561	176,985	299,023	285,853
<b>Creditors – due within one year</b>					
Borrowings	17	(26,210)	(34,271)	(79,692)	(90,393)
Dividends	8	(11,440)	(11,150)	(11,440)	(11,150)
Other creditors	19	(166,358)	(170,966)	(16,105)	(11,844)
<b>Net current (liabilities)/assets</b>		<b>(5,447)</b>	<b>(39,402)</b>	<b>191,786</b>	<b>172,466</b>
<b>Total assets less current liabilities</b>		<b>380,423</b>	<b>370,776</b>	<b>254,212</b>	<b>235,124</b>
<b>Creditors – due after more than one year</b>					
Borrowings	17	(179,265)	(152,861)	(179,265)	(152,861)
Other creditors		(222)	(594)	–	–
		(179,487)	(153,455)	(179,265)	(152,861)
<b>Provisions for liabilities and charges</b>	20	<b>(26,983)</b>	<b>(26,757)</b>	<b>(16)</b>	<b>(46)</b>
<b>Net assets</b>		<b>173,953</b>	<b>190,564</b>	<b>74,931</b>	<b>82,217</b>
<b>Capital and reserves</b>					
Called up share capital	21	14,480	14,480	14,480	14,480
Share premium	22	31,829	31,829	31,829	31,829
Revaluation reserve	22	2,478	2,525	844	844
Capital redemption reserve	22	949	949	949	949
Profit and loss account	22	119,811	137,337	26,829	34,115
<b>Shareholders' funds – all equity</b>		<b>169,547</b>	<b>187,120</b>	<b>74,931</b>	<b>82,217</b>
Minority interests	23	4,406	3,444	–	–
<b>Capital employed</b>		<b>173,953</b>	<b>190,564</b>	<b>74,931</b>	<b>82,217</b>

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

Approved on 3 March 2005.

A Walker }  
S V Cummins } Directors

# Consolidated Cash Flow Statement

for the year ended  
31 December 2004

	Note	2004		2003	
		£000	£000	£000	£000
Net cash inflow from operating activities	24		49,181		111,140
Dividends received from joint ventures			1,854		1,244
Returns on investments and servicing of finance					
Interest received		299		246	
Interest paid		(12,680)		(14,533)	
Dividends paid to minority interests		(72)		(1,286)	
Net cash outflow from returns on investments and servicing of finance			(12,453)		(15,573)
Taxation					
UK corporation tax received/(paid)		316		1,270	
Overseas corporate tax paid		(8,820)		(16,019)	
Total tax paid			(8,504)		(14,749)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(16,920)		(21,734)	
Sale of tangible fixed assets		186		2,651	
			(16,734)		(19,083)
Free cash flow before dividends			13,344		62,979
Acquisitions and disposals					
Purchase of businesses	27		(1,358)		(6,348)
Equity dividends paid			(19,086)		(18,342)
Cash (outflow)/inflow before financing			(7,100)		38,289
Financing					
Purchase of own shares	22	(185)		(211)	
Repayment of short term borrowings	25	(12,000)		(23,000)	
Proceeds/(repayments) of long term borrowings	25	26,486		(7,356)	
Net cash inflow/(outflow) from financing			14,301		(30,567)
Increase in cash	26		7,201		7,722
Reconciliation of cashflow before financing to net borrowings					
Cash (outflow)/inflow before financing			(7,100)		38,289
Purchase of own shares	22		(185)		(211)
Exchange movements			(3,080)		(4,163)
Movement in net borrowings	26		(10,365)		33,915

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

# Consolidated Statement of Total Recognised Gains & Losses

for the year ended  
31 December 2004

	Note	2004 £000	2003 £000
Profit attributable to shareholders	7	4,626	27,798
Exchange adjustments	22	(2,823)	(2,215)
<b>Total recognised gains and losses for the year</b>		<b>1,803</b>	<b>25,583</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 2004

	Note	2004 £000	2003 £000
Profit attributable to shareholders	7	4,626	27,798
Exchange adjustments	22	(2,823)	(2,215)
		1,803	25,583
Dividends	8	(19,376)	(18,777)
<b>Net (reduction)/increase in shareholders' funds</b>		<b>(17,573)</b>	<b>6,806</b>
Shareholders' funds at 1 January		187,120	180,314
Net (reduction)/increase in shareholders' funds		(17,573)	6,806
<b>Shareholders' funds at 31 December</b>		<b>169,547</b>	<b>187,120</b>

# Principal Accounting Policies

For the year ended  
31 December 2004

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

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

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

## Group sales

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

## Finance costs

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

## Goodwill

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

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

## Tangible fixed assets

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

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

## Revaluation of properties

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

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

## Leased assets

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

## Investments

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

## Stocks

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

## Research and development

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

## Debt

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

## Taxation

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

## Deferred taxation

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

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

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

Deferred tax is measured on a non-discounted basis.

## Derivative financial instruments

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

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

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

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

## Pension funding

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

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

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

# Notes to the Financial Statements

31 December 2004

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

	Total turnover 2004 £000	Profit 2004 £000	Net assets 2004 £000	Total turnover 2003 £000	Profit 2003 £000	Net assets 2003 £000
<b>Analysis by activity</b>						
Polymer Chemicals	316,108	26,907	156,670	295,354	29,608	101,641
Pharma & Fine Chemicals	96,868	16,244	57,709	111,994	36,170	45,979
Performance Chemicals	136,468	5,418	33,649	137,712	11,504	31,907
	549,444	48,569	248,028	545,060	77,282	179,527
Discontinued operations	–	–	–	5,054	233	–
Holding companies	–	(4,608)	(102,786)	–	(4,083)	(43,508)
	549,444			550,114		
Operating profit*		43,961			73,432	
Interest payable (net)		(12,950)			(13,518)	
Profit before taxation*		31,011			59,914	
Sale and termination of businesses		–			2,067	
Profit on disposal of fixed assets		–			2,651	
Amortisation of goodwill		(15,469)			(15,447)	
Profit before taxation		15,542			49,185	
			145,242			136,019
Goodwill			216,352			231,821
Net borrowings			(187,641)			(177,276)
Net assets			173,953			190,564

Of the amounts included within the Polymer Chemicals line of the above analysis by activity, the following relate to joint ventures; turnover **£12,877,000** (2003 £10,487,000), operating profit **£1,956,000** (2003 £1,715,000) and net assets **£3,053,000** (2003 £3,252,000).

	Total turnover 2004 £000	Operating profit* 2004 £000	Net assets 2004 £000	Total turnover 2003 £000	Operating profit* 2003 £000	Net assets 2003 £000
<b>Analysis by region of operation</b>						
Europe	423,758	32,296	96,613	440,567	65,300	87,035
Asia	87,095	7,006	37,368	75,256	4,241	39,898
Rest of World	38,591	4,659	11,261	34,291	3,891	9,086
	549,444	43,961	145,242	550,114	73,432	136,019
Goodwill			216,352			231,821
Net borrowings			(187,641)			(177,276)
Net assets			173,953			190,564

Of the turnover made by operations based in Europe **£207,241,000** (2003 £213,719,000) relates to operations based in the United Kingdom, **£71,454,000** (2003 £64,325,000) relates to operations based in Germany and **£145,063,000** (2003 £162,523,000) relates to operations based elsewhere.

	2004 £000	2003 £000
<b>Analysis of total turnover by destination</b>		
United Kingdom	128,634	132,502
Other Europe	218,470	208,782
Asia	98,870	97,711
Africa and Middle East	45,863	38,245
Rest of World	57,607	72,874
	549,444	550,114

### Discontinued operations

Of the amounts included above, the following relate to operations discontinued in 2004; turnover Enil (2003 **£5,054,000**), operating loss Enil (2003 **£233,000**). These amounts relate to performance chemical activities based in Europe with turnover restricted to Europe.

\* Before amortisation of goodwill, sale and termination of business and profit on disposal of fixed assets.

## 2 Operating profit

	Company and subsidiaries 2004 £000	Joint ventures 2004 £000	Total 2004 £000	Company and subsidiaries 2003 £000	Joint ventures 2003 £000	Total 2003 £000
Turnover	536,567	12,877	549,444	539,627	10,487	550,114
Cost of sales	(412,493)	(9,746)	(422,239)	(394,824)	(8,013)	(402,837)
Gross profit	124,074	3,131	127,205	144,803	2,474	147,277
Distribution costs	(44,686)	(530)	(45,216)	(45,737)	(373)	(46,110)
Administrative expenses						
– Amortisation of goodwill	(15,469)	–	(15,469)	(15,447)	–	(15,447)
– Other	(37,383)	(645)	(38,028)	(27,349)	(386)	(27,735)
Operating profit	26,536	1,956	28,492	56,270	1,715	57,985
Add back: amortisation of goodwill	15,469		15,469	15,447		15,447
Operating profit excluding amortisation of goodwill	42,005		43,961	71,717		73,432

	Company and subsidiaries 2004 £000	Joint ventures 2004 £000	Total 2004 £000	Company and subsidiaries 2003 £000	Joint ventures 2003 £000	Total 2003 £000
<b>Discontinued operations</b>						
Turnover	–	–	–	5,054	–	5,054
Cost of sales	–	–	–	(3,935)	–	(3,935)
Gross profit	–	–	–	1,119	–	1,119
Distribution costs	–	–	–	(998)	–	(998)
Administrative expenses	–	–	–	(354)	–	(354)
Operating loss	–	–	–	(233)	–	(233)

	2004 £000	2003 £000
Operating profit is stated after the following:		
Depreciation	22,910	23,042
Hire of plant and equipment	1,426	1,262
Other lease rentals	3,497	3,279
Research and development expenditure	10,571	11,288

Restructuring and redundancy costs totalling **£1,513,000** (2003 £2,526,000) have been incurred in the period.

# Notes to the Financial Statements

31 December 2004  
continued

## 3 Auditors remuneration

	2004 £000	2003 £000
Fees paid to group auditors – audit	433	397
– taxation services	216	528
– other services	22	40

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

The audit fee of the holding company amounted to £5,000 (2003 £5,000).

## 4 Exceptional items

	2004 £000	2003 £000
Withdrawal from Holliday Encres SA	–	(2,708)
Write back of excess provision for closure of Holliday Dyes and Chemicals Ltd	–	4,775
Sale and termination of businesses	–	2,067
Profit/(loss) on disposal of fixed assets	–	2,651
	–	4,718
Tax on exceptional items	–	(1,275)
	–	3,443

The profit on disposal of fixed assets in 2003 relates to the sale of the Huddersfield site previously occupied by Holliday Dyes and Chemicals Ltd.

## 5 Interest payable (net)

	2004 £000	2003 £000
Interest payable on bank loans and overdrafts		
Repayable within 5 years – not by instalments	2,637	4,038
– by instalments	2,268	2,998
Interest payable on other loans	8,306	6,707
	13,211	13,743
Less: interest receivable	(299)	(246)
	12,912	13,497
Interest payable by joint ventures	38	21
	12,950	13,518

## 6 Taxation on profit on ordinary activities

	2004 £000	2003 £000
<b>Current tax</b>		
UK corporation tax	(800)	(1,483)
Overseas taxation	10,191	19,039
	9,391	17,556
Tax on sale and termination of businesses	–	480
Tax on profit on disposal of fixed assets	–	795
Charge for the year	9,391	18,831
<b>Deferred tax</b>		
Origination and reversal of timing differences	94	939
Effect of decrease in tax rate on opening liability	–	(26)
	94	913
Share of associates' tax	128	104
<b>Total tax on profit on ordinary activities</b>	<b>9,613</b>	<b>19,848</b>

## 6 Taxation on profit on ordinary activities (continued)

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

	2004 £000	2003 £000
Profit on ordinary activities before taxation	15,542	49,185
Add back: amortisation of goodwill	15,469	15,447
Add back: sale and termination of businesses	–	(2,067)
Add back: profit on disposal of fixed assets	–	(2,651)
Less: share of associates' profit before tax	(1,956)	(1,694)
<b>Group profit on ordinary activities before tax</b>	<b>29,055</b>	<b>58,220</b>
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2003 30%)	8,717	17,466
Effects of:		
Expenses not deductible for tax purposes	273	181
Depreciation in excess of capital allowances	352	136
Other temporary timing differences	(446)	(22)
Net utilisation of tax losses	(48)	(437)
Higher tax rates on overseas earnings	544	232
<b>Group current tax charge for year</b>	<b>9,391</b>	<b>17,556</b>

## 7 Profit/(loss) attributable to shareholders

	2004 £000	2003 £000
Dealt with by Yule Catto & Co plc	12,091	(12,409)
Retained by subsidiaries	(7,419)	39,734
Retained by joint ventures	(46)	473
	<b>4,626</b>	<b>27,798</b>

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

## 8 Dividends

	2004 £000	2003 £000
Ordinary – interim of 5.5 pence per share (2003 5.3 pence)	7,936	7,627
– proposed final of 7.9 pence per share (2003 7.7 pence)	11,440	11,150
	<b>19,376</b>	<b>18,777</b>

## 9 Earnings per share

Earnings per share are calculated using the weighted average number of shares in issue during the year of 144,563,000 (2003 144,446,000).

	Earnings		Earnings per share	
	2004 £000	2003 £000	2004 p	2003 p
Earnings – Basic	4,626	27,798	3.2	19.2
Amortisation of goodwill	15,469	15,447	10.7	10.7
Sale and termination of businesses	–	(2,067)	–	(1.4)
Profit on disposal of fixed assets	–	(2,651)	–	(1.8)
Tax on sale and termination of businesses and (profit)/loss on disposal of fixed assets	–	1,275	–	0.9
<b>Earnings – Adjusted</b>	<b>20,095</b>	<b>39,802</b>	<b>13.9</b>	<b>27.6</b>

The adjusted earnings per share has been calculated to allow shareholders to gain a clearer understanding of the trading performance of the Group.

Diluted earnings per share of 3.2p (2003 19.0p) is calculated on profit attributable to ordinary shareholders of £4,626,000 (2003 £27,798,000) and on 146,257,867 shares (2003 146,478,448), being the weighted average number of shares in issue during the year, as adjusted for unexercised share options in accordance with FRS14.

# Notes to the Financial Statements

31 December 2004

continued

## 10 Employees

	2004 Number	2003 Number
The average monthly number of employees during the year by activity was:		
Polymer Chemicals	1,404	1,433
Pharma & Fine Chemicals	634	650
Performance Chemicals	1,230	1,395
Holding companies	46	41
	3,314	3,519
Joint ventures	112	111
	3,426	3,630

	2004 £000	2003 £000
The aggregate remuneration of all group employees comprised:		
Wages and salaries	69,047	72,354
Social security costs	10,548	11,114
Other pension costs – see note 31	8,636	5,458
	88,231	88,926

## 11 Goodwill

	2004 £000
Group	
Cost	
At 1 January 2004	309,371
Acquisitions	–
At 31 December 2004	309,371
Amortisation	
At 1 January 2004	(77,550)
Charge in the year	(15,469)
At 31 December 2004	(93,019)
Net book value	
At 31 December 2004	216,352
At 31 December 2003	231,821

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

	2004 £000	2003 £000
Existing operations	15,469	15,447

## 12 Tangible fixed assets

	Land and buildings			Plant and equipment £000	Total £000
	Freeholds £000	Long Leaseholds £000	Short Leaseholds £000		
<b>Group</b>					
Cost or valuation					
At 1 January 2004	70,779	4,762	442	363,180	439,163
Exchange adjustments	(387)	(7)	11	(1,377)	(1,760)
Additions	1,308	52	–	14,548	15,908
Disposals	–	–	–	(3,015)	(3,015)
<b>At 31 December 2004</b>	<b>71,700</b>	<b>4,807</b>	<b>453</b>	<b>373,336</b>	<b>450,296</b>
At cost	68,250	4,718	453	373,336	446,757
At professional valuation in 1985	3,450	89	–	–	3,539
<b>At 31 December 2004</b>	<b>71,700</b>	<b>4,807</b>	<b>453</b>	<b>373,336</b>	<b>450,296</b>
Depreciation					
At 1 January 2004	22,291	1,613	89	240,103	264,096
Exchange adjustments	40	(2)	(11)	(354)	(327)
Charge for the year	1,941	123	–	20,846	22,910
Eliminated on disposals	–	–	–	(2,823)	(2,823)
<b>At 31 December 2004</b>	<b>24,272</b>	<b>1,734</b>	<b>78</b>	<b>257,772</b>	<b>283,856</b>
Net book value					
<b>At 31 December 2004</b>	<b>47,428</b>	<b>3,073</b>	<b>375</b>	<b>115,564</b>	<b>166,440</b>
At 31 December 2003	48,488	3,149	353	123,077	175,067

Properties included at valuation would have been stated on a historical cost basis at cost of **£2,588,000** (2003 £2,571,000) and depreciation of **£945,000** (2003 £919,000).

Freehold land amounting to **£9,833,000** (2003 £9,944,000) has not been depreciated.

Cumulative finance costs capitalised after amortisation, included in the net book value of tangible fixed assets, amount to **£1,169,000** (2003 £1,313,000).

	Land and buildings		Plant and equipment £000	Total £000
	Freeholds £000	Long Leaseholds £000		
<b>Company</b>				
Cost or valuation				
At 1 January 2004	3,386	89	1,709	5,184
Additions	–	–	85	85
Transfers to subsidiary undertakings	(220)	–	28	(192)
Disposals	–	–	(82)	(82)
<b>At 31 December 2004</b>	<b>3,166</b>	<b>89</b>	<b>1,740</b>	<b>4,995</b>
At cost	401	–	1,740	2,141
At professional valuation in 1985	2,765	89	–	2,854
<b>At 31 December 2004</b>	<b>3,166</b>	<b>89</b>	<b>1,740</b>	<b>4,995</b>
Depreciation				
At 1 January 2004	449	36	1,329	1,814
Charge for the year	27	1	172	200
Eliminated on transfers to subsidiary undertakings	–	–	9	9
Eliminated on disposals	–	–	(78)	(78)
<b>At 31 December 2004</b>	<b>476</b>	<b>37</b>	<b>1,432</b>	<b>1,945</b>
Net book value				
<b>At 31 December 2004</b>	<b>2,690</b>	<b>52</b>	<b>308</b>	<b>3,050</b>
At 31 December 2003	2,937	53	380	3,370

Properties included at valuation would have been stated on a historical cost basis at cost of **£1,877,000** (2003 £1,877,000) and depreciation of **£335,000** (2003 £318,000).

Freehold land amounting to **£2,052,000** (2003 £2,052,000) has not been depreciated.

# Notes to the Financial Statements

31 December 2004  
continued

## 13 Investment in joint ventures

	2004 £000	2003 £000
<b>Share of assets</b>		
Share of fixed assets	948	940
Share of current assets	5,262	4,075
	6,210	5,015
<b>Share of liabilities</b>		
Liabilities due within one year	(3,157)	(1,763)
Share of net assets	3,053	3,252

## Reconciliation of movements in investment in joint ventures

	2004 £000
At 1 January 2004	3,252
Share of profit before tax for the year	1,936
Share of taxation for the year	(128)
Share of dividends payable during the year	(1,854)
Exchange adjustments	(153)
At 31 December 2004	3,053

## 14 Investments

	Other investments £000	Total £000
<b>Group</b>		
<b>Cost</b>		
At 1 January 2004 and 31 December 2004	61	61
Adjustments to net tangible asset values at 1 January 2004	(23)	(23)
Amortisation	(13)	(13)
At 31 December 2004	(36)	(36)
<b>Net book value</b>		
At 31 December 2004	25	25
At 31 December 2003	38	38

## 14 Investments (continued)

	Subsidiaries £000	Joint ventures £000	Other investments £000	Total £000
<b>Company</b>				
<b>Cost</b>				
At 1 January 2004	60,103	500	46	60,649
Additions	100	–	–	100
<b>At 31 December 2004</b>	<b>60,203</b>	<b>500</b>	<b>46</b>	<b>60,749</b>
<b>Provisions</b>				
At 1 January 2004	(1,118)	(220)	(23)	(1,361)
Amortisation	–	–	(12)	(12)
<b>At 31 December 2004</b>	<b>(1,118)</b>	<b>(220)</b>	<b>(35)</b>	<b>(1,373)</b>
<b>Net book value</b>				
<b>At 31 December 2004</b>	<b>59,085</b>	<b>280</b>	<b>11</b>	<b>59,376</b>
At 31 December 2003	58,985	280	23	59,288

Details of the principal group companies are given on pages 64 to 65.

## 15 Stocks

	2004 £000	2003 £000
<b>Group</b>		
Raw materials and consumables	27,162	24,361
Work in progress	3,101	3,948
Finished goods	40,972	38,638
	<b>71,235</b>	<b>66,947</b>

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

## 16 Debtors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Trade debtors	94,369	85,178	–	–
Amounts owed by subsidiaries	–	–	296,787	285,538
Other debtors	8,564	8,038	1,940	168
Prepayments and accrued income	6,559	6,966	131	127
	<b>109,492</b>	<b>100,182</b>	<b>298,858</b>	<b>285,833</b>
Receivable within one year	109,269	99,980	298,858	285,833
Receivable after more than one year	223	202	–	–
	<b>109,492</b>	<b>100,182</b>	<b>298,858</b>	<b>285,833</b>

# Notes to the Financial Statements

31 December 2004

continued

## 17 Borrowings

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
<b>Amounts due within one year</b>				
Other bank loans and overdrafts	26,210	34,271	79,692	90,393
	<b>26,210</b>	<b>34,271</b>	<b>79,692</b>	<b>90,393</b>
<b>Amounts due after more than one year</b>				
Loans repayable by instalments				
Between 1 and 2 years	–	13,407	–	13,407
Between 2 and 5 years	–	39,324	–	39,324
Loans repayable otherwise than by instalments				
Between 2 and 5 years	71,871	33,377	71,871	33,377
In more than 5 years	107,394	66,753	107,394	66,753
	<b>179,265</b>	<b>152,861</b>	<b>179,265</b>	<b>152,861</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\*

\$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012

\$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014

\$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016

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

## 18 Treasury

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

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

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

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

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

### Interest rate risk

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

### Liquidity risk

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

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

- A committed £60 million syndicated bank revolving credit facility of £60m which expires in November 2009. This new credit facility was negotiated in November 2004.
- Unsecured loan notes totalling approximately £175 million raised from the US private placement market in 1999 and 2004. With maturity between 2008 and 2016, these loan notes provide the group's long term requirements. Please see note 17 for further details.

## 18 Treasury (continued)

### Foreign currency risk

The group uses currency borrowings, forward contracts 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 (2003 – none).

### Interest rate risk profile

#### Financial assets

The group has no financial assets (2003 none), other than short-term debtors and cash at bank.

#### 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 2004 was:

	Total borrowings 2004 £000	Floating rate borrowings 2004 £000	Fixed rate borrowings 2004 £000	Weighted average fixed interest rate 2004 %	Weighted average time for which rate is fixed 2004 years
2004					
Sterling	174,411	4,411	170,000	7.2	5.2
Euro currencies	23,741	(1,746)	25,487	5.1	0.9
Other	7,323	7,323	–	–	–
	205,475	9,988	195,487	7.1	4.6
2003					
Sterling	139,180	(10,820)	150,000	6.8	4.7
Euro currencies	36,632	2,874	33,758	5.1	1.5
Other	11,320	11,320	–	–	–
	187,132	3,374	183,758	6.6	4.1

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.

2004  
£000

2003  
£000

### Maturity of financial liabilities

The maturity of the group's financial liabilities at 31 December 2004 was as follows:

In one year or less on demand	26,210	34,271
In more than one year but not more than two years	–	13,407
In more than two years but not more than five years	71,871	72,701
In more than five years	107,394	66,753
	205,475	187,132

### Borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2004 in respect of which all conditions precedent had been met were as follows:

	2004 £000	2003 £000
Expiring in one year or less	–	–
Expiring in more than one year but not more than two years	–	–
Expiring in more than two years but not more than five years	55,000	60,000
	55,000	60,000

In addition to the committed facilities, the group has £57.6m (2003 £60.9m) of undrawn overdraft facilities.

# Notes to the Financial Statements

## 31 December 2004

continued

### 18 Treasury (continued)

#### Fair values of financial assets and financial liabilities

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

	Notional principal amounts at 31 December		Carrying values at 31 December		Fair values at 31 December	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
Cash	17,834	9,856	17,834	9,856	17,834	9,856
Short-term borrowings	(26,210)	(34,271)	(26,210)	(34,271)	(26,210)	(34,271)
Loans	(179,265)	(152,861)	(179,265)	(152,861)	(159,807)	(143,564)
			(187,641)	(177,276)		
Currency swaps	160,120	85,535	-	-	(10,887)	3,249
Interest rate swaps	186,975	168,522	-	-	(5,834)	(7,532)
Total net liabilities			(187,641)	(177,276)	(184,904)	(172,262)
Financial assets			17,834	9,856		
Financial liabilities			(205,475)	(187,132)		
			(187,641)	(177,276)		

Fair values have been obtained from the relevant institutions.

The difference between the carrying value and the fair value of the loans of £(19,458,000), (2003 £(9,297,000)) 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 2004 (2003 none).

The interest rate and currency swaps in place are an integral part of the group's interest rate hedging strategy and as such there is no intention to cancel these contracts before maturity. In the hypothetical event that the contracts had been cancelled at 31 December 2004, the net compensation payable would have been £16,721,000 (2003 net compensation receivable £4,283,000). During the year the effect of the hedging undertaken has been a debit of £1,041,000 (2003 debit of £791,000) to the group's profit and loss account.

The hedging undertaken ensures that a substantial proportion of the group's interest charge for 2005 and beyond is known with certainty. Should variable rates remain constant, the debit to the profit and loss account in 2005 in respect of the group's obligations under hedging contracts will be £1,558,000. If variable interest rates decrease, the debit to the profit and loss account in 2005 in respect of the group's obligations under the hedging contracts will increase accordingly.

### 19 Other creditors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Amount due within one year				
Trade creditors	79,412	80,285	2,534	574
Bills of exchange payable	515	600	-	-
Corporate tax	39,243	38,388	3,166	2,268
Other taxation and social security	4,830	4,883	117	117
Other creditors	24,493	27,336	2,971	3,587
Accruals and deferred income	17,865	19,474	7,317	5,298
	166,358	170,966	16,105	11,844

## 20 Provisions for liabilities and charges

	Deferred taxation £000	Pension liabilities £000	Product warranties £000	Total £000
<b>Group</b>				
At 1 January 2004	22,537	4,133	87	26,757
Exchange adjustments	87	35	68	190
Transfers from/(to) profit and loss account	94	78	(125)	47
Utilised	-	(11)	-	(11)
<b>At 31 December 2004</b>	<b>22,718</b>	<b>4,235</b>	<b>30</b>	<b>26,983</b>

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 2004	46
Transfers to profit and loss account	(30)
<b>At 31 December 2004</b>	<b>16</b>

### Deferred Taxation

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Accelerated capital allowances	20,082	20,354	16	46
Other timing differences	2,636	2,183	-	-
	<b>22,718</b>	<b>22,537</b>	<b>16</b>	<b>46</b>

## 21 Share capital

	2004 £000	2003 £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 (2003 144,803,918)	14,480	14,480

### Share options

As at 31 December 2004 the following options were outstanding:

#### Executive share options

	Number	Option price
Exercisable between 2005 - 2006	1,497	(a)
Exercisable between 2005 - 2006	142,624	170.6p
Exercisable between 2005 - 2007	152,404	222.7p
Exercisable between 2005 - 2007	73,736	(a)
Exercisable between 2005 - 2008	161,751	(a)
Exercisable between 2005 - 2009	3,586	(a)
Exercisable between 2005 - 2012	259,122	(a)
Exercisable between 2006 - 2010	14,008	(a)
Exercisable between 2006 - 2013	322,463	(a)
Exercisable between 2007 - 2011	6,210	(a)
Exercisable between 2007 - 2014	428,731	(a)

#### SAYE options

	Number	Option price
Exercisable in 2006	1,004,715	150.0p
Exercisable between 2007 - 2009	560,459	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 £116.

# Notes to the Financial Statements

31 December 2004

continued

## 22 Share premium and reserves

	Share premium £000	Own shares £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
<b>Group</b>						
At 1 January 2004	31,829	–	2,525	949	137,337	172,640
Retained profit for the year	–	–	–	–	(14,750)	(14,750)
Shares purchased by ESOP Trust	–	185	–	–	–	185
Amortisation of shares held by ESOP	–	(185)	–	–	–	(185)
Exchange adjustments	–	–	(47)	–	(2,776)	(2,823)
<b>At 31 December 2004</b>	<b>31,829</b>	<b>–</b>	<b>2,478</b>	<b>949</b>	<b>119,811</b>	<b>155,067</b>

Goodwill of **£93,455,000** (2003 £77,986,000) has been amortised through the profit & loss account and **£81,664,000** (2003 £81,664,000) has been written off to the reserves.

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 2004, the Trust held **124,216** (2003 357,661) ordinary shares in the company with a market value of **£352,152** (2003 £912,000). The dividends on these shares have been waived. All of the shares are under option. Costs are amortised over the life of the plans.

	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
<b>Company</b>					
At 1 January 2004	31,829	844	949	34,115	67,737
Retained loss for the year	–	–	–	(7,286)	(7,286)
<b>At 31 December 2004</b>	<b>31,829</b>	<b>844</b>	<b>949</b>	<b>26,829</b>	<b>60,451</b>

## 23 Minority interests

	Equity £000
At 1 January 2004	3,444
Profit on ordinary activities after taxation	1,303
Dividends paid and proposed	(72)
Exchange adjustments	(269)
<b>At 31 December 2004</b>	<b>4,406</b>

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

	2004 £000	2003 £000
Operating profit	28,492	57,985
Share of profits of joint ventures	(1,956)	(1,715)
Depreciation charge	26,536	56,270
Cash impact of termination of businesses	22,910	23,042
Amortisation of goodwill	(280)	(590)
Amortisation of investments	15,469	15,447
Amortisation of own shares held for ESOP	13	13
Increase in stocks	185	211
(Increase)/decrease in debtors	(4,645)	(5,200)
(Decrease)/increase in creditors and provisions	(10,096)	15,177
	(911)	(6,770)
<b>Net cash inflow from operating activities</b>	<b>49,181</b>	<b>111,140</b>
Net cash inflow from operating activities comprises:		
Continuing operating activities	49,181	111,020
Discontinued operating activities	–	120
	<b>49,181</b>	<b>111,140</b>

## 25 Analysis of changes in net debt

	1 January 2004 £000	Cash inflows/ (outflows) £000	Exchange movement £000	31 December 2004 £000
<b>Group</b>				
Cash	9,856	5,468	2,510	17,834
Overdrafts	(22,271)	1,733	(5,672)	(26,210)
	(12,415)	7,201	(3,162)	(8,376)
Borrowings due within one year	(12,000)	12,000	–	–
Borrowings due after more than one year	(152,861)	(26,486)	82	(179,265)
<b>Net borrowings</b>	<b>(177,276)</b>	<b>(7,285)</b>	<b>(3,080)</b>	<b>(187,641)</b>

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

	2004 £000	2003 £000
Increase in cash and cash equivalents in the year	7,201	7,722
Cash (inflow)/outflow from decrease in debt	(14,486)	30,356
Change in net debt from cash flows	(7,285)	38,078
Exchange movement	(3,080)	(4,163)
Movement in net borrowings	(10,365)	33,915
Net debt at 1 January	(177,276)	(211,191)
<b>Net debt at 31 December</b>	<b>(187,641)</b>	<b>(177,276)</b>

## 27 Purchase of businesses

	2004 £000	2003 £000
Purchase of remaining minority interest in Revertex South Africa (Pty) Limited	–	1,589
Purchase of Ditar Ridderkerk BV and Ditar Hasselt BV	1,358	4,759
<b>Net cash outflows in respect of acquisitions made</b>	<b>1,358</b>	<b>6,348</b>

## 28 Related party transactions

There were no related party transactions during the year (2003 none).

# Notes to the Financial Statements

## 31 December 2004

continued

### 29 Commitments

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Capital expenditure authorised but not provided for in the accounts				
Contracted	1,497	1,053	–	–
	Land and buildings 2004 £000	Land and buildings 2003 £000	Other 2004 £000	Other 2003 £000
Commitments under operating leases are as follows				
Operating leases which expire				
Within 1 year	284	358	686	–
Between 2 and 5 years	484	318	1,308	32
After 5 years	1,415	1,213	72	1,229
	2,183	1,889	2,066	1,261

### 30 Contingent assets, contingent liabilities and guarantees

- (a) The company has given guarantees amounting to **£13,815,000** (2003 £12,949,000) in respect of bank and other facilities of subsidiaries and joint ventures.
- (b) Other guarantees and contingent liabilities of the group amount to **£2,829,000** (2003 £5,259,000).
- (c) The company and its subsidiaries have, in the normal course of business, entered into guarantees and counter indemnities in respect of performance bonds, relating to the group's own contracts.

### 31 Pension commitments

The group operates a number of pension schemes throughout the world. In 2004, the total pension cost for the group was **£8,636,000** (2003 £5,458,000) of which **£1,282,000** (2003 £1,484,000) relates to overseas schemes.

#### UK pension schemes

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

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

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

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

### 31 Pension commitments (continued) Pension disclosure required by FRS17

A full actuarial valuation was carried out at 6 April 2003 and updated to 31 December 2004 by a qualified actuary. The major assumptions used by the actuary were:

	2004 %	2003 %	2002 %
Rate of increase in salaries	3.60	3.50	3.80
Rate of increase in pensions in payment	2.50	2.50	3.00
Discount rate	5.40	5.50	5.50
Inflation assumption	2.60	2.50	2.30

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

	2004 %	2004 £m	2003 %	2003 £m	2002 %	2002 £m
Equities	7.75	110.4	7.75	97.9	8.00	79.9
Bonds	5.13	27.6	5.25	22.6	5.25	22.2
Cash	4.00	0.9	4.00	0.8	5.00	0.6
Total fair value of assets		138.9		121.3		102.7
Present value of scheme liabilities		(201.1)		(191.1)		(158.7)
Deficit in the scheme		(62.2)		(69.8)		(56.0)
Related deferred tax asset		18.7		20.9		16.8
Net pension liability		(43.5)		(48.9)		(39.2)

The contribution rate for 2004 was 36.7% of pensionable earnings and the agreed contribution for next year is 36.7% of pensionable earnings.

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

	2004 £000	2003 £000
Current service cost	3,100	3,900
Past service cost	–	–
Gain/(loss) on settlements and curtailments	–	–
	3,100	3,900

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

	2004 £000	2003 £000
Expected return on pension scheme assets	(8,800)	(7,500)
Interest on pension scheme liabilities	10,400	8,700
	1,600	1,200

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

	2004 £000	2003 £000
Actual return less expected return on pension scheme assets	9,600	12,300
Experience gains and losses arising on the scheme liabilities	–	(27,800)
Changes in assumptions underlying the present value of the scheme liabilities	(4,000)	1,500
	5,600	(14,000)

# Notes to the Financial Statements

## 31 December 2004

### continued

#### 31 Pension commitments (continued)

##### History of experience gains and losses

	2004	2003	2002
<b>Difference between the expected and actual return on scheme assets:</b>			
Amount (£000)	9,600	12,300	(26,600)
Percentage of scheme assets	6.91%	10.10%	(24.90)%
<b>Experience gains/(losses) on scheme liabilities:</b>			
Amount (£000)	-	(27,800)	4,200
Percentage of the present value of scheme liabilities	0.00%	(14.50)%	2.60%
<b>Total actuarial gains/(losses) recognised in the statement of total recognised gains and losses:</b>			
Amount (£000)	5,600	(14,000)	(29,400)
Percentage of the present value of scheme liabilities	2.78%	(7.30)%	17.90%

#### Overseas pension schemes

The group operates a number of smaller overseas pension and post-retirement schemes. The assets of these schemes are held separately from those of the group with the exception of the German schemes where, in line with common practice, the assets are held within the respective company. The following aggregated pension disclosure required by FRS17 has been compiled from a number of actuarial valuations at 31 December 2004. The major assumptions do not differ significantly from that disclosed above in relation to the UK pension schemes.

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

	2004 %	2004 £m	2003 %	2003 £m	2002 %	2002 £m
Equities	8.00	0.5	8.00	0.4	8.00	0.4
Bonds	4.00	3.0	4.59	3.0	4.57	2.6
Cash	4.00	0.2	4.00	0.2	4.00	0.2
Total fair value of assets		3.7		3.6		3.2
Present value of schemes' liabilities		(14.1)		(14.0)		(11.9)
Deficit in the schemes		(10.4)		(10.4)		(8.7)
Related deferred tax assets		3.7		3.7		3.2
Net pension liabilities		(6.7)		(6.7)		(5.5)

Of the deficit in the overseas pension schemes, £4.2m (2003 £4.1m) is provided in the provisions note (note 20).

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

	2004 £000	2003 £000
Current service cost	388	402
Past service cost	(42)	-
Gain/(loss) on settlements and curtailments	932	-
	1,278	402

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

	2004 £000	2003 £000
Expected return on pension schemes' assets	(178)	(147)
Interest on pension schemes' liabilities	676	688
	498	541

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

	2004 £000	2003 £000
Actual return less expected return on pension schemes' assets	(56)	(19)
Experience gains and losses arising on the schemes' liabilities	(407)	847
Changes in assumptions underlying the present value of the schemes' liabilities	857	376
	394	1,204

### 31 Pension commitments (continued)

#### History of experience gains and losses

	2004	2003	2002
<b>Difference between the expected and actual return on schemes' assets:</b>			
Amount (£000)	(56)	(19)	228
Percentage of schemes' assets	(1.48)%	(0.52)%	7.13%
<b>Experience (losses)/gains on schemes' liabilities:</b>			
Amount (£000)	(407)	847	141
Percentage of the present value of schemes' liabilities	2.88%	(6.05)%	(1.18)%
<b>Total actuarial gains recognised in the statement of total recognised gains and losses:</b>			
Amount (£000)	394	1,204	631
Percentage of the present value of schemes' liabilities	(2.79)%	(8.60)%	(5.30)%

### 32 Share price information

The middle market value of the listed ordinary shares at 31 December 2004 was 283.5 pence. During the year, the market price ranged between 218.0 pence and 296.5 pence. The market value of the listed ordinary shares at 31 March 1982 was 19.5 pence. The latest ordinary share price is available on the Financial Times Cityline service, telephone 09060 034567.

### 33 Reconciliation of numbers shown in Financial Highlights

	Note	2004 £000	2003 £000
<b>Total operating profit</b>		<b>28,492</b>	<b>57,985</b>
Add: depreciation	2	22,910	23,042
Add: amortisation of goodwill	11	15,469	15,447
<b>Ebitda</b>		<b>66,871</b>	<b>96,474</b>
<b>Total operating profit</b>		<b>28,492</b>	<b>57,985</b>
Add: amortisation of goodwill	11	15,469	15,447
<b>Operating profit before amortisation</b>		<b>43,961</b>	<b>73,432</b>
<b>Profit on ordinary activities before taxation</b>		<b>15,542</b>	<b>49,185</b>
Add: sale and termination of businesses	4	–	(2,067)
Add: profit on disposal of fixed assets	4	–	(2,651)
Add: amortisation of goodwill	11	15,469	15,447
<b>Profit before taxation*</b>		<b>31,011</b>	<b>59,914</b>
<b>Profit attributable to shareholders</b>		<b>4,626</b>	<b>27,798</b>
Add: sale and termination of businesses	4	–	(2,067)
Add: profit on disposal of fixed assets	4	–	(2,651)
Add: tax on exceptional items	4	–	1,275
Add: amortisation of goodwill	11	15,469	15,447
<b>Profit after taxation and minorities*</b>		<b>20,095</b>	<b>39,802</b>
<b>Net cash inflow from operating activities</b>	a	<b>49,181</b>	<b>111,140</b>
Dividends received from joint ventures	a	1,854	1,244
Net cash outflow from returns on investments and servicing of finance	a	(12,453)	(15,573)
Total tax paid	a	(8,504)	(14,749)
Capital expenditure and financial investment	a	(16,734)	(19,083)
<b>Free cash flow before dividends</b>		<b>13,344</b>	<b>62,979</b>

Note a – see Consolidated Cash Flow Statement on page 42.

\* Before amortisation of goodwill, sale and termination of business profit on disposal of fixed assets.

# Principal Subsidiaries and Joint Ventures

## Operating Companies

	Country of incorporation and operation	Effective Group interest in equity %
Arkem (Pty) Ltd <i>Distributor of speciality chemicals and allied products</i>	South Africa	49#
Autoclenz Ltd <i>Provision of vehicle valeting services</i>	England	100
Brencliffe Ltd <i>Car and household cleaning products</i>	England	100
Dhahran Harco Chemical Industries Ltd <i>Synthetic resin emulsions</i>	Saudi Arabia	49#
Ditar Hasselt BV <i>Compounds of synthetic rubber latices</i>	Netherlands	100
Ditar Ridderkerk BV <i>Compounds of synthetic rubber latices</i>	Netherlands	100
Holliday Chemical Espana SA <i>Sales agent and distributor</i>	Spain	100
Holliday Dispersions Ltd <i>Pigment dispersions</i>	England	100
Holliday Dispersions SA <i>Pigment dispersions</i>	France	100
Holliday France SA <i>Sales agent and distributor</i>	France	100
Holliday Pigments Ltd <i>Ultramarine pigments</i>	England	100
Holliday Pigments SA <i>Ultramarine pigments</i>	France	100
James Robinson GmbH <i>Fine chemicals</i>	Germany	100
James Robinson India (Pvt) Ltd <i>Fine chemicals intermediates</i>	India	66
James Robinson Ltd <i>Fine chemicals</i>	England	100
Oxford Chemicals Ltd <i>Flavour chemicals</i>	England	100
PFW Aroma Chemicals BV <i>Fragrance chemicals</i>	Netherlands	100
Reabrook Ltd <i>Hygiene, pollution control and maintenance chemicals, vehicle cleaning products. Contract filling of aerosols</i>	England	100
Revertex Chemicals (Pty) Ltd <i>Synthetic resin emulsions and allied products</i>	South Africa	100

## Operating Companies (continued)

	Country of incorporation and operation	Effective Group interest in equity %
Revertex Finewaters Sdn Bhd <i>Adhesives</i>	Malaysia	63
Revertex-KA Latex (India) Private Ltd <i>Natural rubber latices</i>	India	35#
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 emulsions</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 intermediates</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 Financing Ltd	England	100
Yule Catto Holdings GmbH	Germany	100
Yule Catto International Ltd	England	100*
Yule Catto Overseas Ltd	England	100
Yule Catto Spain SL	Spain	100
Yule Catto Nederland BV	Netherlands	100

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

# Five Year Financial Summary

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
<b>Turnover</b>					
Subsidiaries	536,567	539,627	501,562	443,930	470,219
Joint ventures	12,877	10,487	9,216	30,891	41,774
<b>Total turnover</b>	<b>549,444</b>	<b>550,114</b>	<b>510,778</b>	<b>474,821</b>	<b>511,993</b>
<b>Ebitda<sup>a</sup></b>					
<b>Total operating profit<sup>a</sup></b>	<b>43,961</b>	<b>73,432</b>	<b>66,689</b>	<b>52,870</b>	<b>48,065</b>
Interest payable (net)	(12,950)	(13,518)	(14,127)	(12,590)	(11,913)
<b>Profit before taxation<sup>a</sup></b>	<b>31,011</b>	<b>59,914</b>	<b>52,562</b>	<b>40,280</b>	<b>36,152</b>
<b>Net borrowings</b>					
Free cash flow before dividends	13,344	62,979	29,803	31,663	10,255
Capital expenditure	16,920	21,734	20,862	34,088	25,095
<b>Adjusted earnings per share</b>	<b>13.9p</b>	<b>27.6p</b>	<b>23.9p</b>	<b>18.6p</b>	<b>16.9p</b>
<b>Dividends per share</b>	<b>13.4p</b>	<b>13.0p</b>	<b>12.5p</b>	<b>12.0p</b>	<b>11.6p</b>
<b>Dividend cover</b>	<b>1.0</b>	<b>2.1</b>	<b>1.9</b>	<b>1.6</b>	<b>1.5</b>

<sup>a</sup> As defined in note 33 to the Financial Statements on page 63.

# Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Thursday 26 May 2005 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 2004.
2. To consider the recommendation of the directors as to a final dividend for the year ended 31 December 2004 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 2004.
4. To re-elect as a director Mr A E Richmond-Watson who retires as a director by rotation.
5. To re-elect as a director the Hon A G Catto who retires as a director by rotation.
6. To re-elect as a director Dato' Lee Oi Hian who retires as a director by rotation.
7. To re-elect as a director Dato' Lee Hau Hian who retires as a director by rotation.
8. To re-appoint Deloitte & Touche LLP as auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
9. To authorise the directors to determine the remuneration of the auditors.

## Special business

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

10. To empower the directors pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred on the directors in accordance with section 80 of the Act on 22 May 2003 as if sub-section (1) of section 89 of the Act did not apply to any such allotment, provided that this power shall be limited to:
  - a) the allotment of equity securities in connection with issues in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of any territory or the requirements of any recognised regulatory body; and
  - b) the allotment (otherwise than pursuant to sub-paragraph (a)) of equity securities up to an aggregate nominal value of £724,019.

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

## Notice of Meeting continued

11. To authorise the Company unconditionally and generally for the purpose of section 166 of the Companies Act 1985 ("the Act") to make market purchases (as defined in section 163 of the Act) of ordinary shares of 10p each in the capital of the Company provided that:
- a) the maximum number of shares which may be purchased is 14,480,391;
  - b) the minimum price which may be paid for each share is 10p (exclusive of expenses);
  - c) the maximum price which may be paid for a share is an amount equal to 105 percent of the average of the closing middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased (exclusive of expenses); and
  - d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this Resolution (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

By order of the Board

**R Atkinson**

**Secretary**

3 March 2005

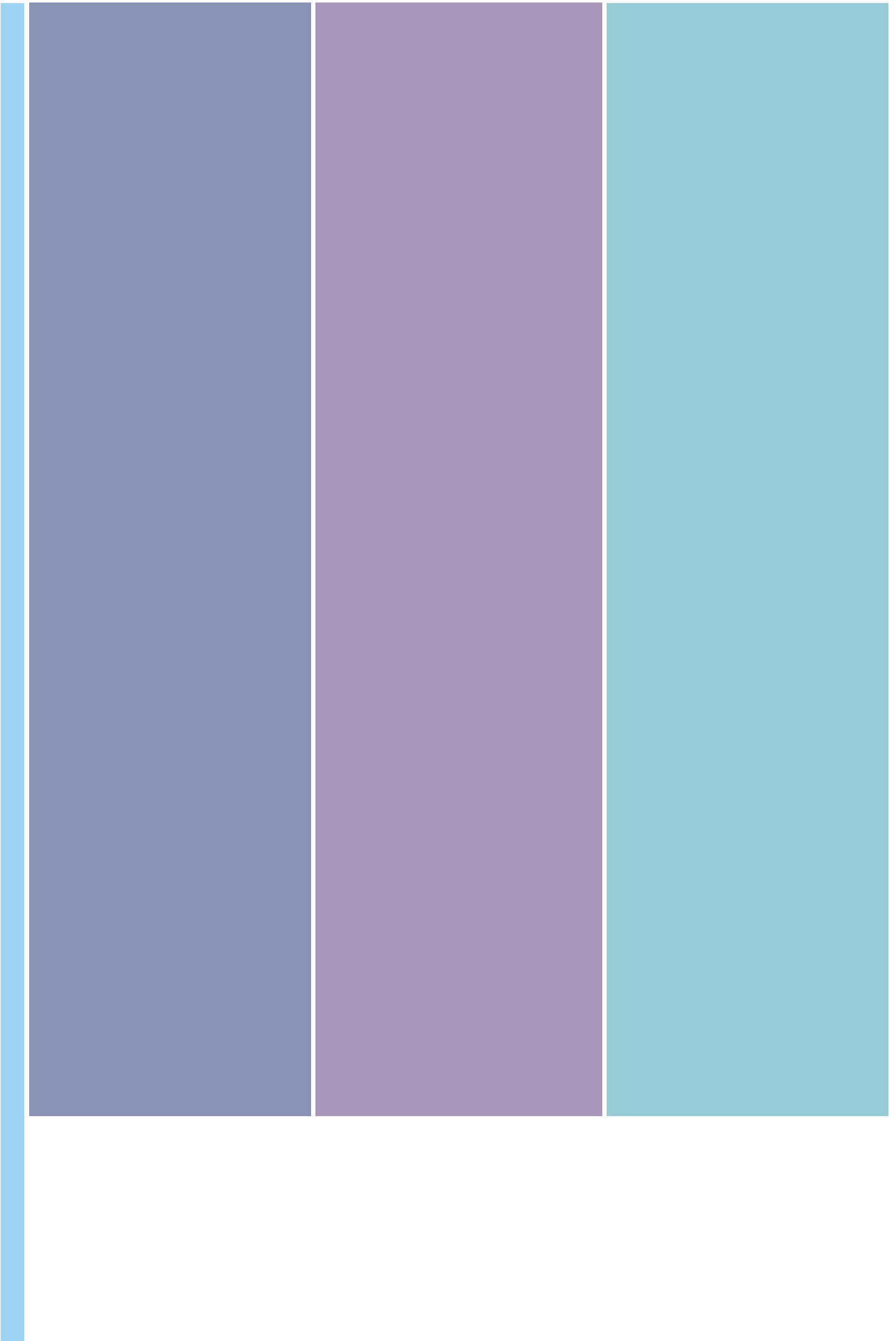
Temple Fields

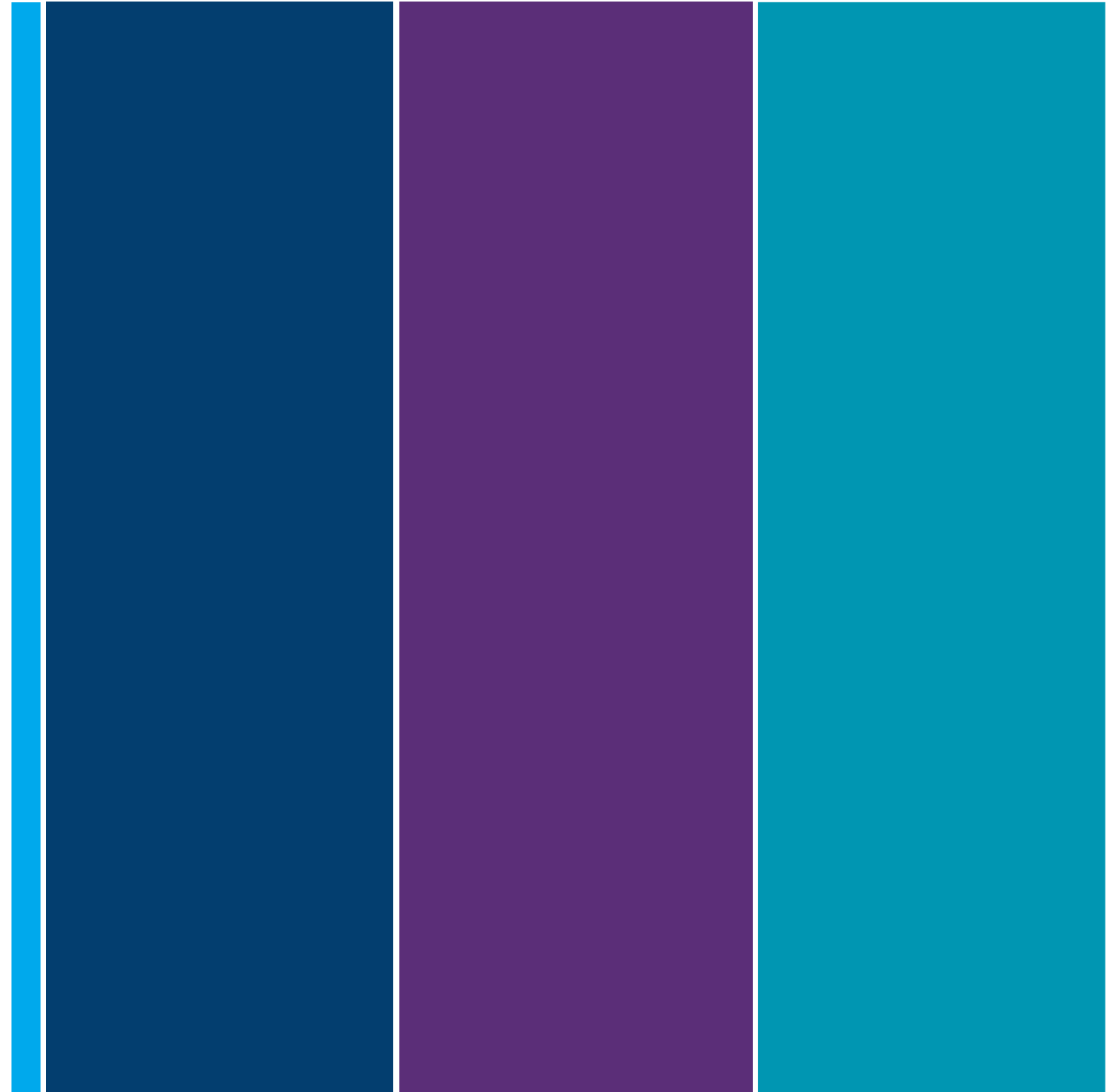
Harlow

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 24 May 2005 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 24 May 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.





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