



YULE  
CATTO

Annual Report for the year ended

31 December 2001

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One of the **most successful** UK speciality chemical companies with interests **worldwide**

Pharma and Fine Chemicals

Performance Chemicals

Polymer Chemicals



# Financial Highlights

	Note	2001 £000	Total 2000 £000
Total turnover	1	474,821	511,993
Ebitda	1 & 2	72,601	66,752
Operating profit before amortisation	1	52,870	48,065
Total operating profit	1	39,025	35,110
Profit before taxation	1 & 3	40,280	36,152
Profit on ordinary activities before taxation	1	12,937	15,979
Loss attributable to shareholders	1	(47)	(2,845)
Adjusted earnings per share		18.9p	16.9p
Earnings/(loss) per share – FRS3		0.0p	(1.9)p
Dividends per share		12.0p	11.6p
Net borrowings		223,165	164,785
Free cash flow before dividends		31,663	10,255

**Notes:**

- 1 Includes attributable share of joint ventures
- 2 Earnings before interest, tax, depreciation and amortisation
- 3 Excludes amortisation, sale and termination of business and costs of fundamental restructuring

Yule Catto is an international group of companies whose business interests are in three distinct market sectors:

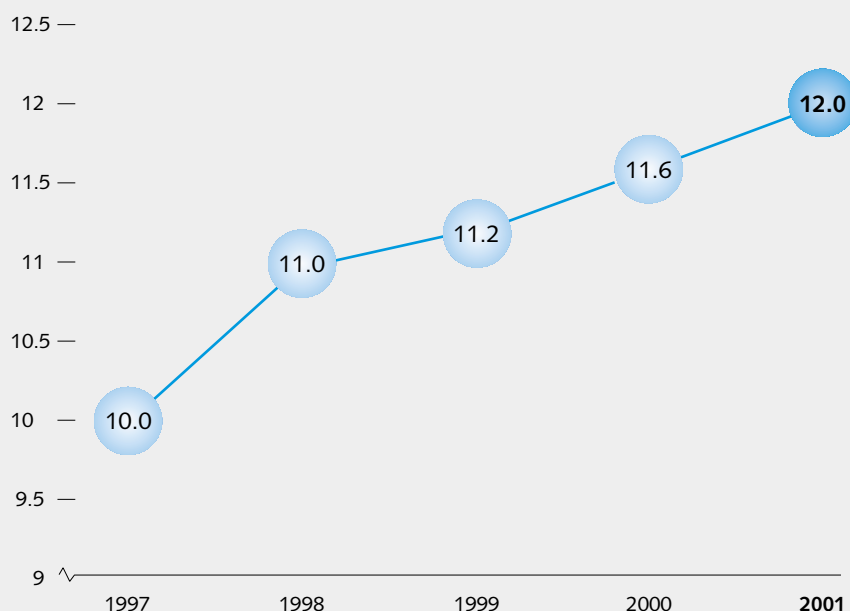
**Polymer Chemicals**

**Pharma and Fine Chemicals**

**Performance Chemicals**

An enviable reputation has been established over many years for strong financial performance and sound management.

**Dividend per share (pence)**



# Group Overview

**Total turnover £475 million**  
**Operating profit £53 million**

## Polymer Chemicals

Yule Catto companies are world leaders in the development and application of water-based polymer science. Success has come through the consistent approach of working in partnerships with customers to develop new products for use in technically demanding applications.

Polymer Chemicals has enjoyed strong growth in 2001 following the acquisition of the remaining 50% shareholding in Harlow Chemical Company Limited.

### Key Products

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

## Pharma and Fine Chemicals

The future for this sector is bright as growing demand, particularly in the life science industry, provides exciting opportunities over the next few years. We serve some of the world's largest and most technically advanced companies.

The division comprises Yule Catto's pharmaceutical group of companies now operating under the Uquifa name together with the flavour and fragrance ingredient activities of Oxford Chemicals Limited and PFW Aroma Chemicals BV.

### Key Products

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

## Performance Chemicals

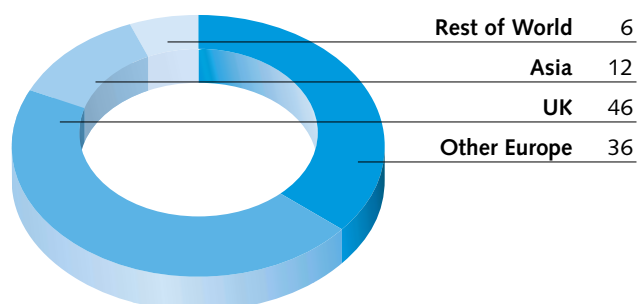
Companies under the Performance banner are focused upon sustaining their strong niche market positions through satisfying the needs of customers with products of the highest quality.

A wide range of speciality chemicals are manufactured including colourants, photographic chemicals, metal salts, sulphur dioxide derivatives, inks, industrial cleaning products and engineering maintenance chemicals.

### Key Products

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

Sales by Origin %



**Number of employees worldwide 3,600**  
**Exporting to over 100 countries**  
**Located in 15 countries**

**Markets**

- Surface coatings
- Dipping – e.g. gloves
- Carpets and non-woven textiles
- Paper
- Adhesives
- PVC manufacture

**Geographic scope**

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



**Turnover**  
 £238.8m 50.6%

**Operating Profit**  
 £31.1m 54.1%

**Markets**

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

**Geographic scope**

- Europe
- North America
- South East Asia & Far East



**Turnover**  
 £85.6m 18.1%

**Operating Profit**  
 £11.1m 19.3%

**Markets**

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

**Geographic scope**

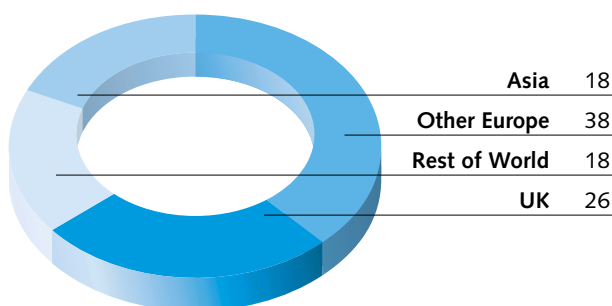
- UK and Continental Europe
- South East Asia and Far East
- North America
- Middle East
- Africa



**Turnover**  
 £147.5m 31.3%

**Operating Profit**  
 £15.3m 26.6%

**Sales by Destination %**



*Turnover – Outer circle*  
*Operating Profit – Inner circle*

# Chairman's Statement

Polymer  
Chemicals

Pharma and  
Fine Chemicals

Performance  
Chemicals

"We have focused the group into speciality growth areas, whilst investing heavily to expand our worldwide capacity and reach. We are confident that our businesses are well positioned in the short term and anticipate further performance improvements in the coming years."

## Total Turnover £m

2001	474.8
2000	512.0

## Operating Profit £m

2001	52.9
2000	48.1

Yule Catto experienced better fortunes during the course of last year and achieved further important steps in its evolution into a focused speciality chemical group. The rising raw material input costs, that so depressed our profits in 2000, have progressively declined to more normal levels over recent months. Together with resilient sales volume, this resulted in the achievement of substantially improved profitability. The group is well positioned for future growth and this confidence is reflected by a further increase in dividend.

In August we acquired 100% ownership and control of Harlow Chemical Company Limited, through the purchase of the remaining 50% shareholding from our joint venture partner, for a consideration of £54.6 million. This investment, in combination with our synthetic latex operations, formed the key to the creation of a global water-based polymer business, with a wide and unique range of products. In addition to enhancing earnings immediately and the release of synergy benefits, growth prospects are good across many of our markets worldwide.

Turnover of £475 million was slightly lower than the previous year, reflecting the impact of discontinued operations. The expansion of turnover for our continuing operations to £472 million was achieved by good organic growth within many of our businesses.

I am pleased to report that profit before tax, amortisation of goodwill and exceptional items advanced by 11% to £40.3 million. Market conditions in many economies remain far from easy and this achievement reflects the quality of our businesses, the strength of our management teams and a persistent drive towards the very highest levels of customer satisfaction.

We completed our withdrawal from the building products sector in the early part of last year through the sale of Unilock Limited, a loss making operation, to its management for a nominal consideration. The disposal creates an exceptional charge of £13.5 million in the profit and loss account, relating substantially to the reintroduction of goodwill previously written-off.

Adjusted earnings per share rose to 18.9 pence, a growth of 12%, which was a creditable achievement against the background of a weak world economy. In anticipation of further positive development, your directors have recommended an increased final dividend of 7.1 pence per share, taking the total for the year to 12.0 pence, an increase of 3.4% over the previous period.

The construction of a synthetic latex plant in Malaysia was the most significant feature of an increased capital expenditure programme of £34.1 million, directed at the expansion of our global capacity. Having peaked in 2001, we anticipate that capital expenditure will reduce in the current year. Strong cash generation has long been a feature of the group and last year was no exception, with vigilant working capital control enabling free cash flow to increase to £31.7 million.

As a consequence of the acquisition of Harlow Chemical Company Limited, net borrowings increased to £223.2 million. With interest rates at historically low levels, the opportunity has been



taken to reduce exposure to fluctuations in the cost of interest, through increased utilisation of fixed interest derivatives. In November we successfully put in place a new £150 million medium-term bank facility. This, in conjunction with £100 million of long term loans already secured, provides ample committed funding for the foreseeable future.

In an increasingly competitive environment, no company can be successful without the support and enthusiasm of its employees. 2001 brought many new challenges, which were addressed by customary resource and energy. On behalf of the Board of Directors, I should like to recognise the invaluable contribution of all our employees around the world and thank them for their efforts on behalf of Yule Catto.

Being matters of the highest importance, it is pleasing to see the improving trend in statistics relating to safety, health and the environment. Nevertheless, we deeply regret that in May 2001 a serious incident occurred at our facility in Italy resulting in the deaths of three of our colleagues. We continue to work closely with the relevant authorities but, as yet, the investigations have not reached a final conclusion. May I again extend our sympathies to the families and friends of those involved in this tragic accident.

## Outlook

An already weakening global economic environment turned downwards at the end of last year and it is difficult to predict when stability may return. In contrast, our products and services have accessed wider markets and the profitability

of the group progressively improved during the course of 2001. This momentum has continued into the early stages of the new financial year, supported by raw material prices closer to traditional levels.

We have focused the group into speciality growth areas, whilst investing heavily to expand our worldwide capacity and reach. The Malaysian synthetic latex facility has started production which, along with the opportunities provided by our newly created global water-based polymer business, will provide substantial benefit. In addition, litigation by our customers in the USA is ongoing regarding the expiry of patents on Omeprazole. Following resolution of the legal process, we can look forward to strong sales of generic product to that market. We are confident that our businesses are well positioned in the short term and anticipate further performance improvements in the coming years.

## Lord Catto

It is with sadness that we formally record the death of Lord Catto on 3 September 2001. He was our chairman for over 40 years and played a leading role in the shaping and development of our company.

## A E Richmond-Watson

13 March 2002

Above: ● **Top**; Omeprazole, soon to come off patent in the USA ● **Bottom**; Unique global water-based polymer business created under the Synthomer banner ● **Main picture**; New nitrile latex facility now on stream in Malaysia

# Polymer Chemicals

Polymer  
Chemicals

Yule Catto companies are world leaders in the development and application of water-based polymer science. Success has come through the consistent approach of working in partnerships with customers to develop new products for use in technically demanding applications.

## Sales £m

2001	238.8
2000	217.2

## Operating Profit £m

2001	31.1
2000	22.8

The strategic development of our water-based polymer activities took another major step forward in August 2001 with the acquisition of 100% ownership and control of Harlow Chemical Company Limited. Coupled with good demand right across our customer base, this delivered a strong second half, resulting in close to 10% sales growth for the year as a whole.

Changes in the prices of major raw materials were again a feature, but in a beneficial direction, falling back progressively from the high levels that impacted performance in 2000. This has allowed the re-establishment of more traditional levels of margin.

Sales volume continues to benefit from our global strategy of concentrating mainly upon speciality markets and, at a time of uncertain global economic activity, we are seeing high levels of plant utilisation.

Obtaining full control of Harlow Chemical Company Limited follows on from the acquisition of 100% of Synthomer in late 1999 and has created the opportunity to grow unencumbered by our former partners' geographic restrictions. On 1 January 2002, Yule Catto announced a major restructuring of its polymer businesses. The Synthomer global synthetic latex operations were

merged with Harlow Chemical Company Limited, which produces a range of polymer emulsions and speciality solid and liquid polymers at plants in the UK and Saudi Arabia. To that will be added the Revertex Belgium SA polymer and complementary compounding capabilities.

The new grouping has nine manufacturing units and is trading under the Synthomer banner. It can justifiably claim to be world class in its technology and a market leader for speciality applications. Major growth initiatives are being launched, supported by investment in manufacturing facilities. The effect of this reorganisation on employment has been minimal and is largely covered through early retirement and voluntary redundancy.

A further milestone is the commissioning of our synthetic latex facility in Malaysia in early 2002, representing the largest ever greenfield investment by Yule Catto. This state of the art facility will serve the market for manufacturing nitrile examination and clean room gloves, which has largely moved to the Far East from Europe and the USA. A new technical centre has also been constructed in Malaysia, to provide the high quality research and support demanded by our customers.

The outlook is bright for our polymer businesses, with a structure to grow global sales now in place. This should be supported in the short term by greater stability in the prices of our major raw materials.

## Synthetic Latex

The good demand for our speciality latices has placed pressure on our European manufacturing units requiring careful management. This will find relief in the early part of 2002 when the new synthetic latex plant in Kluang, Malaysia is commissioned.

Recent developments in global terrorist tactics substantially boosted sales of nitrile latex in the latter part of the year. This product is used in the manufacture of disposable gloves and since the US market is mainly served from Far East production, it should provide good demand for our Malaysian facility as it enters operation.

Sales to our other main markets, notably construction and textiles, have been at a pleasing level. In particular, strong demand in the Dutch carpet industry has benefited our compound plants.



## Emulsions

All of our emulsion businesses showed a recovery in margin from the levels achieved in 2000. A major contributory factor was the fall in input monomer prices, but record production in the UK, Saudi Arabia and South Africa, as well as 100% ownership of Harlow Chemical Company Limited, played their part in achieving higher profitability.

In the UK, debottlenecking projects were undertaken at Batley and Stallingborough. However, the opportunities afforded by the sole ownership of Harlow Chemical Company Limited has required a more fundamental assessment of capacity. This has resulted in a decision to expand our Belgian production facility to 60,000 tonnes, the initial phase of which will come on stream early 2003.

In Saudi Arabia, our joint venture undertook investment in infrastructure and bulk handling, with a further increase in capacity of 30% to be installed in 2002. Demand for our company in South Africa continues to be strong and, although the Rand has suffered serious decline, our export position in US Dollars, supplying sub-Saharan countries, has afforded some protection. With good sales levels expected to continue, a further 15,000 tonnes of capacity will be commissioned in 2002.

In the Far East, we have also benefited from the decline in the price of petrochemical derived raw materials. Although over capacity in Malaysia remains a feature, our position as market leader has enabled the progressive recovery of margins that had been eroded in 2000.

## Polyvinyl Acetate/Alcohol

The world PVC market reflects the weaker general economic conditions experienced in many countries. Nevertheless, our Alcotex range of primary and secondary stabilisers used in PVC manufacture continues to enjoy a leading global market share.

In support of our worldwide customer base, a state of the art PVC pilot plant is currently under construction at our Harlow Technical Centre. This will assist in providing the highest levels of customer service, as well as evaluation of newly developed products. Recent technical advances in both primary and secondary grades of Alcotex are finding market acceptance and a fall in the price of vinyl acetate will further assist in securing forward momentum. The Mowilith polyvinyl acetate range gained penetration of new markets and applications, but progress was held back by weakness in the important German market.

## Other Speciality Products

Following several years of significant growth, our Far East water-based adhesives business suffered from the slowdown in the USA, with exports to our furniture and electronics sectors dramatically reduced. Good management control and product innovation succeeded in minimising the fall in sales to these key sectors allowing satisfactory profitability to be achieved.

In Malaysia, the alkyd and polyester resin businesses saw the completion of new alkyd capacity, whilst the refurbishment of the polyester facilities is scheduled for 2002. The marketing focus remains on speciality polyesters where volume has seen significant growth due to a regional export drive.

The Lithene polybutadiene business enjoyed mixed fortunes in 2001. Benefits are accruing from newer applications, such as automotive sealants and fuel additives, but this is balanced by further declines in chlorinated rubber production.

Natural rubber suffered from the lowest prices for over twenty-five years, which impacted negatively upon the margins of our speciality products based upon this raw material. In addition, the protein allergy issue dampened sales by our dipping customers whose natural rubber-based gloves are exported worldwide. Despite these industry difficulties, numerous initiatives have been launched and better results in the last quarter of 2001 indicate these are having the desired effect.

Above: ● **Top;** Our Technical Centre in Malaysia ● **Bottom;** A typical application from our adhesive range  
● **Main picture;** The growing market for our dipping latex technology

# Pharma and Fine Chemicals

Pharma and  
Fine Chemicals

The future for this sector is bright as growing demand, particularly in the life science industry, provides exciting opportunities over the next few years. We serve some of the world's largest and most technically advanced companies.

## Sales £m

2001	85.6
2000	88.0

## Operating Profit £m

2001	11.1
2000	11.3

In line with many companies that service the world pharmaceutical industry, we found market conditions variable throughout the course of 2001. Our pharma companies sustained a focus on new product development and approvals, but this was offset by a number of regulatory delays and product withdrawals that impinged upon results.

Demand was better for our flavour and fragrance businesses. The resolution of supply difficulties with a key raw material, that so impacted 2000 profits, is steadily showing benefit.

All of the above resulted in relatively flat turnover and profit, but the outlook going forward should be brighter, particularly for sales to the generic sector for our pharma companies. A key component for sales growth will be the timing of the end of patent protection for Omeprazole in the USA. Court proceedings are currently in progress and the patent issue should be resolved during the course of this year, which will provide

a substantial boost to what is already our largest selling product.

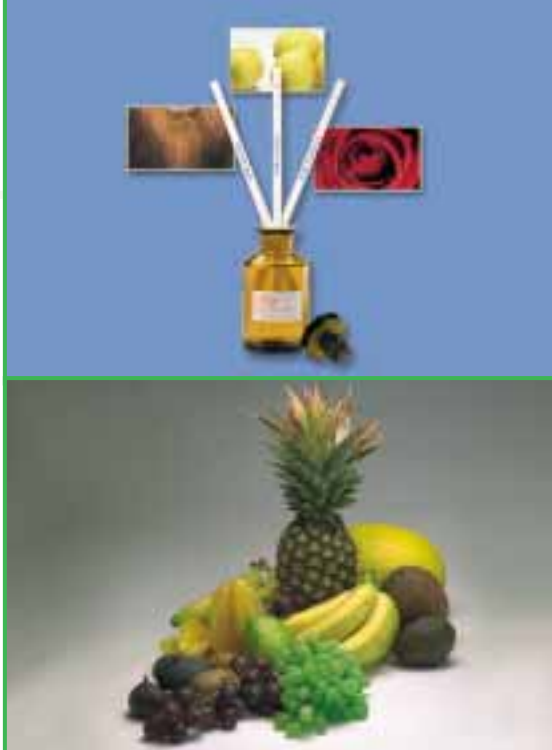
## Pharma

For Uquifa 2001 was in general a frustrating year, with regulatory delays holding back sales of ethical products and good volumes of older generic products being offset by further price pressure. It had been anticipated that greater benefits would have accrued by now from the launch of generic Omeprazole in the USA, but protracted patent litigation involving our customers has caused delays well beyond the year-end.

Our Spanish operations saw a year of developing and implementing process improvements on a number of older generic products, as well as working on projects that have pending clinical phase approval. The improvements will underwrite our long-term position in a market that remains competitive and will protect margins as products mature. The manufacture of Omeprazole is undertaken in Spain, where we are making substantial volumes for the European Generic 'A' market and the traditional Generic 'B' territories. Plans are in place to handle the inevitable increase in demand as and when Omeprazole becomes generic in the very important US market. Sales to the ethical sector did not reach expected levels due to disappointments and delays in the latter stage of drug launches.

In Italy, our company had a very mixed year. The low point was the tragic accident that occurred in May which resulted in the deaths of three of our colleagues. Again we extend our sympathies to their families and friends. The investigation into the cause of the incident, in full co-operation with the Italian authorities, has been long and detailed and it will be well into 2002 before final conclusions can be drawn.

On the business front, Uquifa Italia saw a substantial reduction in sales of an antibiotic intermediate to a major pharmaceutical customer, whilst a sharp increase in antidepressant intermediate sales provided mitigation. Although regulatory registrations were filed in the USA in



2000 for Clindamycine and Minocyclin, our customers' registrations and approvals will delay launch until early 2003. In addition, we continue to work on a number of Phase II products awaiting clinical results.

Following on from a very difficult year in 2000, a major operational restructuring of both management and personnel was undertaken at our Mexican operations. This enabled the business to return a small profit. The changes have substantially improved competitiveness, although the strength of the Mexican Peso is still a drag on performance. This facility remains key to the generic development strategy and four generic products have been launched during the course of the year, as we continue to expand our product and therapeutic lines into areas such as antifungal treatment and antidepressants.

In support of our own and our customers' development programmes, we have recently commissioned a high-level cGMP pilot plant facility in Spain. This fits with our unchanged strategy of using a wide range of chemical and regulatory resources to drive product and market development. The life science industry has just seen a challenging year, with many large pharma and smaller biotech companies failing to achieve product launches. The cost competitive nature of Uquifa, with an ever-increasing customer and product portfolio, provides the opportunity for growth as the industry continues to develop.

## Flavour and Fragrances

The consolidation and restructuring within the flavour and fragrance sector continues to create

opportunities for our businesses. The strategy remains one of concentrating on developing a leading world position in a number of niche, relatively low volume areas. In support of this, we have further extended our geographic marketing coverage and have successfully secured global contracts with major flavour and fragrance houses.

Oxford Chemicals Limited continues to enjoy good demand for its range of high impact flavour compounds. Many are based upon sulphur compounds and the company possesses particular skills in handling these odorous materials. Investments that have been made in recent years, on expanding the production facilities at Teeside, are now highly utilised and work is ongoing to improve plant efficiencies. An important milestone was achieved in 2001 when Oxford Chemicals Limited became the first speciality aroma chemical manufacturer to achieve Halal certification, thereby opening up the growing Islamic market.

The performance of PFW Aroma Chemicals BV improved last year as availability of a key raw material improved from the supplier in the USA, but it took most of the first six months to re-establish a smooth supply pattern. Whilst this difficulty is now over, the long-term effect on the overall polycyclic musk market is emerging as negative. To set against this, PFW Aroma Chemicals BV is now one of only two manufacturers of this speciality product and additional cost saving initiatives are in the course of study to maintain profitability. A programme to identify novel compounds is ongoing, directed at the requirement for ever greater environmental and toxicological performance, with new product introductions expected during 2002.

Above: ● **Top;** Selected fragrances from the PFW Aroma Chemicals BV range ● **Bottom;** We manufacture nature identical flavours for a variety of applications ● **Main picture;** State of the art equipment used in our new pilot plant in Barcelona

# Performance Chemicals

Performance  
Chemicals

Companies under the Performance banner are focused upon sustaining their strong niche market positions through satisfying the needs of customers with products of the highest quality.

## Sales £m

2001	147.5
2000	157.5

## Operating Profit £m

2001	15.3
2000	16.3

The solid performance by our companies operating in this sector was achieved despite mixed market conditions and some one-off difficulties. Tight raw material supplies and high input prices were also in evidence in a number of businesses, requiring careful management to maximise returns.

Rationalisation in pursuit of cost savings was again a feature, as was investment in new processes to alleviate raw material complications and increase efficiencies. This will result in better prospects, providing economic conditions do not deteriorate markedly.

## Inorganic Chemicals

A collapse of 90% in the availability of copper etchant from the UK electronics industry impinged severely on performance. This was echoed across the globe and has resulted in an upheaval in the copper salts industry. To combat this, William Blythe Limited have developed a copper metal dissolving process which is in the final stages of commissioning and will restore its volume capability early in 2002. Order books are strong for timber treatment and other traditional applications. Several new sales opportunities have also been identified for copper products with technically demanding specifications.

Iodine based products saw particularly good demand, with buoyant sales to pharmaceutical customers throughout Europe and initial sales to India. An incident in the last quarter at the Hapton site caused production to be suspended. Following the installation of additional safety and control equipment, production has recommenced with strong demand from the market. Tin products have also experienced increasing sales to pharmaceutical customers and we have invested in new facilities to replace the ageing stannous and stannic units.

Sulphur dioxide derivatives experienced strong demand from the caramel industry and previously lost North Sea oil business was recovered. The use of sodium bisulphite for paper bleaching in re-cycled tissue manufacture was successfully tested by a number of companies, opening up new opportunities for growth. Margins in the early months of last year suffered the impact of high caustic soda prices. These have now moderated, improving the outlook for 2002.

## Dyes and Pigments

The ultramarine pigment business occupies a leading global position as a supplier of technically advanced products. Good progress was made last year through a combination of aggressive marketing and the introduction of grades of even higher technical specification. Volumes were



increased across a wide number of markets and territories. Costs and production efficiencies saw the benefits of recent investments and ensured the availability of the highest quality material to our customers worldwide. New technical initiatives are presently in hand to widen the market outlets for ultramarine, assisted by its unique combination of colour and environmental acceptance.

The market continues to receive favourably the new range of hair dye intermediates manufactured by James Robinson Limited, as demonstrated by impressive sales growth. A similar situation exists for their innovative range of photochromic dyes used mainly in ophthalmic applications. Further progress is assured for these materials as our customers roll out their products to the consumer market.

The recently formed joint venture in India successfully commissioned the facilities to manufacture photographic, hair dye and dyestuff intermediates. During the course of the year it was decided to include fluorescent products in this investment and this has been undertaken in a particularly efficient and expeditious fashion, making products of the very highest quality. The near term goal in India is to consolidate the benefits from this low cost operating location. Looking further ahead, there are many opportunities for investment already identified that should provide a succession of good quality projects.

## Other Activities

The final stages of the integration of our

consumer chemicals operations on to one site were completed during the course of the year. This exercise exposed weaknesses in the management team which have been addressed by a number of changes. In addition, further reorganisation benefits were identified and implemented, the cost of which negatively affected results. Demand remains good and much work has been undertaken to improve margins and realise efficiencies. Products directed at the UK housewares and automotive markets saw sharp increases in sales and order books remained healthy across the year-end.

Economic conditions in France made for a difficult operating environment for our inks business in that country. New management has been installed who have initiated action that has stabilised the market position and undertaken moves to improve efficiencies between the two operating sites.

Holliday Dispersions SA also suffered the effects of the downturn in the French economy, with the business located there facing the loss of several significant tranches of business. In the UK, the operating environment remains competitive, but new business secured in the last quarter saw the year end on a brighter note.

Autoclenz Limited turned in a solid performance, despite operating in an automotive market that continues to change and restructure. Sales advanced in the year, but margin was curtailed. Opportunities continue to be identified to widen the range of services to our major customers.

# Safety, Health and the Environment

## Caring for the environment

### Introduction by the Group Chief Executive

"There are no more important business priorities to Yule Catto than protecting the health and safety of our employees, contractors, visitors and others affected by our operations, and operating our businesses in an environmentally responsible manner....

...Our policy is based on the worldwide chemical industry Responsible Care programme, to which we are fully committed"

*(Extracted from Yule Catto's Group SHE policy, dated June 2001)*

**Alex Walker**  
**Group Chief Executive**  
**Director responsible for SHE**

#### **SHE Policy and Management within Yule Catto**

The Board of Directors is responsible for formulating SHE policy, with implementation being delegated to Divisional Chief Executives and the executives in each business, who are responsible for managing significant risks arising from safety and environmental issues.

Review of SHE performance is undertaken by the Group Executive Committee and Board of Directors, assisted by the Group SHE Manager.

The essential elements of Yule Catto's SHE policy are:

- Compliance with all legislation as a minimum
- Use of SHE management systems to achieve continuous improvements
- Waste minimisation and loss prevention
- Engagement with employees and other stakeholders to encourage good SHE performance
- Train our employees
- Make sure our products are safe
- Audit our sites, and collect and report SHE data
- Set SHE targets corporately and at each site
- Publicly report on our SHE performance

#### **SHE Performance During 2001 - Highlights**

##### *Safety*

- It is with deep regret that we report the serious accident in May 2001 at our Italian factory in which three employees died. In full collaboration with the Italian authorities we commissioned an independent, internationally recognised expert to conduct a detailed investigation into the causes of the incident. The final conclusions of the investigation have not, as yet, emerged but improvements to procedures and system have already been implemented across group companies, taking note of lessons learned
- Last year, our reportable incident frequency rate reduced a further 11% to 0.92 per 100,000 hours but did not quite achieve our target of 0.75 per 100,000 hours
- Nine of our companies operated with zero reportable incidents
- A total of five process safety accidents were reported during 2001, down from eight in 2000 and nineteen in 1999

##### *Environment*

- One uncontrolled release to the environment was reported during the year, compared to eight in 2000. We continue to seek to achieve a target of no releases
- We are disappointed to report that there has been no significant reduction in breaches of environmental permit conditions during the year compared to 2001. Temporary and minor breaches of conditions were again to the fore and we retain our aim of achieving no breaches.
- All of our companies have implemented SHE management systems that correspond to Yule Catto internal management standards. Four companies have been certified to ISO14001, and another five have committed to achieve certification by the end of 2002.



### Community involvement

Many of our companies are actively involved in their local communities through working with schools and colleges, supporting local environmental initiatives by donating equipment or allowing staff time to participate, or by providing amenities for the general benefit of the community.

An example

**Oxford Chemicals Ltd, Hartlepool, UK**  
*Children from three local schools paid visits to this manufacturing site in 2001 as part of Children Challenging Industry. They saw the processes and products, and employees took part in a "question & answer" session.*

### Sustainable Development

During the course of 2001, we began the process of establishing what sustainable development should mean in the Yule Catto context.

As part of this, we have actively engaged in external assessment processes to establish a measure of our "sustainability". During 2002, we will build on this to develop policies that will help us move forward on this complex issue in a way that allows us to take balanced, informed decisions.

### SHE Training

We are committed to SHE training. For example, over fifty employees from our UK and European businesses have attended training organised by Group SHE Department on a range of process safety issues. This training was in addition to the many hundreds of employees who received SHE training at their place of work

## How did we do?

*Our performance against objectives or goals we set ourselves during 2001*

Objective or goals for 2001	Comments																				
All businesses to set SHE plan, which is monitored quarterly	All plans now in place and this process will continue during 2002																				
Reduce reportable incident frequency rate to 0.75 per 100,000 hours	A reduction of 11% to 0.92 per 100,000 hours was achieved. We are committed to achieving 0.75 per 100,000 hours by the end of 2002 through increased effort and focus on training and systems																				
Set group-wide goals for energy use, hazardous and non-hazardous waste and volatile organic compounds (VOCs)	We achieved all our goals except for VOCs. This was due to a change of product mix in the fine chemicals sector, necessitating increased solvent consumption. <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Parameter</th> <th>Goal</th> <th>Actual</th> <th>Units</th> </tr> </thead> <tbody> <tr> <td>Energy</td> <td>6</td> <td>5</td> <td>GJ/tonne</td> </tr> <tr> <td>Hazardous waste</td> <td>25</td> <td>15</td> <td>kg/tonne</td> </tr> <tr> <td>Non-hazardous waste</td> <td>27</td> <td>27</td> <td>kg/tonne</td> </tr> <tr> <td>VOCs</td> <td>1</td> <td>2</td> <td>kg/tonne</td> </tr> </tbody> </table>	Parameter	Goal	Actual	Units	Energy	6	5	GJ/tonne	Hazardous waste	25	15	kg/tonne	Non-hazardous waste	27	27	kg/tonne	VOCs	1	2	kg/tonne
Parameter	Goal	Actual	Units																		
Energy	6	5	GJ/tonne																		
Hazardous waste	25	15	kg/tonne																		
Non-hazardous waste	27	27	kg/tonne																		
VOCs	1	2	kg/tonne																		
Improve internal reporting and SHE communications	Quarterly SHE reports are published internally. Our last public SHE report was published in 2000 and we will publish a follow up report in 2002. We have created a bi-monthly internal SHE newsletter called <i>SHE Matters</i>																				
Extend SHE audit programme and undertake an audit at all companies at least once every two years	We started to undertake corporate SHE management and operational integrity audits during 2000 and we will complete audits at all our companies by the end of 2002																				
Develop existing SHE intranet	This has been in place since 2000 and we are currently improving the system to take advantage of new technology																				

*Above picture:* ● A breathtaking view of our reservoir in Malaysia. An internal water treatment plant ensures that water meets international standards and is safe for industrial and domestic use

# Directors and Advisers

## Executive Directors

### A. Walker

Joined the Group in 1972. He was appointed to the Board in 1986 and is Chief Executive. He is Non-Executive Director of Rotork plc. Age 55.

### S. V. Cummins

Joined the Group in 1999. He was appointed to the Board in 2000 and is Finance Director. Age 39.

## Non-Executive Directors

### A. E. Richmond-Watson #

Joined the Board in 1978 and was appointed Chairman in May 2000. He is the Deputy Chairman of Melrose Resources plc and was Deputy Chairman of Morgan Grenfell Group plc from 1989 until retirement in 1996. He is a member of the Institute of Chartered Accountants of Scotland. Age 60.

### R. M. Alias

Joined the Board in 1994. He is a Director of Kuala Lumpur Kepong Bhd, Batu Kawan Bhd, Malayan Banking Bhd, Cerebos Pacific Limited and Sime Darby Berhad. Age 69.

### 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 49.

### Dr M. J. Peagram

Joined the Board in 1998 as Deputy Chairman. He is Chairman of CRC Group plc and Enact Pharma plc and was formerly Chairman of Holliday Chemical Holdings PLC. Age 58.

### R. H. Hunting \*+

Joined the Board in 2000. He is Chairman of Hunting PLC. Age 55.

### 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 51.

### G. Montezemolo +\$

Joined the Board on 14 March 2001. He is a Director of A T Kearney, management consultants. Age 60.

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

Joined the Board in 1998. He is Chairman of WSP Group plc. Age 62.

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

Joined the Board on 1 February 2001. He is Chief Executive of BSS Group plc. Age 54.

## Alternate Director

### Dato' Lee Hau Hian

Joined the Board in 1993 and became an alternate director for Dato' Lee Oi Hian and Raja Alias in 2000. He is a director of Kuala Lumpur Kepong Bhd and Batu Kawan Bhd. Age 48.

\* Member of Audit Committee

+ Member of Nomination Committee

\$ Member of Remuneration Committee

# Standing for re-election at 2002 AGM

## Registered Office

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

## Secretary

Richard Atkinson

## Bankers

ABN Amro Bank NV  
Banca Nazionale de Lavoro SpA  
Barclays Bank PLC  
Crédit Industriel et Commercial  
Danske Bank A/S  
HSBC Bank plc  
The Royal Bank of Scotland plc

## Merchant Bankers

Merrill Lynch International

## Stockbrokers

Merrill Lynch International

## Registrars

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

## Auditors

Arthur Andersen

## Solicitors

Linklaters & Alliance  
Hammond Suddards Edge  
Pinsent Curtis Biddle

# Report of the Directors

for the year ending 31 December 2001

The directors submit their annual report and the audited financial statements for the year ended 31 December 2001.

## Results and dividends

	£000
Loss attributable to shareholders	47
Interim dividend	7,027
Final dividend	10,218
Retained loss for the financial year	17,292

The interim dividend of 4.9p per share was paid on 21 November 2001. The directors recommend a final dividend of 7.1p per share payable on 5 July 2002 to those shareholders registered at the close of business on 14 June 2002. 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 11.

## Acquisitions and disposals

Unilock Limited was sold on 9 May 2001. The details of this disposal are set out in note 3 to the financial statements.

The 50% equity interest in Harlow Chemical Company Limited held by the company's joint venture partner, Clariant, was acquired on 6 August 2001 for a consideration of £54.6 million. The details of this acquisition are set out in note 23 to the financial statements.

## Fixed assets

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

## Directors

The present membership of the Board is shown on page 14. All served throughout the year apart from Mr P S Wood and Mr G Montezemolo who were appointed on 1 February 2001 and 14 March 2001 respectively. Mr P B Sawdy retired on 23 May 2001.

Mr A E Richmond-Watson and The Hon. A G Catto retire by rotation and will be seeking re-election at the forthcoming Annual General Meeting.

Mr Walker and Mr Cummins both have service contracts which contain a notice period of one year. None of the other directors seeking re-election or re-appointment has a service contract. The company has purchased and maintains insurance against directors' and officers' liabilities in relation to the company.

Details of directors' emoluments and the interests of each director in the share capital of the company are shown in the Remuneration Report on pages 21 to 25.

# Report of the Directors continued

for the year ending 31 December 2001

## Share capital

During 2001 no shares were issued or re-purchased. A total of 67,694 shares were purchased on the open market on behalf of shareholders who elected to participate in the Dividend Reinvestment Plan.

## Substantial shareholdings

Other than the shareholdings disclosed as directors' interests in the Remuneration Report as at 21 February 2002, 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
Prudential plc	7,803,883	5.38

## 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 2002 Annual General Meeting, to make market purchases of not more than 21,575,783 of the company's Ordinary shares in accordance with the terms of the special resolution passed at the 2001 Annual General Meeting. A resolution will be tabled at the 2002 Annual General Meeting to give the company general authority to make market purchases of not more than 21,575,783 of the company's Ordinary shares.

## Employee involvement

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

The Savings-Related Share Option Scheme approved by shareholders at the 1999 Annual General Meeting was introduced in November 2000, offering United Kingdom employees a convenient, tax effective and economical way to save and acquire shares in the company. The All Employee Share Ownership Plan approved by shareholders at the 2001 Annual General Meeting will be introduced this year.

Two longer term share incentive plans for directors and senior executives were introduced in 1996 with the approval of shareholders. Subject to shareholder approval at the 2002 Annual General Meeting a replacement for one of these plans will be introduced this year.

## 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 2001 were 40 days (2000 37 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 £79,000 (2000 £75,000). There were no political donations during the year.

### **Auditors**

A resolution to re-appoint Arthur Andersen 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 Wednesday 22 May 2002 at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR.

By Order of the Board

**R Atkinson**

**Secretary**

13 March 2002

# Corporate Governance Statement

It is the policy of the Board to seek to adhere to the best practices in corporate governance. Set out below is a statement of the extent to which this policy was achieved in 2001, including statements on compliance with the Combined Code and the application of its principles of good governance as required by the Listing Rules of the UK Listing Authority.

## Statement of compliance with the Code of Best Practice

In June 1998 the Committee on Corporate Governance published the Combined Code containing principles of good governance and a Code of Best Practice. The company considers that it has complied throughout the financial year ended 31 December 2001 with the provisions of the Code of Best Practice set out in section 1 of the Combined Code.

## Application of the principles of good governance

The principles of good governance contained in the Combined Code were applied as follows:

### Directors

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

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

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

The Nomination Committee which is chaired by Mr R H Hunting and whose members are identified on page 14 makes recommendations to the Board regarding all new Board appointments, considers succession planning and has responsibility for the induction and training of non-executive directors. The Nomination Committee met formally once during 2001 and its members conducted individual interviews of prospective candidates for positions as non-executive directors of the company.

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

### Directors' remuneration

All matters relating to remuneration are covered in the Remuneration Report, set out on pages 21 to 25.

### Relations with shareholders

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

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

# Corporate Governance Statement continued

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

## Accountability and audit

An explanation of the directors' responsibility for preparing the financial statements and a statement by the auditors about their reporting responsibilities are set out on page 27. The report by the directors that the business is a going concern and a report on the approach to internal control are set out below. The directors endeavour to make the annual report and financial statements as informative and understandable as possible.

The Audit Committee, which is chaired by Mr P J Welch and whose members are identified on page 14, has established a detailed remit regarding the application of financial reporting and internal control principles. It meets periodically with the company's auditors to review the adequacy of the group's financial management, the internal controls and information systems. The Audit Committee's remit includes the review of the cost effectiveness, independence and objectivity of the auditors (including the extent of non-audit services and fees payable to the auditors) which is carried out on a periodic basis. The current auditors were appointed in 1998 and details of audit and non-audit fees paid to them in 2001 are set out in note 2. Non-audit fees principally relate to taxation advice which is not put out to open tender as a matter of routine due to the requirement to have continuity of advice in this area. The Audit Committee met twice during 2001.

## Internal control

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

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

A process for identifying, evaluating and managing significant business risks faced by the group was developed and fully implemented in 2000. This has been built upon during the year under review so as to embed further the process into the businesses and to enhance the usefulness of the relevant processes and information, and has been operated throughout 2001 and up to the date of approval of the Annual Report and Accounts.

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

Senior managers with cross-functional responsibilities participate in the risk management process to identify and evaluate key risks. The process relies on senior managers' detailed knowledge and understanding of key internal and external risks facing their business. This is based on formal management information and reports, and their interaction and daily dealings with those reporting to them, customers, suppliers and other parties. Where a significant risk is identified, its causes, potential business impact and the planned risk control actions are reported. Operational reviews are undertaken by the group Executive Committee on a regular basis and one of the functions of those reviews is to identify key risks and initiate and monitor planned risk control activities.

The nature of the risks identified as a result of this process primarily relate to matters of an operational nature and the most significant of those which faced the group in 2001 are reviewed in the Chairman's statement and the divisional reports. Risks associated with safety, health and the environment are, by the nature of the group's business, always of the utmost concern and the safety, health and environment report on pages 12 to 13 reviews the group's performance in this connection in 2001. A number of other risks have been identified from the process which arise from external influences such as: changes to UK regulation surrounding pension scheme funding and accounting; EU proposals for the legislative regime regulating the chemicals industry; and cost and capacity issues relating to the transfer of risk to the insurance market. Plans have been formulated and implemented to deal with the impact of these matters in the short term, however, they will require careful ongoing evaluation and management.

# Corporate Governance Statement continued

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

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

Prior to the year-end, the Board formally reviewed and approved the effectiveness of the group's system of internal control.

## – Social, environmental and ethical matters

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

## – Environmental matters

The maintenance of high standards of environmental (together with health and safety) protection is central to the company's business. A separate statement on safety, health and environmental (SHE) matters has been a feature of the annual report for a number of years and the first of a biennial stand-alone SHE report was published in August 2000. The SHE statement on pages 12 to 13 incorporates the ABI guidelines.

## – Social and ethical matters

The company has not previously reported on social and ethical matters and the Board does not treat them as distinct matters 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 recently introduced 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.

During the course of 2002 the Board propose to review in detail the ABI guidelines and assess the extent to which it is necessary or desirable to implement a formal approach to policies, procedures and verification of social and ethical matters.

# Remuneration Report

As well as complying with the provisions of the Combined Code as disclosed in the company's Corporate Governance Statement, the Board has applied the principles of good governance relating to directors' remuneration as described below.

## Remuneration Committee

The Remuneration Committee comprises Mr P S Wood (who took over as Chairman from Dr M J Peagram on 6 March 2002), Mr P J Welch and Mr G Montezemolo. The Committee is responsible for determining the company's policy on executive remuneration and the specific remuneration for each of the executive directors including pension rights. The Committee is also responsible for reviewing the remuneration of senior executives throughout the group. The Board as a whole determines the remuneration of the non-executive directors, including members of the Remuneration Committee. The Remuneration Committee met three times during 2001.

## Remuneration policy

The company's policy is to structure executive pay in such a way that key executives may be recruited, motivated and retained through being offered remuneration packages that have regard to competitive market practice supported by external independent surveys relevant to the industry or sector in which their companies operate. The Committee is sensitive to the pay and employment conditions elsewhere in the group when considering executive pay and annual salary increases, however it is not practical for the Committee to adopt a formulaic approach to increases in executive pay on the one hand and all employees' pay on the other.

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 and at UK chemical companies. The survey presents market guidelines for basic pay based on this information together with information on increases in basic salaries for executive directors in the UK during the previous 12 months. The Committee then use this information to recommend basic salaries for the executive directors which meets the Board's policy of awarding a basic salary of about the market median for companies of a similar size and complexity as the company. In addition, the Remuneration Committee has overseen the introduction of special incentives which are designed to reward the achievement of predetermined targets by the individuals concerned. These incentives which were designed in accordance with the provisions of Schedule A to the Code of Best Practice currently comprise annual cash bonuses and membership of one of two shareholder approved longer term incentive plans (the "Share Plans").

### ● Annual cash bonuses

The annual cash bonus payment for the executive directors is an amount equal to the percentage of basic pay calculated by reference to the annual growth in the company's adjusted earnings per share (after taking into account the annual rise in the rate of inflation) multiplied by a factor of 2.5 subject to a limit of 50% of basic pay. For divisional chief executives, managing directors of subsidiary companies and senior head office employees the annual cash bonus payments are based on appropriate profit and cash flow targets and personal business objectives and in 2001 were subject to limits of 30%, 30% and 25% of basic pay respectively. The structures of the bonuses and awards under it are determined by the Remuneration Committee.

### ● Share plans

The Share Plans comprise the Longer-term Performance Share Plan (the "Performance Plan") and the Longer-term Deferred Bonus Plan (the "Deferred Plan"). The Performance Plan covers the executive directors, divisional chief executives and senior head office employees and an award consists of a right to acquire shares which can be exercised for a nominal price, subject to the company satisfying performance conditions. The performance of the company is measured by comparing the company's growth in adjusted earnings per share with that of a similar group of UK and continental European chemical companies over a three year period. If the company's earnings per share growth is in the top quartile of the comparator group over that period, the participant may receive the full number of shares awarded to him or her; if worse than the 60th percentile in the comparator group, the participant will receive nothing. Between the 25th and 60th percentiles, the proportion of the maximum award will be calculated on a sliding scale with 100 per cent of the maximum award payable at

# Remuneration Report continued

the 25th percentile and 20 per cent payable at the 60th percentile. In addition an award must be exercised as to one third after each of three, four and five years. The value of shares awarded under the Performance Plan in any financial year to any individual may not exceed 50% of his annual salary (excluding benefits in kind). In 2001 the performance conditions relating to the awards made in 1998 were assessed. As a result of the growth in the company's earnings per share over the three year period from 1998 to 2000 ranking it ninth in the comparator group of twenty one companies each participant received 59.2% of the shares awarded to him in 1998.

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

During 2001, 266,527 shares and 9,325 shares were awarded under the Performance Plan and the Deferred Plan respectively.

The Remuneration Committee undertook a review of the Share Plans during the course of 2001 and its recommendation that a replacement for the Performance Plan be introduced in 2002 was accepted by the Board. Accordingly the notice for the 2002 Annual General Meeting contains a resolution seeking shareholder approval for a new long term incentive share plan, a summary of the principal terms of which will be described in the circular to be dated 12 April 2002 issued by the company to its shareholders.

## Remuneration details

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

## Service contracts

No director has a service contract with a notice period in excess of one year or with provisions for pre-determined compensation on termination which exceeds one year's salary and benefits in kind.

Details of service contracts relating to those directors seeking re-election or re-appointment at the forthcoming Annual General Meeting are given in the Directors' Report.

## AGM approval

The report of the Remuneration Committee has been submitted to the 2002 Annual General Meeting for approval.

# Directors' Remuneration

	2001 £000	2000 £000
The total amounts for directors' remuneration and other benefits were:		
Emoluments	1,027	913
Pensions to former directors	1	1
	1,028	914

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

	Base salary 2001 £	Bonuses 2001 £	Benefits 2001 £	Total 2001 £	Total 2000 £
A Walker – Highest paid director	340,000	94,656	30,335	464,991	349,837
S V Cummins	180,000	50,112	13,877	243,989	173,370
		Increase in accrued pension excluding inflation	Transfer value of increase	Accumulated total pension accrued at 31 December	
		£	£	2001 £	2000 £
A Walker		16,488	221,292	195,858	178,123
S V Cummins		1,588	10,467	3,479	1,877

The pension entitlement shown is the amount that would be paid each year on retirement based on service to the end of the current year.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance note GN 11 and is net of directors' contributions.

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 £36,000.

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

	Fees 2001 £	Benefits 2001 £	Total 2001 £	Total 2000 £
A E Richmond-Watson - Chairman	90,000	–	90,000	62,672
R M Alias	23,000	–	23,000	21,667
The Hon. A G Catto	23,000	–	23,000	21,667
Lord Catto – Chairman (resigned 23 May 2000)	–	–	–	23,681
J M Hessels	–	–	–	1,878
Dato' Lee Hau Hian	–	–	–	8,250
Dato' Lee Oi Hian	23,000	–	23,000	21,667
R H Hunting	23,000	–	23,000	20,417
G Montezemolo	18,488	–	18,488	–
Dr M J Peagram	51,909	8,513	60,422	99,422
P B Sawdy	11,500	–	11,500	21,667
P J Welch	25,000	–	25,000	25,000
P S Wood	21,083	–	21,083	–
	309,980	8,513	318,493	327,988

Fees in respect of the services of P B Sawdy were paid to Peter Sawdy Associates.

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

# Directors' Interests

## Shareholdings

Given below are details of the interests of the directors in the share capital of the company at 31 December 2001 and 31 December 2000 (or for those directors appointed during the year at the date of their appointment).

	Ordinary shares		Options	
	2001	2000	2001	2000
R M Alias	Nil	Nil		
The Hon. A G Catto	1,732,108 2,876,297 (a)	1,738,441 2,907,964 (a)		
S V Cummins	10,563	10,000	105,857	52,915
R H Hunting	2,500	2,500		
Dato' Lee Hau Hian	2,613	2,613		
Dato' Lee Oi Hian	27,248	27,248		
G Montezemolo	1,000	Nil		
Dr M J Peagram	8,378,502	8,397,507	203,749	203,749
A E Richmond-Watson	798,647 159,632 (a)	798,647 159,632 (a)		
A Walker	202,083	161,292	376,179	335,153
P J Welch	61,827	61,827		
P S Wood	2,500	Nil		

(a) Non-beneficial interest

Between 31 December 2001 and 21 February 2002 there were no changes in the directors' holdings.

## Executive and savings-related options

At 01.01.01	Granted	Number of options during the year Lapsed	Exercised	At 31.12.01	Exercise Price	Weighted average market price at date of exercise	Potential pre-tax gain at date of exercise £	Notional value £	Exercise period
<b>A Walker</b>									
100,000 (a)	–		–	100,000	299.0p	–	–	–	1997-2004
14,897 (b)	–		14,897	Nil		165.7p	24,690	–	1999-2003
28,209 (b)	–		18,806	9,403	–	188.7p	35,494	20,734	2000-2004
35,461 (c)	–	14,468 (d)	6,998	13,995		217.5p	15,219	30,859	2001-2005
54,152 (c)	–		–	54,152	–	–	–	119,405	2002-2006
91,429 (c)	–		–	91,429	–	–	–	201,601	2003-2007
3,805 (e)	–	3,805	–	Nil	–	–	–	–	
7,200 (e)	–		–	7,200	150.0p	–	–	5,076	2006
–	100,000 (c)			100,000	–	–	–	220,500	2004-2008
<u>335,153</u>				<u>376,179</u>			<u>75,403</u>	<u>598,175</u>	
<b>S V Cummins</b>									
45,715 (c)			–	45,715	–	–	–	100,802	2003-2007
7,200 (e)			–	7,200	150.0p	–	–	5,076	2008
–	52,942 (c)			52,942				116,737	2004-2008
<u>52,915</u>				<u>105,857</u>				<u>222,615</u>	
<b>Dr M J Peagram</b>									
101,874 (f)	–		–	101,874	170.6p	–	–	50,835	1999-2006
101,875 (f)	–		–	101,875	222.7p	–	–	–	2000-2007
<u>203,749</u>				<u>203,749</u>				<u>50,835</u>	

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

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

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

(d) Options lapsed under the Longer-Term Performance Share Plan as the performance target was only partially achieved.

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

(f) 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 2001 of 220.5 pence.

# Statement of Directors' Responsibilities

## **Financial statements, including adoption of going concern basis**

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 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, subject to any material departures disclosed and explained in the financial statements.

## **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 Shareholders of Yule Catto & Co plc

We have audited the financial statements of Yule Catto & Co plc for the year ended 31 December 2001, which comprise the Consolidated Profit and Loss Account, Balance Sheets, Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses and the related notes numbered 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the directors which form part of the Remuneration Report on pages 21 to 25.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and UK Accounting Standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, UK Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the Corporate Governance Statements reflect the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if they do 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 other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Operating and financial review, Directors' report, Corporate Governance Statements, Remuneration Report, Statement of Directors' Responsibilities and Five Year Financial Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with UK 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. 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 of 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 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.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 31 December 2001 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

## Arthur Andersen

Chartered Accountants and Registered Auditors, Betjeman House, 104 Hills Road, Cambridge CB2 1LH

13 March 2002

# Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Existing operations		409,680	412,823
Acquired operations	2	31,333	–
		441,013	412,823
Discontinued operations		2,917	57,396
<b>Turnover of company and subsidiaries</b>	2	443,930	470,219
Share of turnover of joint ventures			
– Existing operations		27,719	40,269
– Acquired operations	2	3,172	–
– Discontinued operations		–	1,505
<b>Total turnover</b>	1	474,821	511,993
<b>Operating profit</b>			
Existing operations		42,308	43,125
Acquired operations	2	6,924	–
		49,232	43,125
Discontinued operations	2	(243)	(1,242)
Amortisation of goodwill	10	(13,845)	(12,955)
<b>Operating profit of company and subsidiaries</b>		35,144	28,928
Share of operating profit of joint ventures			
– Existing operations	2	3,329	6,033
– Acquired operations	2	552	–
– Discontinued operations	2	–	149
<b>Total operating profit</b>	2	39,025	35,110
Sale and termination of businesses	3	(13,498)	(4,884)
Costs of fundamental restructuring	3	–	(2,334)
Interest payable (net)	4	(12,590)	(11,913)
<b>Profit on ordinary activities before taxation</b>		12,937	15,979
Taxation on profit on ordinary activities	5	(11,681)	(18,195)
<b>Profit/(Loss) on ordinary activities after taxation</b>		1,256	(2,216)
Minority interests		(1,303)	(629)
<b>Loss attributable to shareholders</b>	6	(47)	(2,845)
Ordinary dividends	7	(17,245)	(16,643)
<b>Retained loss for the financial year</b>	21	(17,292)	(19,488)
<b>EBIT*</b>		52,870	48,065
<b>Profit before taxation*</b>		40,280	36,152
<b>Profit after taxation and minorities*</b>		27,296	25,400
<b>Earnings per share</b>			
– Adjusted	8	18.9p	16.9p
– FRS3	8	0.0p	(1.9)p
<b>Diluted earnings per share</b>	8	0.0p	(1.9)p

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

\*Excludes amortisation, sale and termination of business and costs of fundamental restructuring

# Balance Sheets

31 December 2001

	Note	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
<b>Fixed assets</b>					
Goodwill	10	255,690	225,680	–	–
Tangible fixed assets	11	172,535	143,400	10,012	12,918
		428,225	369,080		
Investments in joint ventures					
Share of gross assets		5,437	25,030		
Share of gross liabilities		(2,128)	(15,208)		
	12	3,309	9,822		
Investments	13	64	43	183,539	204,601
		431,598	378,945	193,551	217,519
<b>Current assets</b>					
Stocks	14	59,872	55,990	–	–
Debtors	15	98,145	98,656	100,013	124,982
Bank and cash balances		8,728	1,234	3,556	4
		166,745	155,880	103,569	124,986
<b>Creditors – due within one year</b>					
Borrowings	16	(71,483)	(50,845)	(63,247)	(19,927)
Dividends	7	(10,218)	(9,991)	(10,218)	(9,991)
Other creditors	18	(148,392)	(130,486)	(7,752)	(141,617)
<b>Net current (liabilities)/assets</b>		<b>(63,348)</b>	<b>(35,442)</b>	<b>22,352</b>	<b>(46,549)</b>
<b>Total assets less current liabilities</b>		<b>368,250</b>	<b>343,503</b>	<b>215,903</b>	<b>170,970</b>
<b>Creditors – due after more than one year</b>					
Borrowings	16	(160,410)	(115,174)	(159,812)	(114,959)
Other creditors		(81)	(580)	–	–
<b>Provisions for liabilities and charges</b>	19	<b>(9,752)</b>	<b>(14,383)</b>	<b>–</b>	<b>–</b>
<b>Net assets</b>		<b>198,007</b>	<b>213,366</b>	<b>56,091</b>	<b>56,011</b>
<b>Capital and reserves</b>					
Called up share capital	20	14,480	14,480	14,480	14,480
Share Premium	21	31,829	31,829	31,829	31,829
Revaluation Reserve	21	2,922	4,608	844	2,518
Capital Redemption Reserve	21	949	949	949	949
Profit and loss account	21	143,597	157,083	7,989	6,235
<b>Shareholders' funds – all equity</b>		<b>193,777</b>	<b>208,949</b>	<b>56,091</b>	<b>56,011</b>
Minority interests		4,230	4,417	–	–
<b>Capital employed</b>		<b>198,007</b>	<b>213,366</b>	<b>56,091</b>	<b>56,011</b>

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

Approved on 13 March 2002

A Walker  
S V Cummins } Directors

# Consolidated Cash Flow Statement

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
<b>Net cash inflow from operating activities</b>	22	79,615	51,146
<b>Dividends received from joint ventures</b>		3,885	6,560
<b>Returns on investments and servicing of finance</b>			
Interest received		373	842
Interest paid		(12,617)	(13,062)
Dividends paid to minority interests		(1,239)	(1,634)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(13,483)	(13,854)
<b>Taxation</b>			
UK corporation tax received/(paid)		1,161	(864)
Overseas corporate tax paid		(8,347)	(7,992)
<b>Total tax paid</b>		(7,186)	(8,856)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(34,088)	(25,095)
Sale of tangible fixed assets		2,941	349
Investments net of disposals		(21)	5
		(31,168)	(24,741)
<b>Free cash flow before dividends</b>		<b>31,663</b>	<b>10,255</b>
<b>Acquisitions and disposals</b>			
Purchase of businesses	23	(69,028)	(451)
Sale of businesses	3	(1,264)	62,413
<b>Equity dividends paid</b>		(17,018)	(16,988)
<b>Cash (outflow)/inflow before financing</b>		(55,647)	55,229
<b>Financing</b>			
Purchase of own shares		–	(17,924)
Issue of ordinary share capital		–	36
Proceeds of short term borrowings	24	14,072	6,186
Proceeds/(Repayment) of long term borrowings	24	45,224	(62,339)
<b>Net cash inflow/(outflow) from financing</b>		59,296	(74,041)
<b>Increase/(decrease) in cash &amp; cash equivalents</b>	24	3,649	(18,812)
<b>Reconciliation of cashflow before financing to net borrowings</b>			
<b>Cash (outflow)/inflow before financing</b>		(55,647)	55,229
Purchase of own shares		–	(17,924)
Issue of ordinary share capital		–	36
Exchange movements		(2,733)	248
<b>Movement in net borrowings</b>		(58,380)	37,589

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 2001

	Note	2001 £000	2000 £000
Profit attributable to shareholders	6	(47)	(2,845)
Exchange adjustments	21	(3,220)	1,133
<b>Total recognised gains and losses for the year</b>		<b>(3,267)</b>	<b>(1,712)</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 2001

	Note	2001 £000	2000 £000
Loss attributable to shareholders	6	(47)	(2,845)
Exchange adjustments	21	(3,220)	1,133
		(3,267)	(1,712)
Dividends	7	(17,245)	(16,643)
Purchase of own shares	21	–	(17,924)
New share capital issued		–	36
Goodwill written back – sale of business	21	9,181	11,424
Elimination of previous equity accounting of Harlow Chemical Company Limited	21	(3,841)	–
Net reduction in shareholders' funds		(15,172)	(24,819)
Shareholders' funds at 1 January 2001		208,949	233,768
<b>Shareholders' funds at 31 December 2001</b>		<b>193,777</b>	<b>208,949</b>

# Principal Accounting Policies

for the year ended 31 December 2001

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

## Basis of accounting

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

## Basis of consolidation

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

## Foreign currencies

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

## Group sales

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

## Finance costs

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

## Goodwill

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

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

## Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Except for freehold land and land grants in Malaysia, the cost or valuation of tangible fixed assets is depreciated using a straight line basis over their expected useful lives as follows:

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

## Revaluation of properties

The group has taken advantage of the transitional provisions of FRS 15 "Tangible fixed assets" and retained the book amounts of certain freehold properties which were revalued prior to implementation of that standard.

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

### Leased assets

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

### Investments

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

### Stocks

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

### Research and development

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

### Debt

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

### Taxation

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

### Deferred taxation

Provision is made for deferred taxation, using the liability method, on all timing differences which are expected to reverse in the foreseeable future. Provision for tax on capital gains payable on the disposal of revalued properties is made only when it is decided in principle to dispose of the asset.

### 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.

# Notes to the Financial Statements

31 December 2001

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

	Total turnover 2001 £000	Profit 2001 £000	Net assets 2001 £000	Total turnover 2000 £000	Profit 2000 £000	Net assets 2000 £000
<b>Analysis by activity</b>						
Polymer Chemicals	238,829	31,113	84,974	217,216	22,781	67,388
Pharma & Fine Chemicals	85,621	11,104	32,104	88,021	11,272	33,897
Performance Chemicals	147,454	15,317	32,917	157,496	16,315	40,491
Building Products	2,917	(243)	2,202	49,260	2,292	3,340
Holding companies	–	(4,421)	268,975	–	(4,595)	233,035
	474,821			511,993		
Operating profit*		52,870			48,065	
Sale and termination of businesses		(13,498)			(4,884)	
Costs of fundamental restructuring		–			(2,334)	
Interest payable		(12,590)			(11,913)	
Profit before taxation*		26,782			28,934	
Amortisation of goodwill		(13,845)			(12,955)	
<b>Profit before taxation</b>		12,937			15,979	
			421,172			378,151
<b>Net borrowings</b>			(223,165)			(164,785)
<b>Net assets</b>			198,007			213,366

Of the amounts included within the Polymer Chemicals line of the above analysis by activity, the following relate to the joint ventures; turnover **£30,891,000** (2000 £41,774,000), profit **£3,881,000** (2000 £6,182,000) and net assets **£3,309,000** (2000 £9,822,000).

	Total turnover 2001 £000	Operating profit* 2001 £000	Net assets 2001 £000	Total turnover 2000 £000	Operating profit* 2000 £000	Net assets 2000 £000
<b>Analysis by region of operation</b>						
Europe	389,493	45,882	371,426	431,191	41,891	346,251
Asia	55,702	4,112	41,582	57,728	5,775	21,983
Rest of World	29,626	2,876	8,164	23,074	399	9,917
	474,821	52,870	421,172	511,993	48,065	378,151
Net borrowings			(223,165)			(164,785)
Net assets			198,007			213,366

Of the turnover made by operations based in Europe **£218,728,000** (2000 £241,733,000) relates to operations based in the United Kingdom, **£49,869,000** (2000 £62,466,000) relates to operations based in Germany and **£120,896,000** (2000 £127,012,000) relates to operations based elsewhere.

	2001 £000	2000 £000
<b>Analysis of total turnover by destination</b>		
United Kingdom	124,819	146,797
Other Europe	177,954	193,233
Asia	85,010	89,737
Africa and Middle East	31,614	24,609
Rest of World	55,424	57,617
	474,821	511,993

\* Before amortisation of goodwill

# Notes to the Financial Statements continued

31 December 2001

## 1 Analysis of total turnover, profit and net assets (continued)

### Acquired operations

	Total turnover 2001 £000	Operating profit 2001 £000
<b>Analysis by activity – acquired operations</b>		
Polymer Chemicals	34,505	7,476

	Total turnover 2001 £000	Operating profit 2001 £000
<b>Analysis by region of operation – acquired operations</b>		
United Kingdom	31,333	6,924
Africa & Middle East	3,172	552
	<b>34,505</b>	<b>7,476</b>

	2001 £000
<b>Analysis of total turnover by destination – acquired operations</b>	
United Kingdom	16,542
Other Europe	9,062
Asia	1,940
Africa & Middle East	3,590
Rest of World	3,371
	<b>34,505</b>

Of the amounts included above for acquired operations, £3,172,000 of the turnover and £552,000 of operating profit relates to joint ventures.

### Discontinued operations

	Total turnover 2001 £000	Operating profit 2001 £000	Total turnover 2000 £000	Operating profit 2000 £000
<b>Analysis by activity – discontinued operations</b>				
Polymer Chemicals	–	–	1,093	(277)
Performance Chemicals	–	–	8,548	(2,724)
Building Products	2,917	(243)	49,260	1,909
Interest payable by joint ventures	–	–	–	(1)
	<b>2,917</b>	<b>(243)</b>	<b>58,901</b>	<b>(1,093)</b>

	Total turnover 2001 £000	Operating profit 2001 £000	Total turnover 2000 £000	Operating profit 2000 £000
<b>Analysis by region of operation – discontinued operations</b>				
United Kingdom	2,917	(243)	46,616	(2,635)
Other Europe	–	–	11,192	1,819
Asia	–	–	1,093	(227)
Rest of World	–	–	–	–
	2,917	(243)	58,901	(1,093)

	2001 £000	2000 £000
<b>Analysis of total turnover by destination – discontinued operations</b>		
United Kingdom	2,917	38,180
Other Europe	–	15,284
Asia	–	3,005
Africa and Middle East	–	136
Rest of World	–	2,296
	2,917	58,901

## 2 Operating profit

	Company and subsidiaries 2001 £000	Joint ventures 2001 £000	Total 2001 £000	Company and subsidiaries 2000 £000	Joint ventures 2000 £000	Total 2000 £000
Turnover	443,930	30,891	474,821	470,219	41,774	511,993
Cost of sales	(311,560)	(19,559)	(331,119)	(342,619)	(23,692)	(366,311)
Gross profit	132,370	11,332	143,702	127,600	18,082	145,682
Distribution costs	(40,561)	(1,609)	(42,170)	(46,256)	(2,973)	(49,229)
Administrative expenses						
– Amortisation of goodwill	(13,845)	–	(13,845)	(12,955)	–	(12,955)
– Other	(42,820)	(5,842)	(48,662)	(39,461)	(8,927)	(48,388)
Operating profit	35,144	3,881	39,025	28,928	6,182	35,110
Add back: amortisation of goodwill	13,845		13,845	12,955		12,955
Operating profit excluding amortisation of goodwill	48,989		52,870	41,883		48,065

# Notes to the Financial Statements continued

31 December 2001

## 2 Operating profit (continued)

	Company and subsidiaries 2001 £000	Joint ventures 2001 £000	Total 2001 £000
<b>Acquired operations</b>			
Turnover	31,333	3,172	34,505
Cost of sales	(13,318)	(1,982)	(15,300)
Gross profit	18,015	1,190	19,205
Distribution costs	(3,026)	520	(2,506)
Administrative expenses	(8,065)	(1,147)	(9,212)
Other operating income	–	–	–
Interest payable by joint ventures	–	(11)	(11)
Operating profit	6,924	552	7,476

	Company and subsidiaries 2001 £000	Joint ventures 2001 £000	Total 2001 £000	Company and subsidiaries 2000 £000	Joint ventures 2000 £000	Total 2000 £000
<b>Discontinued operations</b>						
Turnover	2,917	–	2,917	57,396	1,505	58,901
Cost of sales	(1,987)	–	(1,987)	(42,904)	(1,134)	(44,038)
Gross profit	930	–	930	14,492	371	14,863
Distribution costs	(468)	–	(468)	(8,257)	(126)	(8,383)
Administrative expenses	(705)	–	(705)	(7,581)	(95)	(7,676)
Other operating income	–	–	–	104	–	104
Interest payable by joint ventures	–	–	–	–	(1)	(1)
Operating (loss)/profit	(243)	–	(243)	(1,242)	149	(1,093)

	2001 £000	2000 £000
Operating profit is stated after charging:		
Depreciation	19,731	18,687
Hire of plant and equipment	2,683	1,952
Other lease rentals	2,312	2,719
Audit fee paid to group auditors	389	417
Audit fee paid to other auditors	34	51
Non audit services paid to group auditors	512	334
Non audit services paid to other auditors	10	24

The audit fee of the holding company amounted to **£5,000** (2000 **£5,000**).

In addition to the amounts charged to operating profit, **£394,000** (2000 **£157,000**) was paid to the group auditors in respect of acquisitions and disposals of businesses.

Research and development expenditure, including the group's share of that incurred by the joint ventures, amounted to **£10,916,000** (2000 **£10,863,000**).

### 3 Exceptional items

	2001 £000	2000 £000
<b>Discontinued operations</b>		
Cost of termination of businesses	–	(36,834)
(Loss)/Profit on sale of businesses	(13,498)	31,950
Sale and termination of businesses	(13,498)	(4,884)
<b>Continuing operations</b>		
Cost of fundamental restructuring	–	(2,334)
	(13,498)	(7,218)
Tax on exceptional items	–	(8,072)
	(13,498)	(15,290)

#### Loss on sale of business

On 9 May, the group disposed of its 100% interest in Unilock Ltd. The operating loss of this operation up to the date of disposal was £243,000, and the retained loss for the previous financial year was £1,673,000. The cash outflow in respect of the disposal was £1,264,000.

	Total £000
<b>Loss on sale of business before goodwill</b>	(4,317)
Related goodwill	(9,181)
<b>Loss on sale of business</b>	(13,498)

### 4 Interest payable (net)

	2001 £000	2000 £000
Interest payable on bank loans and overdrafts		
Repayable within 5 years – not by instalments	4,594	2,756
– by instalments	1,793	2,903
Interest payable on other loans	6,911	6,951
	13,298	12,610
Less: interest receivable	(373)	(842)
	12,925	11,768
Interest payable by joint ventures	203	145
	13,128	11,913
Less : finance costs capitalised	(538)	–
	12,590	11,913

# Notes to the Financial Statements continued

31 December 2001

## 5 Taxation on profit on ordinary activities

	2001 £000	2000 £000
UK corporation tax	(206)	486
Overseas taxation	10,866	7,654
Deferred taxation	103	195
Joint ventures	918	1,788
	11,681	10,123
Tax on sale and termination of businesses	–	8,465
Tax on cost of fundamental restructuring	–	(393)
<b>Charge for the year</b>	<b>11,681</b>	<b>18,195</b>

## 6 Loss attributable to shareholders

	2001 £000	2000 £000
Dealt with by Yule Catto & Co plc	17,325	18,167
Retained by subsidiaries	(17,382)	(18,846)
Retained by joint ventures	10	(2,166)
	(47)	(2,845)

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

## 7 Dividends

	2001 £000	2000 £000
Ordinary – interim of 4.9 pence per share (2000 4.7 pence)	7,027	6,652
– proposed final of 7.1 pence per share (2000 6.9 pence)	10,218	9,991
	17,245	16,643

## 8 Earnings per share

Earnings per share are calculated using the weighted average number of shares in issue during the year of 144,804,000 (2000 149,862,000).

	Earnings		Earnings per share	
	2001 £000	2000 £000	2001 p	2000 p
Earnings - FRS3	(47)	(2,845)	–	(1.9)
Amortisation of goodwill	13,845	12,955	9.6	8.6
Exceptional items				
Sale and termination of businesses	13,498	4,884	9.3	3.2
Costs of fundamental restructuring	–	2,334	–	1.6
Tax on exceptional items	–	8,072	–	5.4
Adjusted earnings	27,296	25,400	18.9	16.9

Diluted earnings per share of 0.0p (2000 1.9p) is calculated on loss attributable to ordinary shareholders of £47,000 (2000 £2,845,000) and on 145,374,307 shares (2000 150,321,000), being the weighted average number of shares in issue during the year, as adjusted for unexercised share options in accordance with FRS14.

## 9 Employees

	2001 Number	2000 Number
The average monthly number of employees during the year by activity was:		
Polymer Chemicals	1,380	1,119
Pharma & Fine Chemicals	633	662
Performance Chemicals	1,447	1,592
Building Products	29	415
Holding companies	31	33
	3,520	3,821
Joint ventures	99	367
	3,619	4,188

# Notes to the Financial Statements continued

31 December 2001

## 9 Employees (continued)

	2001 £000	2000 £000
The aggregate remuneration of all group employees comprised:		
Wages and salaries	62,291	72,088
Social security costs	9,296	10,293
Other pension costs – see note 28	3,550	3,396
	<hr/> 75,137	<hr/> 85,777

## 10 Goodwill

Group	£000
Cost	
At 1 January 2001	258,646
Acquisitions (see note 23)	43,855
<hr/> At 31 December 2001	<hr/> 302,501
Amortisation	
At 1 January 2001	(32,966)
Charge in the year	(13,845)
<hr/> At 31 December 2001	<hr/> (46,811)
Net book value	
<hr/> At 31 December 2001	<hr/> 255,690
At 31 December 2000	225,680

## 11 Tangible fixed assets

Group	Land and buildings			Plant and equipment £000	Total £000
	Freeholds £000	Leaseholds Long £000	Short £000		
Cost or valuation					
At 1 January 2001	66,073	455	204	247,120	313,852
Exchange adjustments	625	2	6	(3,042)	(2,409)
Additions	1,360	–	–	32,728	34,088
Acquisition of a subsidiary undertaking	464	4,461	–	48,270	53,195
Sale of subsidiary undertaking	–	–	–	(3,681)	(3,681)
Disposals	(3,711)	(145)	–	(3,799)	(7,655)
<b>At 31 December 2001</b>	<b>64,811</b>	<b>4,773</b>	<b>210</b>	<b>317,596</b>	<b>387,390</b>
At cost					
At cost	57,674	4,670	210	317,596	380,150
At professional valuation in 1985	3,656	89	–	–	3,745
At professional valuation in 1989	3,495	–	–	–	3,495
<b>At 31 December 2001</b>	<b>64,825</b>	<b>4,759</b>	<b>210</b>	<b>317,596</b>	<b>387,390</b>
Depreciation					
At 1 January 2001	16,271	148	74	153,959	170,452
Exchange adjustments	945	–	2	(2,376)	(1,429)
Charge for the year	2,145	53	7	17,526	19,731
Acquisition of a subsidiary undertaking	90	1,209	–	33,146	34,445
Sale of subsidiary undertaking	–	–	–	(3,559)	(3,559)
Eliminated on disposals	(1,650)	(44)	–	(3,091)	(4,785)
<b>At 31 December 2001</b>	<b>17,801</b>	<b>1,366</b>	<b>83</b>	<b>195,605</b>	<b>214,855</b>
Net book value					
<b>At 31 December 2001</b>	<b>47,010</b>	<b>3,407</b>	<b>127</b>	<b>121,991</b>	<b>172,535</b>
At 31 December 2000	49,802	307	130	93,161	143,400

Properties included at valuation would have been stated on a historical cost basis at cost of **£2,676,000** (2000 £4,574,000) and depreciation of **£939,000** (2000 £1,836,000).

Freehold land amounting to **£10,737,000** (2000 £9,232,000) has not been depreciated.

Cumulative finance costs capitalised, included in the cost of tangible fixed assets, amount to **£538,000** (2000 £nil).

# Notes to the Financial Statements continued

31 December 2001

## 11 Tangible fixed assets (continued)

Company	Land and buildings		Plant and equipment £000	Total £000
	Freeholds £000	Long Leaseholds £000		
Cost or valuation				
At 1 January 2001	13,837	234	1,571	15,642
Additions	346	–	110	456
Disposals	(3,676)	(145)	(142)	(3,963)
<b>At 31 December 2001</b>	<b>10,507</b>	<b>89</b>	<b>1,539</b>	<b>12,135</b>
At cost	4,247	–	1,539	5,786
At professional valuation in 1985	2,765	89	–	2,854
At professional valuation in 1989	3,495	–	–	3,495
	<b>10,507</b>	<b>89</b>	<b>1,539</b>	<b>12,135</b>
Depreciation				
At 1 January 2001	1,595	72	1,057	2,724
Charge for the year	1,032	4	208	1,244
Eliminated on disposals	(1,631)	(44)	(170)	(1,845)
<b>At 31 December 2001</b>	<b>996</b>	<b>32</b>	<b>1,095</b>	<b>2,123</b>
Net book value				
<b>At 31 December 2001</b>	<b>9,511</b>	<b>57</b>	<b>444</b>	<b>10,012</b>
At 31 December 2000	12,242	162	514	12,918

Properties included at valuation would have been stated on a historical cost basis at cost of **£1,877,000** (2000 £3,754,000) and depreciation of **£285,000** (2000 £1,197,000).

Freehold land amounting to **£3,095,000** (2000 £3,228,000) has not been depreciated.

Cumulative finance costs capitalised, included in the cost of tangible fixed assets, amount to **£nil** (2000 £nil).

## 12 Investment in joint ventures

	2001 £000	2000 £000
Share of assets		
Share of fixed assets	1,289	12,798
Share of current assets	4,148	12,232
	<b>5,437</b>	<b>25,030</b>
Share of liabilities		
Liabilities due within one year	(2,128)	(15,208)
Share of net assets	<b>3,309</b>	<b>9,822</b>

Reconciliation of movements in investment in joint ventures	2001 £000
At 1 January 2001	9,822
Share of profit before tax for the year	3,678
Share of taxation for the year	(918)
Share of dividends payable during the year	(2,770)
Transfer of joint venture to subsidiary (see note 23)	(7,895)
Increase in stake of joint venture (see note 23)	1,437
Exchange adjustments	(45)
<b>At 31 December 2001</b>	<b>3,309</b>

### 13 Investments

Group	Own shares £000	Other investments £000	Total £000
Cost			
At 1 January 2001	890	43	933
Additions	509	32	541
Disposals	(362)	(11)	(373)
<b>At 31 December 2001</b>	<b>1,037</b>	<b>64</b>	<b>1,101</b>
Adjustments to net tangible asset values			
At 1 January 2001	(890)	–	(890)
Amortisation	(509)		(509)
Disposals	362	–	362
<b>At 31 December 2001</b>	<b>(1,037)</b>	<b>–</b>	<b>(1,037)</b>
Net book value			
<b>At 31 December 2001</b>	<b>–</b>	<b>64</b>	<b>64</b>
At 31 December 2000	–	43	43

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 Monument Trust Company Limited, an independent company located in Guernsey. At 31 December 2001, the Trust held 408,170 (2000 395,705) ordinary shares in the company with a market value of £900,000 (2000 £653,000). The dividends on these shares have been waived. All of the shares are under option. Costs are amortised over the life of the plans.

# Notes to the Financial Statements continued

31 December 2001

## 13 Investments (continued)

Company	Subsidiaries £000	Joint ventures £000	Other investments £000	Total £000
Cost				
At 1 January 2001	207,354	3,992	25	211,371
Additions net of disposals	–	–	21	21
Transfer to group companies	(23,023)	(3,492)	–	(26,515)
<b>At 31 December 2001</b>	<b>184,331</b>	<b>500</b>	<b>46</b>	<b>184,877</b>
Provisions				
At 1 January 2001	(6,550)	(220)	–	(6,770)
Transfer to group companies	5,432	–	–	5,432
<b>At 31 December 2001</b>	<b>(1,118)</b>	<b>(220)</b>	<b>–</b>	<b>(1,338)</b>
Net book value				
<b>At 31 December 2001</b>	<b>183,213</b>	<b>280</b>	<b>46</b>	<b>183,539</b>
At 31 December 2000	200,804	3,772	25	204,601

Details of the principal group companies are given on pages 59 to 60.

## 14 Stocks

	2001 £000	2000 £000
Group		
Raw materials and consumables	22,834	22,570
Work in progress	5,434	9,765
Finished goods	31,604	23,655
	<b>59,872</b>	<b>55,990</b>

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

## 15 Debtors

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Trade debtors	88,630	85,671	563	–
Amounts owed by subsidiaries	–	–	93,102	119,411
Amounts owed by joint ventures	–	1,250	–	1,315
Other debtors	8,716	11,292	6,348	4,221
Prepayments and accrued income	799	443	–	35
	<b>98,145</b>	<b>98,656</b>	<b>100,013</b>	<b>124,982</b>
Receivable within one year	94,486	92,266	100,013	124,982
Receivable after more than one year	3,659	6,390	–	–
	<b>98,145</b>	<b>98,656</b>	<b>100,013</b>	<b>124,982</b>

## 16 Borrowings

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
<b>Amounts due within one year</b>				
Instalments due on loans	–	11,250	–	11,250
Other bank loans and overdrafts	71,483	39,595	63,247	8,677
	<b>71,483</b>	<b>50,845</b>	<b>63,247</b>	<b>19,927</b>
<b>Amounts due after more than one year</b>				
Loans repayable by instalments				
Between 1 and 2 years	598	15,000	–	15,000
Between 2 and 5 years	59,809	215	59,809	–
Loans repayable otherwise than by instalments				
In more than 5 years	100,003	99,959	100,003	99,959
	<b>160,410</b>	<b>115,174</b>	<b>159,812</b>	<b>114,959</b>

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

\$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010.

£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010.

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

# Notes to the Financial Statements continued

31 December 2001

## 17 Treasury

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

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

As permitted by FRS 13 "Derivatives and other financial instruments: Disclosures", short term debtors and creditors have been excluded from the disclosures, other than currency disclosures.

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

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

### Interest rate risk

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

### Liquidity risk

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

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

A committed £150m syndicated bank facility, which comprises a term loan of £60m for medium term requirements, repayable in tranches and a revolving credit facility of £60m which expires in November 2006 and a 364 day facility which the company had the option to extend until November 2004. The latter two provide flexibility for short-term fluctuations in cash flow.

Unsecured loan notes totalling just over £100m raised primarily from the US private placement market. With maturity between 2008 and 2010, this provides the group's long term requirements.

### Foreign currency risk

The group uses currency borrowings and currency swaps to hedge overseas net assets, which are predominantly denominated in euros. Profit translation exposures are not hedged. The group hedges currency transaction exposures at the point of confirmed order, using forward foreign exchange contracts. The group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. Consequently, there are no material currency exposures to disclose (2000 - none).

## Interest rate risk profile

### Financial assets

The group has no financial assets, other than short-term debtors and cash at bank (2000 - none).

### Financial liabilities

After taking into account the various interest rate and currency swaps entered into by the group, the currency and interest rate exposure of the group as at 31 December 2001 was:

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

	Total borrowings 2000 £000	Floating rate borrowings 2000 £000	Fixed rate borrowings 2000 £000	Weighted average fixed interest rate 2000 %	Weighted average time for which rate is fixed 2000 years
Sterling	127,156	(7,844)	135,000	7.3	4.5
Euro currencies	28,412	28,412	–	–	–
Other	10,451	10,451	–	–	–
	166,019	31,019	135,000	7.3	4.5

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.

# Notes to the Financial Statements continued

31 December 2001

## 17 Treasury (continued)

### Maturity of financial liabilities

The maturity of the group's financial liabilities at 31 December was as follows:	2001 £000	2000 £000
In one year or less on demand	71,483	50,845
In more than one year but not more than two years	598	15,000
In more than two years but not more than five years	59,809	215
In more than five years	100,003	99,959
	<hr/>	<hr/>
	231,893	166,019

### Borrowing facilities

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

	2001 £000	2000 £000
Expiring in one year or less	–	9,147
Expiring in more than one year but not more than two years	–	45,000
Expiring in more than two years but not more than five years	50,000	–
	<hr/>	<hr/>
	50,000	54,147

In addition to the committed facilities, the group has **£26.2m** (2000 **£21.0m**) of undrawn overdraft facilities.

### Fair values of financial assets and financial liabilities

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

	Notional principal amounts at 31 December		Carrying values at 31 December		Fair values at 31 December	
	2001	2000	2001	2000	2001	2000
	£000	£000	£000	£000	£000	£000
Cash	8,728	1,234	8,728	1,234	8,728	1,234
Short-term borrowings	(71,483)	(50,845)	(71,483)	(50,845)	(71,610)	(50,845)
Loans	(160,410)	(115,174)	(160,410)	(115,174)	(168,321)	(120,914)
			(223,165)	(164,785)		
Currency swaps	85,535	105,505	–	2,027	8,105	7,767
Interest rate swaps	194,365	135,000	–	–	(4,223)	(2,608)
Total net liabilities			(223,165)	(162,758)	(227,321)	(165,366)
Financial assets			8,728	3,261		
Financial liabilities			(231,893)	(166,019)		
			(223,165)	(162,758)		

Fair values have been obtained from the relevant institutions.

The difference between the carrying value and the fair value of the loans of **£7,911,000**, (2000 **£5,740,000**) 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 2001 (2000 **£nil**).

The interest rate and currency swaps in place are an integral part of the group's interest rate hedging strategy and as such there is no intention to cancel these contracts before maturity. In the hypothetical event that the contracts had been cancelled at 31 December 2001, the net compensation receivable would have been **£3,882,000** (2000 **£5,159,000**). During the year the effect of the hedging undertaken has been a credit of **£1,494,000** (2000 **£630,000**) to the group's profit and loss account.

The hedging undertaken ensures that a substantial proportion of the group's interest charge for 2002 and beyond is known with certainty. Should variable rates remain constant, the credit to the profit and loss account in 2002 in respect of the group's obligations under hedging contracts will be **£393,000**. If variable rates increase, the credit to the profit and loss account in 2002 in respect of the group's obligations under the hedging contracts will decrease accordingly.

# Notes to the Financial Statements continued

31 December 2001

## 18 Other creditors

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
<b>Amount due within one year</b>				
Trade creditors	75,329	65,684	1,698	722
Bills of exchange payable	1,240	823	–	–
Amounts owed to subsidiaries	–	–	367	134,087
Amounts owed to joint ventures	151	483	–	578
Corporate tax	27,818	22,657	–	–
Other taxation and social security	4,874	3,815	98	87
Other creditors	19,033	16,521	2,297	2,522
Accruals and deferred income	19,947	20,503	3,292	3,621
	<b>148,392</b>	<b>130,486</b>	<b>7,752</b>	<b>141,617</b>

## 19 Provisions for liabilities and charges

	Deferred taxation £000	Termination costs £000	Deferred income £000	Pension liabilities £000	Product warranties £000	Total £000
At 1 January 2001	5,109	5,953	125	3,090	106	14,383
Exchange adjustments	(83)	–	–	(46)	–	(129)
Transfers from/(to) profit and loss account	103	–	(63)	343	410	793
Acquisition of a subsidiary undertaking	260	–	–	–	–	260
Utilised	–	(5,443)	–	(6)	(106)	(5,555)
<b>At 31 December 2001</b>	<b>5,389</b>	<b>510</b>	<b>62</b>	<b>3,381</b>	<b>410</b>	<b>9,752</b>

## Deferred taxation

	Provided 2001 £000	Unprovided 2001 £000	Provided 2000 £000	Unprovided 2000 £000
Accelerated capital allowances	4,301	15,054	4,021	5,697
Other timing differences	1,088	–	1,088	–
	<b>5,389</b>	<b>15,054</b>	<b>5,109</b>	<b>5,697</b>

The termination costs relate to the closure of Holliday Dyes & Chemicals Ltd.

## 20 Share capital

	2001 £000	2000 £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
	22,500	22,500
<b>Allotted, called up and fully paid</b>		
144,803,918 ordinary shares	14,480	14,480

### Share options

As at 31 December 2001 the following options were outstanding:

	Number	Option Price
<b>Executive share options</b>		
Exercisable between 2002 - 2004	260,000	299.0p
Exercisable between 2002 - 2006	246,658	170.6p
Exercisable between 2002 - 2004	12,858	(a)
Exercisable between 2002 - 2007	292,296	222.7p
Exercisable between 2002 - 2005	32,375	(a)
Exercisable between 2002 - 2006	117,023	(a)
Exercisable between 2003 - 2007	253,697	(a)
Exercisable between 2004 - 2008	275,852	(a)
<b>SAYE options</b>		
Exercisable in 2002	25,017	155.8p
Exercisable between 2002 - 2003	152,829	193.9p
Exercisable between 2002 - 2003	91,743	272.0p
Exercisable between 2006 - 2008	1,405,935	150.0p

(a) options granted under the Longer-Term Performance Share Plan and the Longer-Term Deferred Bonus Plan with a total exercise price of £77.

## 21 Share premium and reserves

Group	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2001	31,829	4,608	949	157,083	194,469
Exchange adjustments	–	(12)	–	(3,208)	(3,220)
Retained loss for the year	–	–	–	(17,292)	(17,292)
Revaluation reserve realised on disposal	–	(1,674)	–	1,674	–
Elimination of previous equity accounting of Harco	–	–	–	(3,841)	(3,841)
Goodwill written back – sale of business	–	–	–	9,181	9,181
<b>At 31 December 2001</b>	<b>31,829</b>	<b>2,922</b>	<b>949</b>	<b>143,597</b>	<b>179,297</b>

# Notes to the Financial Statements continued

31 December 2001

## 21 Share premium and reserves (continued)

Goodwill of **£47,295,000** (2000 **£33,450,000**) has been amortised and **£81,664,000** (2000 **£90,607,000**) has been written off to the reserves.

Company	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2001	31,829	2,518	949	6,235	41,531
Retained profit for the year	–	–	–	80	80
Revaluation reserve realised on disposal	–	(1,674)	–	1,674	–
<b>At 31 December 2001</b>	<b>31,829</b>	<b>844</b>	<b>949</b>	<b>7,989</b>	<b>41,611</b>

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

	2001 £000	2000 £000
Operating profit	38,822	35,110
Share of profits of joint ventures	(3,678)	(6,182)
	35,144	28,928
Depreciation charge	19,731	18,687
Cash impact of termination of businesses	(5,443)	(2,867)
Amortisation of goodwill	13,845	12,955
Amortisation of shares in ESOP Trust	(509)	(573)
Profit on sale of tangible fixed assets	(71)	(109)
Decrease/(increase) in stocks	4,759	(7,985)
Decrease/(increase) in debtors	12,229	(2,241)
(Decrease)/increase in creditors and provisions	(70)	4,351
<b>Net cash inflow from operating activities</b>	<b>79,615</b>	<b>51,146</b>
Net cash inflow from operating activities comprises:		
Continuing operating activities	80,088	52,545
Discontinued operating activities	(473)	(1,399)
	79,615	51,146

### 23 Purchase of businesses

On 7 August, the group acquired 50% of the shares of Harlow Chemical Company Limited. This acquisition increased the group's holding in Harlow Chemical Company Limited from 50% to 100%.

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

	Book value £000	Fair value adjustment £000	Fair value £000
Intangibles	4,000	(4,000)	–
Tangible fixed assets	18,750	–	18,750
Investment in joint ventures	2,873	–	2,873
Stocks	9,134	–	9,134
Debtors	14,277	–	14,277
Creditors and provisions	(16,368)	–	(16,368)
Net borrowings	(13,998)	–	(13,998)
Shareholders' funds	18,668	(4,000)	14,668
Goodwill added to balance sheet			43,855
Purchase consideration			
– cost of original 50% share		3,493	
– cost of 50% share acquired in 2001		54,630	
– acquisition costs for 50% share acquired in 2001		400	
			58,523

The following amounts relate to the 50% share acquired in 2001

Consideration paid	54,630
Add: acquisition costs	400
Cash consideration paid	55,030
Add: net borrowings	13,998
Net cash outflow in respect of 50% share acquired in 2001	69,028
Cash consideration paid	55,030
Less: assets acquired	(7,334)
Goodwill on the 50% share acquired in 2001	47,696

The investment in joint ventures represents a 49% interest in Dhahran Harco Chemical Industries Ltd.

The fair value adjustment is the write-off of an intangible asset which arose as a result of the sale of a production process from Yule Catto & Co plc to Harlow Chemical Company Limited in 1994.

# Notes to the Financial Statements continued

31 December 2001

## 23 Purchase of businesses (continued)

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

	Profit after tax £000
Year ended 31 December 2000	8,293
1 January 2001 – 7 August 2001	4,180

The group uses acquisition accounting to account for purchases.

## 24 Analysis of changes in net debt

Group	1 January 2001 £000	Cash inflow/ (outflow) £000	Exchange movement £000	31 December 2001 £000
Cash	1,234	5,747	1,747	8,728
Overdrafts	(15,156)	(2,098)	(4,317)	(21,571)
Cash and cash equivalents	(13,922)	3,649	(2,570)	(12,843)
Borrowings due within one year	(35,689)	(14,072)	(151)	(49,912)
Borrowings due after more than one year	(115,174)	(45,224)	(12)	(160,410)
Total	(164,785)	(55,647)	(2,733)	(223,165)

## Reconciliation of net cash inflow to movement in net debt

	2001 £000	2000 £000
Increase/(decrease) in cash and cash equivalents in the year	3,649	(18,812)
Cash (inflow)/outflow from decrease in debt	(59,296)	56,153
Change in net debt from cash flows	(55,647)	37,341
Exchange movement	(2,733)	248
Net debt at 1 January 2001	(58,380)	37,589
Net debt at 31 December 2001	(164,785)	(202,374)
Net debt at 31 December 2001	(223,165)	(164,785)

## 25 Related party transactions

There were no related party transactions during the year.

## 26 Commitments

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Capital expenditure authorised but not provided for in the accounts				
Contracted	1,519	1,535	–	–
	Land and buildings 2001 £000	Land and buildings 2000 £000	Other 2001 £000	Other 2000 £000
Commitments under operating leases are as follows:				
Operating leases which expire				
Within 1 year	74	112	677	615
Between 2 and 5 years	15	65	1,195	1,167
After 5 years	1,155	1,438	124	103
	1,244	1,615	1,996	1,885

## 27 Contingent liabilities and guarantees

- The company has given guarantees amounting to **£4,386,000** (2000 £17,059,000) in respect of bank and other facilities of subsidiaries and joint ventures.
- Other guarantees and contingent liabilities of the group amount to **£4,343,000** (2000 £9,966,000).
- 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.

## 28 Pension commitments

The group operates a number of pension schemes throughout the world. In 2001, the total pension cost for the group was **£3,550,000** (2000 £3,396,000) of which **£1,158,000** (2000 £1,161,000) relates to overseas schemes.

### UK pension schemes

The group participates in a funded defined benefits scheme (the Yule Catto Group Retirement Benefits Scheme). The assets of the scheme are held separately from those of the companies concerned.

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

Contributions to the defined benefit scheme are determined by a qualified actuary on the basis of regular valuations using the projected unit method. The most recent valuation was as at 6 April 2000. The assumptions, which have the most significant effect on the results of the valuation, are those relating to the rate of return on investments and the rate of increases in salaries and pensions. For non-retired members it was assumed the investment return would be 7.0% pa and that salaries would increase at 4.5% pa. For retired members it was assumed that the investment return would be 5.5% pa, and for all members it was assumed that all pensions for which increases were due would increase at the rate of 3.0% pa. Assets were taken into account at market value.

# Notes to the Financial Statements continued

31 December 2001

## 28 Pension commitments (continued)

At the date of the actuarial valuation the market value of the assets of the UK Scheme was £134,648,000 and on the basis used to determine pension costs these assets were assessed as being sufficient to cover 105% of the value of the benefits accrued to members, after allowing for expected future increases in earnings.

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

### Pension disclosure required by FRS17

A full actuarial valuation was carried out at 6 April 2000 and updated to 31 December 2001 by a qualified actuary.

The major assumptions used by the actuary were (in nominal terms):

Rate of increase in salaries	4.00%
Rate of increase in pensions in payment	3.00%
Discount rate	5.83%
Inflation assumption	2.50%

The assets in the scheme and the expected rate of return at 31 December 2001 were:

		£ million
Equities	8.00%	97.6
Non-Government Bonds	5.50%	10.8
Government Bonds	5.00%	12.4
Cash	5.00%	1.4
<hr/>		
Total market value of assets		122.2
Actuarial value of liability		(149.0)
<hr/>		
Deficit in the scheme		(26.8)
Related deferred tax asset		8.0
<hr/>		
Net pension liability		(18.8)
<hr/>		

## 29 Share price information

The middle market value of the listed ordinary shares at 31 December 2001 was 220.5 pence. During the year, the market price ranged between 142 pence and 252 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 0906 0034567.

# Principal Subsidiaries and Joint Ventures

## OPERATING COMPANIES

	Country of incorporation and operation	Effective Group interest in equity %
<b>Arkem (Pty) Ltd</b> <i>Distributor of speciality chemicals and allied products</i>	South Africa	37.5#
<b>Autoclenz Ltd</b> <i>Provision of vehicle valeting services.</i>	England	100
<b>Brencliffe Ltd</b> <i>Car and household cleaning products.</i>	England	100
<b>Dhahran Harco Chemical Industries Ltd</b> <i>Synthetic resin emulsions.</i>	Saudi Arabia	49#
<b>Harlow Chemical Co Ltd</b> <i>Synthetic resin emulsions and polyvinyl alcohol.</i>	England	100
<b>Holliday Dispersions Ltd</b> <i>Pigment dispersions.</i>	England	100
<b>Holliday Dispersions SA</b> <i>Pigment dispersions.</i>	France	100
<b>Holliday Encres SA</b> <i>Printing inks.</i>	France	100
<b>Holliday Chemical España SA</b> <i>Sales agent and distributor.</i>	Spain	100
<b>Holliday France SA</b> <i>Sales agent and distributor.</i>	France	100
<b>Holliday Pigments Ltd</b> <i>Ultramarine pigments.</i>	England	100
<b>Holliday Pigments SA</b> <i>Ultramarine pigments.</i>	France	100
<b>James Robinson GmbH</b> <i>Fine chemicals.</i>	Germany	100
<b>James Robinson India (Pvt) Ltd</b> <i>Fine chemicals intermediates.</i>	India	51
<b>James Robinson Ltd</b> <i>Dyestuffs and fine chemicals.</i>	England	100
<b>Oxford Chemicals Ltd</b> <i>Flavour and fragrance chemicals.</i>	England	100
<b>PFW Aroma Chemicals BV</b> <i>Fragrance chemicals.</i>	Netherlands	100
<b>Reabrook Ltd</b> <i>Hygiene, pollution control and maintenance chemicals, vehicle cleaning products. Contract filling of aerosols.</i>	England	100
<b>Revertex Chemicals (Pty) Ltd</b> <i>Synthetic resin emulsions and allied products.</i>	South Africa	75
<b>Revertex Finewaters Sdn Bhd</b> <i>Adhesives.</i>	Malaysia	63

## Principal Subsidiaries and Joint Ventures continued

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

\* Shares held by Yule Catto & Co plc

# Joint ventures

# Five Year Financial Summary

	2001 £000	2000 £000	1999 £000	1998 £000	1997 £000
<b>Turnover</b>					
Subsidiaries	443,930	470,219	442,433	435,966	268,574
Joint ventures	30,891	41,774	89,758	96,310	98,596
<b>Total turnover</b>	<b>474,821</b>	<b>511,993</b>	<b>532,191</b>	<b>532,276</b>	<b>367,170</b>
<b>EBITDA<sup>1</sup></b>	<b>72,601</b>	<b>66,752</b>	<b>82,553</b>	<b>78,946</b>	<b>44,237</b>
<b>Total operating profit<sup>1</sup></b>	<b>52,870</b>	<b>48,065</b>	<b>66,057</b>	<b>63,897</b>	<b>38,886</b>
Interest payable	(12,590)	(11,913)	(11,847)	(12,947)	(836)
<b>Profit before taxation<sup>1</sup></b>	<b>40,280</b>	<b>36,152</b>	<b>54,210</b>	<b>50,950</b>	<b>38,050</b>
<b>Net (borrowings)/cash</b>	<b>(223,165)</b>	<b>(164,785)</b>	<b>(202,374)</b>	<b>(166,529)</b>	<b>8,332</b>
<b>Free cash flow before dividends</b>	<b>31,663</b>	<b>10,255</b>	<b>36,385</b>	<b>27,776</b>	<b>35,382</b>
<b>Capital expenditure</b>	<b>34,088</b>	<b>25,095</b>	<b>17,723</b>	<b>27,536</b>	<b>5,593</b>
<b>Adjusted earnings per share</b>	<b>18.9p</b>	<b>16.9p</b>	<b>24.5p</b>	<b>24.1p</b>	<b>24.4p</b>
<b>Dividends per share</b>	<b>12.0p</b>	<b>11.6p</b>	<b>11.2p</b>	<b>11.0p</b>	<b>10.0p</b>
<b>Dividend cover</b>	<b>1.6</b>	<b>1.5</b>	<b>2.2</b>	<b>2.2</b>	<b>2.4</b>

1. Excludes amortisation, sale and termination of business and costs of fundamental restructuring

# 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 Wednesday 22 May 2002 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 2001.
2. To consider the recommendation of the directors as to a final dividend for the year ended 31 December 2001 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 2001.
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-appoint Arthur Andersen as auditors of the Company until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
7. To authorise the directors to determine the remuneration of the auditors.

## Special business

To consider, and if thought fit, to pass the following Resolutions, Resolutions 8 and 9 being proposed as Special Resolutions and Resolution 10 as an Ordinary Resolution.

8. That the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred on the directors in accordance with section 80 of the Act on 18 June 1998 as if sub-section (1) of section 89 of the Act did not apply to any such allotment, provided that this power shall be limited to :
  - a) the allotment of equity securities in connection with issues in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of any territory or the requirements of any recognised regulatory body; and
  - b) the allotment (otherwise than pursuant to sub-paragraph (a)) of equity securities up to an aggregate nominal value of £724,019  
provided that this authority shall expire on the date of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.
9. That the Company be and is hereby unconditionally and generally authorised for the purpose of section 166 of the Companies Act 1985 ("the Act") to make market purchases (as defined in section 163 of the Act) of ordinary shares of 10p each in the capital of the Company provided that :
  - a) the maximum number of shares which may be purchased is 21,575,783;
  - b) the minimum price which may be paid for each share is 10p (exclusive of expenses);

- c) the maximum price which may be paid for a share is an amount equal to 105 percent of the average of the closing middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased (exclusive of expenses); and
- d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this Resolution (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

10. That:

- a) the rules of the Yule Catto Performance Share Plan (the "Plan") produced in draft to the meeting and for the purpose of identification initialled by the Chairman, the principal features of which are summarised in the circular to the Company's shareholders dated 12 April 2002, be approved;
- b) the Board (or any duly authorised Committee of the Board) be authorised to do anything which it considers necessary or desirable to implement the Plan and to make any changes it considers appropriate for that purpose;
- c) the Board (or any duly authorised Committee of the Board) be authorised to set up further plans based on the Plan but modified to take account of local tax, exchange control or securities laws overseas, provided that any shares made available under those plans are treated as counting towards any limits on individual or overall participation in the Plan.

By order of the Board

**R Atkinson**

Secretary

13 March 2002

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, PO 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) To be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes shareholders may cast), shareholders who hold shares in the Company in uncertificated form must be entered on the Company's register of members at 11pm on Monday 20 May 2002 or, if the meeting is adjourned, shareholders must be entered on the Company's register of members not more than forty-eight hours before the time fixed for the adjourned meeting.

# Shareholders' Notes



YULE  
CATTO

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