

Being part of all our lives



A year of solid progress in the development of the Group. Good growth in Polymers and ongoing improvement within Impact Chemicals.

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Financial highlights

- Underlying profit before tax up 10% to £34.5 million
- Another year of good growth in Polymers, operating profit up 6.2%
- Ongoing improvement within Impact Chemicals

Total sales*

£580.6m

Earnings per share*

17.3p

Profit before taxation*

£34.5m

Increase in dividend per share*

3.2%

* Underlying performance

	Underlying performance ^(a)		IFRS	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Total sales ^(b)	580,641	557,357	580,641	565,786
EBITDA ^(c)	62,027	61,272	62,027	61,272
Operating profit	46,014	42,959	28,574	21,451
Profit before taxation	34,517	31,516	21,524	13,626
Profit attributable to equity holders of the parent	25,192	21,352	13,785	3,427
Earnings per share	17.3p	14.7p	9.5p	2.4p
Dividends per share ^(d)	9.6p	9.3p	9.6p	9.3p
Net borrowings	170,831	166,271	150,341	150,656
Cash generated from operations	49,447	46,376	49,447	46,376
Free cash flow before dividends ^(e)	14,012	8,479	14,012	8,479

The above table represents the results of Yule Catto & Co plc, its subsidiaries and its share of joint ventures.

(a) Underlying performance excludes special items as shown on the consolidated income statement.

(b) As defined in the accounting policies at note 2.

(c) As defined in the accounting policies at note 2 and reconciled at note 34.

(d) Dividends comprise an interim dividend paid during the year and a final dividend proposed at the year end. See note 11.

(e) As shown within the consolidated cash flow statement on page 39.

Being part of all our lives... at home, at work and in the community

We are a leading chemicals Group and a trusted partner for manufacturers around the world. They use our raw materials to produce a wide range of products that are an essential part of everyday life. Drugs, detergents, plastics, adhesives, paper, carpet... our technology contributes to every aspect of modern life.

Being part of all our lives... at home

① Coatings

We produce a range of polymer dispersions or 'emulsions' for many of the worlds largest paint manufacturers which form the base for the decorative paint we see all around us in every day life.

② Personal care

The Group produces hair dyes and fragrance ingredients.

③ Adhesives

Our polymer dispersions are used in a range of adhesives for the construction, packing, wood and label industry. They are in used throughout the home in a huge range of applications – such as tile adhesives and sealants.



Being part of all our lives... at work

④ Construction

We are a leading provider of SBR latex which has extensive use in building materials, as well as textiles and as a foam backing for carpets and rugs.

⑤ Gloves

We are a leading producer of Nitrile latex which is used in the manufacture of medical and 'clean room' gloves.

⑥ Plastics

We provide raw material to the plastics industry via our Auxiliary Polymer business, whilst our Flamtard flame retardant product is used in plastic cable coatings which has superior environmental characteristics and lower smoke emissions than alternatives.



Being part of all our lives... in the community

⑦ Health

We produce a range of pharmaceutical products that contribute to individuals health and well being. These include anti-bacterials, anti-ulcer and heart drugs. We also produce anti-parasitic drugs which help people in developing countries.

⑧ Pigments

We are the worlds leading producer of Ultramarine Blue. We also produce a range of photochromic pigments used in applications as diverse as in light reactive glasses and anti-fraud protection.

⑨ Food and drink

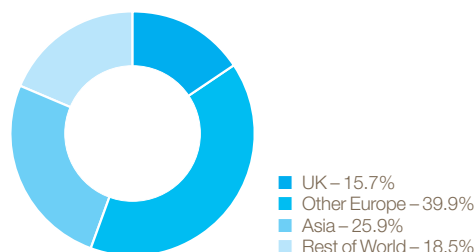
We produce high impact flavour ingredients for the food and drink industry.



Group overview

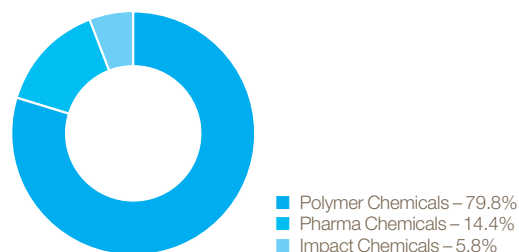
Total sales by destination

as derived from note 4 to the financial statements on page 47



Divisional operating profit

as derived from note 4 to the financial statements on page 45



Dividend per share

9.6p

Underlying borrowings

£170.8m

Polymer Chemicals

Key products

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

Markets

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

Pharma Chemicals

Key products

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

Markets

- Generic and ethical drug manufacture
- Generic drugs

Impact Chemicals

Key products

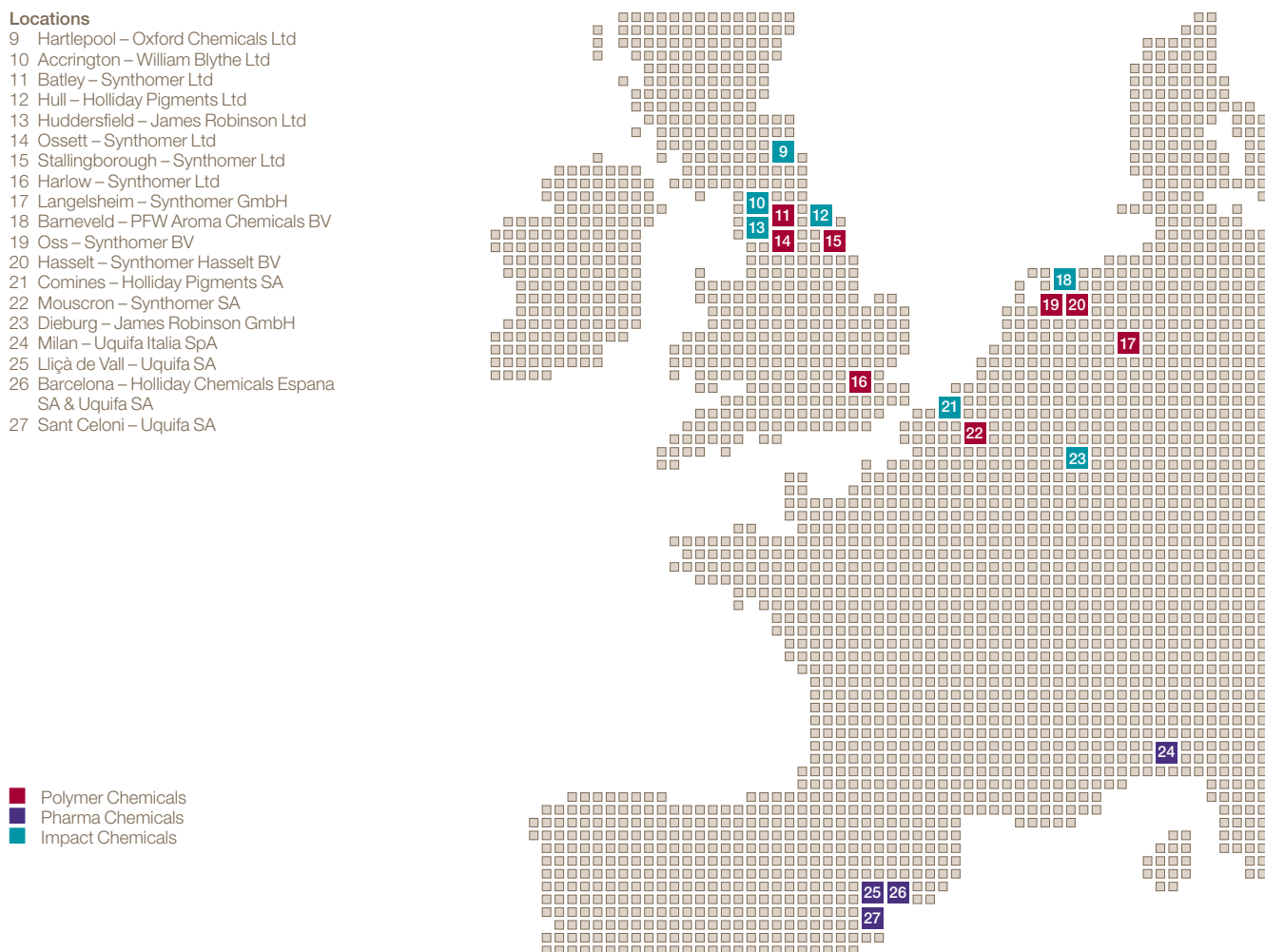
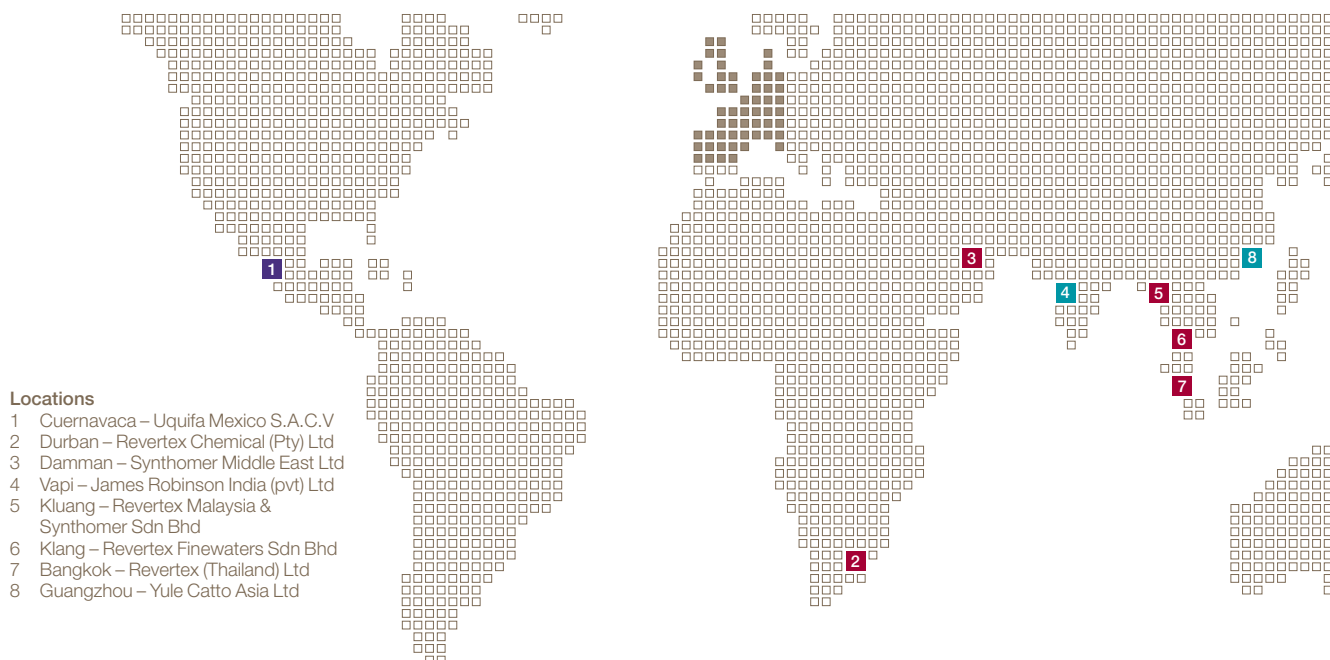
- Ultramarine pigments
- Photochromic dyes
- Hair dyes
- Iodine and metal salts
- Flavour and fragrance ingredients

Markets

- Plastics
- Ophthalmic
- Timber treatment
- Photographic
- Cosmetics
- Catalyst pre-cursors
- Food ingredients
- Fragrances
- Toiletries
- Detergents

Yule Catto around the world

Principal subsidiaries and joint ventures as listed on pages 80 to 81.



■ Polymer Chemicals
■ Pharma Chemicals
■ Impact Chemicals

We made steady progress across all of our divisions in both our operational performance and strategic plans to develop the Group.

2007 was a good year for the Group. We made steady progress across all of our Divisions in both our operational performance and strategic plans to develop the Group for the future. This showed through in the financial results.

The Polymers business had another good year, of growth in volumes and profit. Our strategy in Polymers remains focused on geographical expansion around our existing business hubs and developing market sectors where our product technology and manufacturing capabilities give us real competitive advantage.

We are investing heavily in additional Nitrile capacity in Malaysia to take full advantage of the continued growth in this product and the Asian region.

Our Pharma business continued to grow the range of generic and ethical products that it plans to manufacture by registering further drug master files in the year. As we had previously indicated Pharma earnings declined, in part due to the phasing of orders in the second half of the year. We announced plans to exit our Italian site to improve the operational cost base and the productivity of the business. This exit is proceeding to plan.

Impact Chemicals has had a challenging year, but has delivered significant improvement. We are clearly seeing the benefits of our strategy to raise the performance of these businesses through restructuring and focusing on market segments offering better margins and growth.

Overall, underlying Group profit before taxation increased some 10% to £34.5 million, and earnings per share by 18% to 17.3 pence per share.

The directors recommend a final dividend of 5.7 pence a share, which would make the full payment for the year 9.6 pence (2006 9.3 pence a share), an increase of 3.2%. Subject to shareholders' approval, the dividend will be paid on 4 July to members on the register at close of business on 6 June.

The working conditions and safety of our employees everywhere remains paramount in the operation of our business. We set targets annually to reduce levels of Lost Time Accidents, and against this measure we have been improving our safety performance for many years. I am pleased we have made further progress in 2007 and have had our best ever year in terms of both "all accident" and "Lost Time Accident" rates. We remain fully committed to the principles of sustainable development and have made significant progress against all of the 10-year targets in our sustainable development programme.

This has been a year in which much has been achieved. On behalf of the directors and shareholders, I would like to thank all our employees everywhere for their commitment and contribution towards the company's success.

Outlook

The closing months of 2007 and the start of 2008 were characterised by concerns of lower economic growth in the USA and parts of Western Europe. We have, however made a satisfactory start to 2008 with continuing momentum in our Polymers business.

We will continue to expand the geography and customer base of our principal Polymers business. New product development remains an important element of how we will achieve this. In addition we continue to look for additional ways to improve our productivity and reduce our cost base.

We have already committed ourselves to further investment in Asia for significant additional Latex capacity and should benefit from the rapid growth there. Consequently we expect another year of good results from our Polymer business. In our Pharma business we will continue to develop new generic products for future filing whilst our previously announced restructuring will be complete by the end of 2008. The remedial measures taken in the Impact Chemicals business should lead to further improvement in its results.

As we enter the year, the raw material situation for monomers looks set to remain volatile. We coped well with this situation in Polymers in 2007 through selling price increases and reformulation, and will continue to manage our response in a similar manner as 2008 progresses.

Anthony Richmond-Watson
12 March 2008

Although the global economy looks challenging, we are cautiously optimistic about the Group's performance in 2008.

Overview

2007 has been a year in which the Group has moved forward on a number of fronts to develop the business. The result of this process is clearly demonstrated by the 10% increase in underlying Group profit before taxation. It has also been another year in which the recent history of rising raw material prices has persisted and we have had to work hard to mitigate the impact of this. Against this background, we have made good progress across the portfolio, and, although the global economy looks challenging, we are cautiously optimistic about the Group's performance in 2008.

Polymers (73% of total sales) grew sales volumes by 4.3% and underlying operating profit by 6.2%. This was achieved in an environment of volatile and generally increasing monomer pricing, and ongoing supply constraints. We sustained our operating margins year on year at 9.7%.

The previously announced expansion of Nitrile capacity in Kluang, Malaysia was brought on line in November, and immediately sold out. The Group has committed itself to significant further expansion during 2008. This site is well located to provide reliable supply to major glove manufacturers. Market growth for synthetic gloves remains strong and this investment confirms our intent to remain as a leading supplier.

We also completed the expansion of our Mouscron, Belgium dispersion facility, where capacity increased by 30%.

Pharmaceuticals (11% of total sales) saw sales little changed at £63.8 million. However second half year sales were substantially lower than the first half due to order phasing which in part resulted in reduced underlying profitability of £7.4 million. The generic drug market continues to grow strongly but, as always, is characterised by price erosion following patent expiry. Our strategy to address this is to maximise operating efficiencies whilst expanding our product portfolio. During the year, we announced the closure of our Italian site and the transfer of production to Mexico and Spain to improve the cost base and productivity of the business. Looking forward, our programme of increasing our generic drugs pipeline made good progress with a further six drug master files registered.

Impact Chemicals (16% of total sales) has suffered over several years from aggressive competition and sub-optimal assets. During 2007 we announced the closure of two facilities within this business; the Hull plant of Holliday Pigments and the German plant of James Robinson. Both plant closures are running to schedule. In early 2008 we announced a restructuring of the William Blythe plant in Church. We have already seen some of the benefit of these actions with an increase in underlying profits in 2007 to £3.0 million from £1.0 million in 2006.

Good cash management remains a key priority for the Group. Borrowings increased modestly, but this was attributable to the impact of the strengthening euro on our euro denominated debt. During the year we have focused hard on the effective management of working capital with average working capital reducing by £6.6 million compared with prior year, whilst capital expenditure was at similar levels to 2006. We invested around £9.0 million in restructuring, the majority of which we will recover, when we sell the sites and assets we are exiting.

Polymer Chemicals

We operate 13 factories within four geographical regions: Europe, Pacific Rim, Middle East and South Africa. Core products are water-based Polymers, both dispersions and latices, polyvinyl alcohol/acetate and a number of more specialised products.

2007 was another good year for our Polymer businesses. Sales volumes were at record levels, up 4.3%, with sales turnover up 6.7%. Operating profits were up 6.2% compared to 2006 and operating margins were sustained at 9.7%. These good results were achieved against a background of restricted monomer availability, volatile prices and restructuring within some of our core markets.

Increase in divisional operating profit

6.2%

Sales

2006	£399.1m
2007	£425.2m

Divisional operating profit*

2006	£38.8m
2007	£41.2m

* Underlying performance

Whilst the product portfolio and the geographic coverage of our operations remained unchanged, the main growth of our activities occurred in Asia. In Kluang, Malaysia, in order to meet the growing sales demand, we were able to bring forward our latex expansion plans in two phases with a 33% increase in capacity in April and a further expansion in November, effectively increasing the installed capacity by circa 60% compared to 2006. Concurrently, the Mouscron, Belgium dispersion plant was subject to a major de-bottlenecking project which was completed in late 2007 increasing the dispersion capacity of the site by 30%. In addition, minor de-bottlenecking took place on the latex plant in Langelsheim, Germany. In the USA we initiated dispersion manufacture under a toll manufacturing arrangement with a local polymeriser.

These enhancements in capacity are already being effectively used and further production capacity expansion is planned for 2008. Nevertheless, maintaining the excellent growth seen over the past few years was a difficult challenge in 2007. Polymer producers generally had to endure repeated interruptions in raw material supplies and increases in all major monomer costs. The industry was characterised by feedstock shortages, which in turn affected the supply lines of all our top ten raw materials. Many of our suppliers called force majeure as they either were unable to get the necessary feedstock volumes or they experienced significant plant outages. This situation was not helped by the cost of oil, the backbone of the feedstock supply, which increased 69% during the year.

As a result we worked hard to reflect these costs in the market place. However, we hope that the additional global capacity for a number of monomers planned for commissioning in the fourth quarter of 2008 and throughout 2009 will alleviate the tight raw material supply and allow input prices to ease in due course.

For Polymer Division this restricted monomer supply and volatile raw material pricing together with continued restructuring of some of our core markets encouraged us to advance our product development programmes to stimulate demand. In 2007 we widened our nitrile latex, dispersions and polybutadiene product portfolios, whilst at the same time developing complementary products to sell alongside our core latex, dispersion and polyvinyl alcohol activities.

Synthetic Latex

Throughout 2007 the European latex market was subject to further customer rationalisation, particularly in the large commodity markets such as paper. Our business, whilst experiencing some disturbance from this restructuring, remains speciality orientated. We were able to increase sales despite a number of our main markets not growing as customers sought to manufacture in other parts of the world. The market for our synthetic nitrile latex grew significantly as a result of the greater use of synthetic rubber gloves in the health and semi-medical markets, and we were able to benefit from this through the newly commissioned capacity at our Kluang factory in Malaysia.

Expanding our operations in Asia remains a key part of Polymer Division's strategy and in 2008 we expect the momentum to continue with increases in both latex and dispersion capacity planned.

Dispersions

The dispersion market unfortunately experienced the worst of the raw material volatility. However, with the advantage of dispersion production in all our regional activities, combined with good technical support and continued product development, we were able to maintain supply and service to all our customers. As a result, we gained market share and are able to report record dispersion volumes whilst retaining our market leadership in the UK, South Africa, the Middle East and Malaysia.

Specialities

The Group manufactures a variety of speciality polymer chemicals, including:

Polyvinyl Alcohol

To maintain our status as the world's leading supplier of low hydrolysis polyvinyl alcohol to the PVC industry, we have changed the profile of our technical package to meet the ongoing demand of the PVC resins industry. In so doing we have added new products to the range specifically designed for the technological and geographic changes which have occurred in the manner and location in which PVC is produced. As a result, the Polymer Division is now not only able to supply its well established primary and secondary PVC stabilisers, but has added newly developed grades alongside supplementary polymers used in the polymerisation of PVC.

Total volume increase to record levels

4.2%

Sales

2006	£64.4m
2007	£63.8m

Divisional operating profit*

2006	£8.1m
2007	£7.4m

* Underlying performance

Liquid Polybutadiene

In 2007 sales of liquid polybutadiene were at a record level and 10.1% higher in tonnes compared to 2006. The expansion of the production facilities in 2006 provided the capacity to develop sales and in 2007 the geographic portfolio now includes Asia and the USA. A further expansion of production is planned for 2008.

Alkyds and Polyester

Our resin business operates from the Kluang, Malaysia site with sales predominantly in South East Asia. Sales this year have been at record levels (8.6% and 16.2% higher than 2006 for alkyds and polyester respectively). This is a notable achievement considering the significant increase in raw material prices which always gives rise to fluctuations in demand. Our excellent service and product quality have enabled this significant growth.

Pharma Chemicals

2007 sales were at a similar level to those in 2006. However sales in the second half were reduced as a consequence of order phasing. We continued to make progress on our filings of Drug Master Files (DMF's) and six DMF's were filed in 2007. Following a thorough review a decision was made at the mid year to close our Italian plant and transfer a number of products to Spain and Mexico to underpin our future competitiveness and profitability.

In our Spanish plants, sales were solid with volumes at their highest level for a number of years. This was supported by strong sales of enteric coated Omeprazole pellets following the approval of our in-house manufacturing capacity late in 2006. Pantoperazole was launched in Spain at the back end of the year and over the next few years our partner will be rolling sales out in Europe as the patent expires in various European countries. Our other anti-ulcer franchises did particularly well, including Ranitidine. Our anti-bacterial, Ciprofloxacin, sold well in Europe with a number of customers improving their market share. A number of new products were introduced at the pilot plant level to support approvals in a number of European markets and the USA. We continue to move products out of the pilot plant into mainstream production, allowing us to develop further new products. Our Spanish pilot plant is fully loaded until the second half of 2008 for both development and customer specific products.

Pricing pressure was heightened by the dollar/euro exchange rate and increased raw material costs for all producers, including the Chinese and Indian competition. A marketing strategy was implemented in the last quarter of the year to increase prices and restore margins going forward.

Our Mexican plant had its best year in sales and operating profit for the last ten years. The results were achieved by a combination of much improved volumes of intermediates and Active Pharmaceutical Intermediates (API's), as well as the launch of Zolpidem in the USA, following patent expiry. A number of generic franchises in the anti-parasitic, anti-fungal and arthritic field saw good growth in sales to both Europe and the USA with several key generic customers launching products. It was pleasing to note that this growth came from products that Uquifa launched in 2003/4 and have been awaiting regulatory approvals in various markets. Our investment in obtaining regulatory approvals is key to our success and goes on apace. The pilot plant was partially upgraded to help in the number of filed DMF's. The relationship between the Mexican peso and the dollar meant margins were not unduly undermined. However, as in Spain, the increased cost of raw materials was of concern and in the last quarter the same marketing strategy on selling prices was rolled out in Mexico.

Two successive half years
of improving profitability

£3m

Sales

2006	£93.9m
2007	£91.6m

Divisional operating profit*

2006	£1.0m
2007	£3.0m

* Underlying performance

The combination of lower pricing and euro/dollar exchange meant margins in Italy were significantly lower than in previous years. After a thorough review, we announced the closure of the main manufacturing plant in Italy. A number of products are being transferred to Spain and Mexico and regulatory approval is currently being sought. This transfer will be complete in 2008. At the same time, following the announcement of the closure of the James Robinson, Dieburg site in Germany, a number of additional pharmaceutical products are currently being transferred to Spain. Approval of the level 5 high containment facility was obtained and production of a cytotoxic product for a large pharmaceutical company has already commenced.

We also announced our intention of constructing a greenfield site in China to underpin our raw material and intermediate position. We continue to make progress on this and the final selection of the site is nearing completion.

Impact Chemicals

Impact Chemicals Division comprises:

- James Robinson manufacturing hair, photochromic and other dyes;
- William Blythe manufacturing iodine and metal salts;
- Holliday Pigments manufacturing ultramarine pigments;
- Oxford Chemicals manufacturing high impact flavour chemicals; and
- PFW manufacturing aroma chemicals.

2007 was a year of improving financial performance, but one which again presented the Division with a number of significant commercial and operational challenges.

Sales for the year were below prior year as we focused on producing and selling higher margin products.

In the first half of 2007, it became clear that the market and operational challenges in some of our businesses continued to inhibit the speed of turn-round of the Impact Division. After extensive review, this led to the announcement and implementation of selective restructuring to deliver the required financial improvements. Consequently, the Division announced that it would concentrate the manufacture of all Ultramarine at its Comines site in France, with the closure of operations at Holliday Pigments in Hull. This closure was completed in the fourth quarter on schedule. The transfer to Comines has gone smoothly with the business showing greatly improved financial performance in the fourth quarter. In the third quarter, an announcement was made on the closure of James Robinson's Dieburg site in Germany. This reflected the decline of the James Robinson photographic business and continued pricing pressure from Chinese competition. The site is scheduled to close at the end of 2008 and is a key step for James Robinson in the ongoing refocus of its portfolio to higher value applications.

Whilst these changes were being progressed, the Division continued to focus on supporting its leading position in many markets. Of note is the continued development of Oxford's "natural flavours" strategy which will result in a number of new materials coming to the market in 2008. This strategy is enhanced by the establishment of a new three year research project focused on Sulphur chemistry, supported by the UK Government Technology Strategy Board (TSB). At PFW the fourth quarter saw the introduction of new "musk" materials to support the expansion of polycyclic musk usage in the fragrance industry. William Blythe successfully opened its new Iodine facility which will benefit the sales of higher value products such as SMP and Periodic Acid. Key materials used in the silk screen printing and silicon wafer industry.

Overall 2007, can be seen as one of good progress for the Division. Whilst difficult decisions had to be taken, new opportunities have opened up in several businesses, and we have made strides in building greater sustainability into the Division's financial performance.

Total sales increased by 4.2% to £580.6 million, driven by good volume growth in Polymers.

Income Statement – Underlying Performance

Total sales increased by 4.2% to £580.6 million, driven by good volume growth in Polymers. Turnover remains predominately within Europe with some 56% of sales (2006 58%). However we continue to make progress in other parts of the world, in particular Asia, assisted by ongoing investment in the Malaysian facility. Asian sales now account for 26% of the business (2006 23%) and will continue to increase with our commitment to further expansion in 2008.

With the international nature of the business, movements in foreign currency exchange rates can affect the value of transactions made by the Group where pricing of our products is in non domestic currency, and in the translation of results from overseas subsidiaries. With regard to the former, the Group generally hedges transactions once entered into and in addition, where exchange rates continue to be adverse, we look to increase sale prices or sell in domestic currency. The latter is mainly influenced by the euro, with the Malaysian ringgit and South African rand becoming more significant. In 2007, the average rate for the euro was comparable to 2006 so translation effects were not significant.

Average borrowings for the period were nearly 2% lower than 2006, though the net interest charge of £11.5 million was 1% higher than last year. World interest rates have drifted up during the year, but a large proportion of the Group's exposure is hedged, which has softened the adverse impact.

The underlying tax rate of 22% reflects the benefits of pioneer status on our investment in Malaysia and the settlement of some prior year tax positions. This is an improvement on the prior year rate of 28%.

Profit attributable to minority interests has increased to £1.7 million due to the success of the Revertex operations in the Far East, which has a 30% shareholding external to the Group.

The resultant underlying earnings per share of 17.3 pence is a year-on-year increase of 18%. A final dividend of 5.7 pence per share has been proposed by the Board, which would take the full year payout to 9.6 pence, an increase of 3.2%. Underlying dividend cover is 1.8 times.

Income Statement – Special Items

To provide a clearer indication of the Group's underlying performance, a number of special items, are shown in a separate column of the Income Statement. Special Items includes;

- During the year we announced the closure of our Italian Pharma plant, Holliday Pigments Hull site and the James Robinson manufacturing plant in Dieburg, Germany. Site closure and run down costs for these activities are disclosed in special items. This includes the write down of fixed assets on these sites as appropriate.
- We utilise various cross currency and interest rate swaps for hedging purposes, which involve maturities of up to twelve years. IFRS requires that where the strict requirements of IAS 39 are not met, changes in the market value should be recognised annually in the income statement. However, such financial instruments are maintained by the Group for the length of the contract and over their lifetime have a fair value of nil. Hence, the notional annual adjustment is segregated from the underlying performance.
- As a result of the actions taken in 2007 to reduce the cost of the Group's UK pension scheme, the Group recognised an exceptional profit of £10.8 million (2006 £nil), being the reduction of accrued benefits arising from these actions. This profit is shown in special items.

Pensions

In the main UK defined benefit pension scheme the majority of investments are in equities. Whilst equity markets delivered positive returns during the year, the actual return of 3.7% fell below the expected return. The yield on AA bonds increased significantly during the year, which has reduced liabilities, and action taken by the Group to manage employee benefits further reduced liabilities by £10.8 million. The overall effect of these changes was a significant reduction in the net balance sheet liability to £33.6 million for this scheme.

IFRS

On an unadjusted IFRS basis, Group revenue increased by £13.9 million to £565.6 million reflecting good growth in Polymer Chemicals partly offset by a reduction in Impact Division following the 2006 restructuring. Profit before taxation at £21.5 million was £7.9 million higher than the previous period, of which £3.0 million relates to a better trading performance with the remainder being a reduction in the special items.

Borrowings

Net underlying borrowings, adjusted for the mark-to-market effect of derivatives, are slightly up on to last year at £170.8 million, due to the impact of a stronger euro on the Group's euro denominated debt, which resulted in an increase of £5.6 million.

In 2006 we reported a year of increased capital expenditure, following a number of years of lower capital investment. This has continued in 2007 as we have invested in expanding the Malaysia nitrile facility. A similar level of investment in 2008 will be directed at further capacity expansion and various upgrades in process efficiency.

Overall, the programme of restructuring the Impact Chemicals and Pharma Divisions is expected to be broadly cash neutral. However the timing of closure events has initially resulted in a net cash outflow across 2006 and 2007, with a gross spend of £9.0 million in 2007. This was partially offset by sale proceeds of £2.4 million from associated assets, mainly the sale of James Robinsons' Huddersfield site. Further sales are expected in 2008 and beyond, including the Hapton site (William Blythe), the Dieburg site (James Robinson) and the Uquifa Italy site.

In a period of rising raw materials cost, combined with good volume growth in many of our businesses, upward pressure on working capital becomes more acute. However we have focused very hard on this area during 2007 and despite increased input costs, we have reduced working capital during the year by £4.0 million.

Corporate Social Responsibility report

Overview

Yule Catto made excellent progress on both its safety and its environmental performance in 2007. The Group had the lowest ever number of significant accidents resulting in its lowest ever over 3-day accident rate and the lowest ever overall lost time accident rate. The Group improved its performance on all of its major sustainable development targets, including improving energy efficiency by 7% and reducing water usage by 8.6%. Since 2000 energy usage per tonne of production is down by nearly one quarter and water consumption is down by 44%. Over the same period, the production of acid gases is down by over 90%, to just 7% of the quantity produced in 2000.

Regrettably, despite excellent overall progress, an employee died whilst engaged in a routine cleaning operation at our Mexico site in August. The Company extends its sincere sympathy to the family. We will ensure that all relevant lessons are learnt from this tragic event.

Our Policy Commitments

Yule Catto is committed to the principles and practice of the global chemical industry's Responsible Care® programme. All sites are expected to adhere to these principles and the Group SHE (Safety, Health and Environment) audit programme is designed to confirm compliance. In 2005, the Group committed its support to the UK Chemical Industries Association's Sustainable Development guiding principles. These represent a significant element of Yule Catto's SHE commitments, and define a route to a safe and sustainable chemical industry, with open reporting of our performance and full respect for the people and communities amongst whom we work.

Highlights and achievements during 2007

At the beginning of 2007, Yule Catto set itself a demanding 4% target for energy reduction during the year. This was done in response to the rising importance placed on global warming and in recognition of the key, but not exclusive role, industry will play in dealing with this problem. This new energy reduction target went alongside the existing Sustainable Development targets for the other key measures of sustainability, including water use, atmospheric acidification, global warming and hazardous waste.

Group companies rose to this challenge and managed to reduce energy consumption per tonne by some 7% in 2007, making a cumulative reduction of 23.6% since 2000. There were also notable improvements in other Sustainable Development performance measures, including a 40% reduction in the discharge of acid gases and a 16% reduction in the disposal of hazardous waste to landfill. The Company's accident performance for 2007 was its best ever and we experienced some 30% less accidents than in 2006.

We have continued to improve our resources and processes to support our drive for improvement in our SHE performance.

- The Group SHE & Sustainable Development policies were revised, approved and issued by the Chief Executive;
- The Group SHE team was strengthened to provide better support to individual Group companies, Group SHE audit procedures were updated; and a two year programme for the implementation of new SHE standards was initiated;
- A Group wide Process Safety Management system was introduced;
- Standard Hazop software has been adopted across the company.

Managing Safety and Environmental Performance

Yule Catto strongly believes that Safety is a primary responsibility for managers and employees at all levels in the company and that safety should be managed in the same way as the rest of our business objectives. Senior managers have SHE targets as part of their annual objectives and bonuses. Management meetings always discuss SHE matters, as the first agenda item.

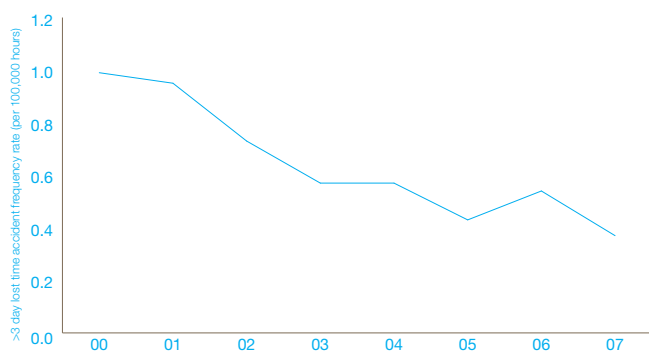
The Group has two main management processes in relation to SHE:

- We have information gathering systems to record and summarise all accidents, incidents and near misses which occur across the Group. The same system is used to monitor the Company's response to accidents and incidents, ensuring that they are properly investigated, appropriate lessons are learned, and the necessary remedial actions are put in place.
- We measure and report the key indicators of SHE performance monthly. These are discussed at all levels of management and at site SHE committees. The Group-wide report is discussed as the first agenda item at Yule Catto's Executive Committee meetings and the reports are drawn together to provide a quarterly input to the Yule Catto Board.

Safety and Accident performance

Like most companies in the UK, Yule Catto uses a headline measure of the rate of over 3 day lost time accidents to measure Safety Performance. Across the European Union, these are generally the accidents which have to be reported to the appropriate regulatory authorities. On this measure the Group made a significant improvement to its accident rate in 2007 reducing the rate to 0.37 accidents per 100,000 hours worked. This is an improvement of approximately 30% compared to 2006 and represents the Company's best year ever. To put this in context, 100,000 hours, very broadly, represents a working lifetime.

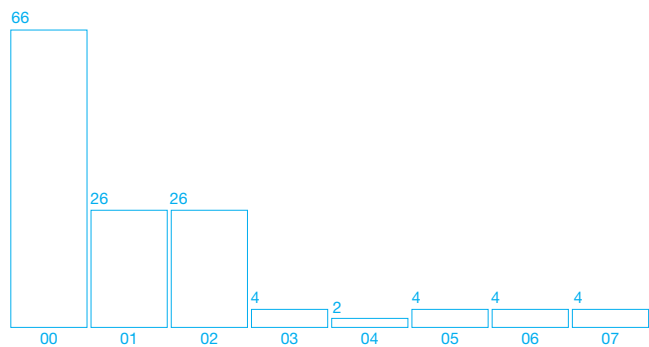
Reportable lost time accident frequency rates



We also measure all lost time accidents. Again, 2007 represented the Company's best ever year with a frequency rate of 0.53 per 100,000 hours. This is well below the European average reported in 2006, as measured by CEFIC (The European Chemical Industry Council), of 0.67 accidents per 100,000 hours worked.

The number of significant, reportable safety incidents remains at a very low level.

Reportable safety incidents



Audit programme

To support our objectives of improvement in SHE performance, we have an active SHE audit programme. This programme was upgraded during 2007 to deliver a clear view of current performance. It also now enables sites to identify areas for improvement more clearly and, over a period of time allow sites to track their performance improvement.

Asset protection, Process Safety Management and Insurance inspections

Yule Catto losses from fire or process safety related incidents remain at a low level. This is achieved by both our own internal management and SHE audit processes; and by biennial risk audits carried out by our global property and business risk insurers. These external audits produce recommendations which are discussed within the businesses and then assessed against their practicality and cost-effectiveness. This process of working in partnership with our insurers creates transparency, which in turn helps Yule Catto achieve competitive pricing for its global risk insurance.

REACH

The European Parliament passed the Regulation, Evaluation and Assessment of Chemicals regulations (REACH) in December 2006 and the regulations went through the rest of the European Union's legislative stages rapidly thereafter to become EU law in early 2007. These regulations require all chemicals produced or used in Europe of more than 1 tonne per year to be registered over the next 11 years. The registration process will involve a risk assessment of the chemical for both human and environmental effects. The depth of the risk assessment, and the date by which it is required to be presented to the new European Chemicals Agency, will be determined by the tonnage made and used, unless the chemical is of high concern in which case the date for registration will be brought forward.

Although the regulations have been finalised, a great deal of work is still being done by both regulators and industry on the interpretation and implementation of REACH.

Before the start of full registration, which will be from the beginning of 2009, there will be a pre-registration period between 1 June 2008 and 1 December 2008. During this time all chemicals which manufacturers or importers intend to continue to place on the European market after 1 December 2008 are to be pre-registered. Any chemical which is not pre-registered by 1 December 2008 will not be allowed to be sold or used inside the EU without going through a full registration procedure. Yule Catto will ensure that all our products and raw materials are pre-registered as required.

Group companies have been preparing for the implementation of REACH for several years. We have brought in independent consulting support to work with our Group companies to help ensure we remain on track for full compliance. The first impact of REACH has been a sharp increase in customer and supplier enquiries about the chemicals we sell, manufacture and use.

Although REACH is a new requirement, it can be seen as an extension of Yule Catto's long-term commitment to the principles of Product Stewardship. We have expert staff in Group companies who are able to provide safety advice on our products and their application to our customers. These experts are active in industry groups, at a UK and European level, spreading good practice and ensuring that Yule Catto Companies' advice is comparable to the best in our field.

Sustainable Development Performance Report 2007

Managing Our Environmental Responsibilities

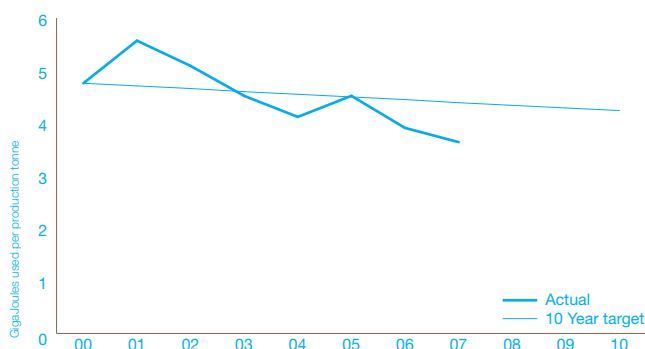
As signatories to the UK Chemical Industries Association's Sustainable Development Goals, the Yule Catto Group is committed to a 10 year programme of reducing its environmental impact. The base year for this commitment was 2000, with targets for significant improvements by 2010. Progress across Group companies is such that on all the targets, Yule Catto has already achieved the reductions required to comply with the 2010 goals: indeed current performance levels are between 13% to 87% better than the relevant individual 2010 targets. However, we will continue to set annual objectives for yet further improvement.

To achieve this each site has specific targets. A number of these targets have required very significant capital investment – for example the Flue Gas Desulphurisation plant at Holliday Pigments, Comines – and the environmental benefits of this investment are now flowing through to Group performance. All the targets are set on a per production tonne basis and the graphs reproduced below show how the Group's performance has improved over the last 7 years (since the baseline year of 2000).

Energy

Yule Catto has already passed its 2010 target for energy reduction per tonne of product. Yule Catto set a target of 4% reduction in energy in 2007 and this target has been set again for 2008 when a further 4% reduction is aimed for.

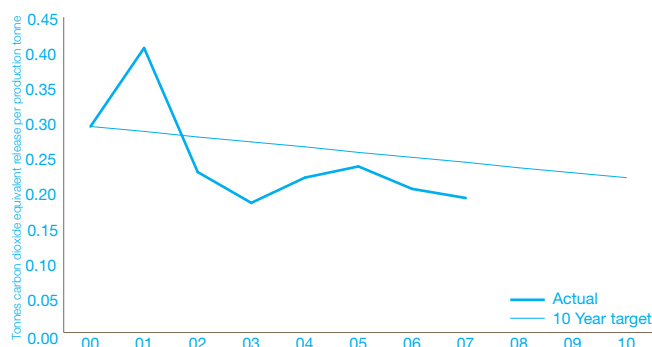
Energy consumption



Global warming

The threat of global warming has become a major issue around the world over the last few years and its importance increased further in 2007 with new European and Global targets being set. The Group's global warming burden is expressed as tonnes of carbon dioxide equivalent and this was reduced by 6.3% in 2007, giving a cumulative reduction of 34% since 2000.

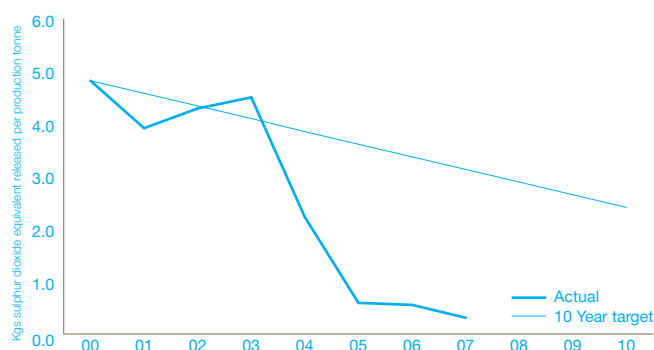
Global warming Burden



Atmospheric Acidification

By the installation of high efficiency flue gas desulphurisation units at both of the Group's ultramarine pigment factories the release of acidic gases to atmosphere has been reduced by over 93% compared to 2000, to just 1/8th of the target value for 2010. With the closure of the Holliday Pigments factory in Hull UK, this target will be re-set for 2008 and subsequent years, but it is certain that the Group will continue to beat the 2010 Sustainable Development target by a comfortable margin.

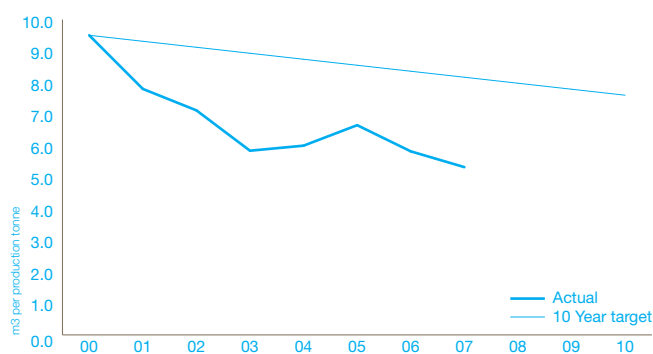
Atmospheric Acidification Burden



Water use

Water is an increasingly precious resource worldwide and one which is vital for the safe and productive operation of the chemical industry. Yule Catto companies use water for, amongst other things, cleaning process equipment, as a key constituent in our processes and for cooling chemical reactions to keep them safe. Water use per tonne of product had already been reduced by over a third by the end of 2006 and 2007 has seen a further reduction of 8.6%, bringing the cumulative reduction since 2000 to 44%. This is already 30% below the 2010 target but the Group has targeted a further 4% reduction in water use in 2008.

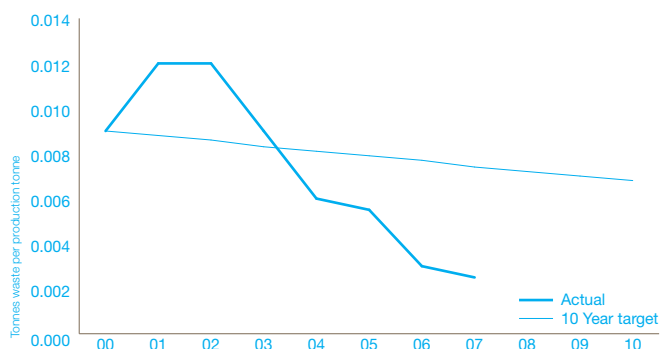
Water Consumption



Waste disposal

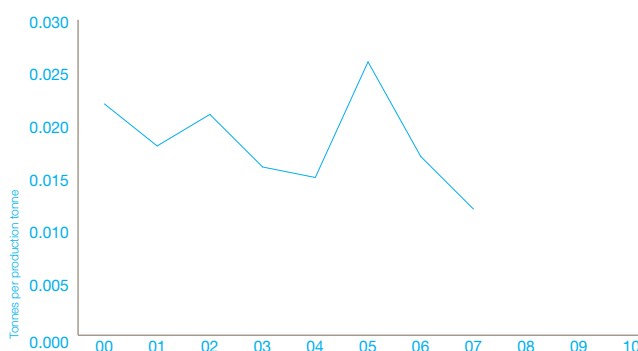
The near 50% reduction in hazardous waste disposal seen in 2006 could not be repeated in 2007 but a further very significant reduction of 16.7% was achieved. This achievement brings the reduction since 2000 to in excess of 70% and means that the Group's hazardous waste production was less than 40% of the 2010 target. This has been achieved despite a re-classification of the term "hazardous" as applied to waste in the European Union. This re-classification had the effect of significantly increasing the range of wastes that had to be classified as hazardous and makes the reduction achieved even more striking.

Hazardous waste disposed to land



The quantity of non-hazardous waste disposed of to land also declined very sharply in 2007, by nearly 30% compared to 2006. As with other targets the reduction since 2000 is very marked at 45%. (This performance measure does not have an agreed industry-wide reduction target.)

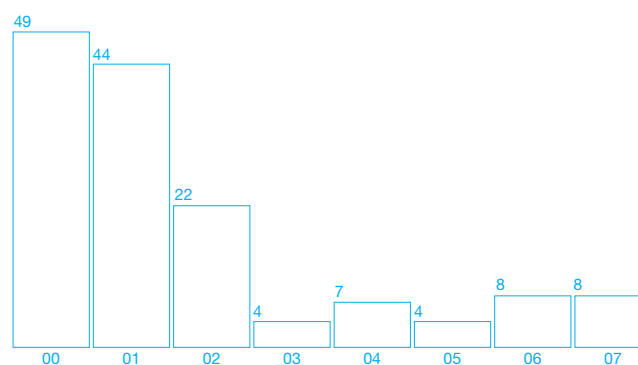
Non-hazardous waste disposal to land



Environmental incidents

The number of environmental incidents remains at a very low level, and nearly all are minor excursions above permitted discharges limits. It is, of course, the policy of all Yule Catto companies to remain within discharge limits at all times but these minor excursions, whilst regrettable, have not produced any long-term, noticeable environmental damage.

Reportable environmental incidents



One notable incident which illustrates this was related to the extremely heavy rainfall experienced in parts of the UK in June 2007. This downpour, in which the rain expected in a month fell in little over an hour, overwhelmed the drains at our Stallingborough site. The torrential rain then carried material being discharged to the site's effluent treatment system over the site boundary and into the surrounding fields. Because of the quantity of rain, the dilution was very high and the water, whilst mildly discoloured, caused absolutely no environmental damage. The UK Environment Agency, whilst confirming that the event was reportable to them, agreed that no environmental damage had occurred.

Environmental KPIs

The UK Department for Food, Environment and Rural Affairs (DEFRA) published guidelines for reporting environmental key performance indicators in 2006. The three key measures suggested were energy use, waste disposal and water consumption. Yule Catto has reported on these indicators for a number of years, but not in the suggested format. To aid transparency of reporting environmental performance the data for the period 2005-2007 has been re-cast into the suggested format and is reproduced in the table below:

	2007	2006	2005	% change 2005-2007
Energy consumption¹				
GJ's	3,063,455	3,186,354	3,424,246	-10.54%
Gas	1,159,183	1,257,724	1,395,182	
Light Oil	82,120	83,070	105,293	
Heavy Oil	46,202	73,630	85,420	
Steam	179,939	187,173	192,040	
Electricity (primary basis)	1,596,011	1,584,757	1,646,311	
GJ's/Tonne Production	3.64	3.91	4.54	-19.82%
Emissions to Air²				
Carbon Dioxide (CO ₂)				
000 Tonnes	153,308	160,421	173,164	-11.47%
Tonnes CO ₂ /Tonne Production	0.182	0.1966	0.229	
Sulphur Dioxide (SO ₂)				
Tonnes	261	452	446	-41.48%
Kilos SO ₂ /Tonne Production	0.31	0.554	0.592	
Nitrous Oxides (NOx)				
Tonnes	38.46	64.25	57.11	-32.66%
Kilos NOx/Tonne production	0.046	0.079	0.076	
Volatile Organic Compounds (VOC's) ³				
Tonnes	636			
Kilos VOC's/Tonne Production	0.755			
Water Usage				
Cubic Metres (M ³)				
Public Potable Supply	4,481,713	5,095,279	5,012,552	-10.59%
Raw Water from River	1,480,577	1,618,898	1,664,567	
Raw Water from Borehole	2,439,170	2,651,619	2,735,090	
Raw Water from Canal	420,921	446,747	410,793	
Raw Water from Other	5,169	37,304	75,410	
M ³ /Tonne Production	135,876	340,711	126,692	
	5.32	5.8	6.65	-20.00%

1 Data relates to site usage of all fuels, excluding transport.

2 Emissions to air have been calculated from the usage of all fuels, excluding transport fuel; and therefore include both direct emissions and indirect emissions related to bought-in electricity.

3 Accurate figures for previous years are not available.

Corporate Social Responsibility report continued

	2007	2006	2005	% change 2005-2007
Waste Management				
Hazardous Waste				
000 Tonnes	23.469	21.44	31.47	-25.43%
Hazardous Waste sent Off-site				
Recycled – energy recovery	5.675	4.195	4.833	
Recycled – separated, reprocessed	6.749	6.35	15.854	
Incinerated – no energy recovery	2.106	2.438	2.903	
Disposed by landfill	2.075	2.326	1.493	
Other	0.151	0.225	0.374	
Hazardous Waste disposed On-site				
Incinerated on-site with energy recovery	4.181	2.878	0.126	
Incinerated on-site with no energy recovery	2.532	2.925	3.208	
Disposed to on-site landfill				
Haz. Waste Tonnes/Tonne Production	0.027	0.026	0.042	-35.71%
Non-hazardous Waste				
000 Tonnes	16.47	21.06	31.66	-47.98%
Non-hazardous Waste sent Off-site				
Recycled – energy recovery	3.67	4.35	3.32	
Recycled – separated, reprocessed	1.93	1.90	7.04	
Incinerated – no energy recovery	0.02	0.02	0.24	
Disposed by landfill	9.05	12.49	19.33	
Other – municipality	0.77	0.94	1.36	
Non-hazardous Waste disposed On-site				
Recycled – energy recovery	0	0	0.36	
Incinerated – no energy recovery	0	0.017	0	
Disposed by landfill	1.024	1.337	0.02	
Non-haz Waste Tonnes/Tonne Production	0.020	0.026	0.042	-52.38%
Production				
Tonnes	842,578	815,812	754,091	11.73%

The table shows the striking progress the Group has made on its environmental targets over the last 3 years. At a time when production has risen by 11.7%, absolute emissions of Carbon Dioxide, the principal greenhouse gas, have fallen by 11.4%. This is due to the increased energy efficiency our production facilities have been able to achieve: nearly 20% less energy per tonne of production and an absolute reduction of 10.5%.

A similar picture emerges with water, where absolute usage is down by 10.6% and by 20% judged on the per production tonne measure. Waste, hazardous and non-hazardous, is also down sharply. Hazardous waste fell by over 25% between 2005 and 2007, and non-hazardous waste fell by 48%.

Directors and advisers

Executive Directors

A M Whitfield – Chief Executive

Joined the Group and appointed to the Board in March 2006. He assumed the role of Chief Executive in August 2006. Prior to appointment he was Chief Executive of the plastics division of D S Smith Plc. Age 46.

D C Blackwood⁴ – Finance Director

Joined the Group and appointed to the Board in October 2007. Prior to appointment he was Group Treasurer of Imperial Chemical Industries PLC. Age 49.

Non-Executive Directors

A E Richmond-Watson⁴ – Chairman

Joined the Board in 1978 and was appointed Chairman in May 2000. He is the Deputy Chairman of Melrose Resources plc and was Deputy Chairman of Morgan Grenfell Group plc from 1989 until retirement in 1996. He is a member of the Institute of Chartered Accountants of Scotland. Age 66.

The Hon. A G Catto⁴

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 55.

Dr A A Dobbie²³⁴

Joined the Board in August 2007. He is a founding Director of Cogency Chemical Consultants Limited, a Director of NiTech Solutions Limited and Chairman of Chemical Sciences Scotland and Evolva SA. Age 56.

R H Hunting¹²

Joined the Board in 2000. He is Chairman of Hunting PLC. Age 61.

Dato' Lee Hau Hian⁴

Joined the Board in 1993 and stood down in 2000 to become an Alternate Director. He re-joined the Board in 2002. He is a Director of Kuala Lumpur Kepong Bhd and Batu Kawan Bhd. Age 54.

Dato' Seri Lee Oi Hian⁴

Joined the Board in 1981. He is Chairman of Kuala Lumpur Kepong Bhd and a Director of Batu Kawan Bhd. Age 57.

J K Maiden¹³⁴

Joined the Board in August 2007. He is Chief Finance Officer of Northern Foods plc. He is a Fellow of the Certified Institute of Management Accounts. Age 46.

C J Williams¹³

Joined the Board in December 2005. He was one of the most senior executives at SCA, a leading producer of packaging and hygiene products, until retirement in 2005. He is the Non-executive Chairman of Clondalkin Group, Chairman of the Supervisory Board of Treofan and sits on the boards of Turkcell and Kloeckner Pentaplast. Age 66.

P S Wood¹²³ – Senior Independent Director

Joined the Board in 2001. He was Chief Executive of The BSS Group plc until retirement at the end of 2005 and is Chairman of White Young Green plc and a Non-executive Director of RPC Group plc and Grafton Group plc. He is a member of the Institute of Chartered Accountants of England and Wales. Age 60.

- 1 Member of Audit Committee.
- 2 Member of Nomination Committee.
- 3 Member of Remuneration Committee.
- 4 Standing for re-election at 2008 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 del Lavoro SpA
Banca Popolare Italiana
Banco de Sabadell SA
Barclays Bank PLC
Crédit Industriel et Commercial
Fortis Bank (Nederland) NV
HSBC Bank plc
The Royal Bank of Scotland plc

Merchant bankers

Merrill Lynch International

Stockbrokers

Merrill Lynch International

Registrars

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

Auditors

Deloitte & Touche LLP

Solicitors

Linklaters LLP
Hammonds
Pinsent Masons LLP

Report of the Directors

for the year ended 31 December 2007

The directors submit their annual report and the audited financial statements for the year ended 31 December 2007.

Results and dividends

Profit attributable to shareholders for the year was £13,785,000.

The interim dividend of 3.9p per share was paid on 16 November 2007. The directors recommend a final dividend of 5.7p per share payable on 4 July 2008 to those shareholders registered at the close of business on 6 June 2008. A dividend re-investment plan is available to shareholders and this alternative will continue to be offered until further notice.

Principal activities and business review

The principal activities of the company and a business review are set out on pages 9 to 20.

Disposals

On 9 February 2008 conditional contracts were exchanged with Vivimed Labs Limited for the sale of the entire issued share capital of James Robinson Limited and other associated assets.

Financial instruments

Details of the Group's use of financial instruments and its financial risk management objectives and policies, and of its exposure to price, credit, liquidity and cash-flow risk in relation to such instruments, is contained in note 21 to the financial statements.

Directors

The present membership of the Board is shown on page 21. All directors served throughout the year apart from Dr A A Dobbie and Mr J K Maiden who were appointed on 14 August 2007 and Mr D C Blackwood who was appointed on 1 October 2007.

The Hon. A G Catto, Mr D C Blackwood, Dr A A Dobbie, Dato' Seri Lee Oi Hian, Dato' Lee Hau Hian, Mr J K Maiden and Mr A E Richmond-Watson retire and will be seeking re-election at the forthcoming Annual General Meeting.

Mr Blackwood has a service contract which contains a notice period of three months. None of the other directors seeking re-election has a service contract.

Details of directors' emoluments and the interests of each director in the share capital of the company are shown in the Remuneration Report on pages 28 to 32.

Director indemnity provisions

Under the company's Articles of Association, the directors of the company have the benefit of a qualifying third party indemnity provision which provides that they shall be indemnified by the company against certain liabilities as permitted by sections 232 and 234 of the Companies Act 2006 and against costs incurred by them in relation to any liability for which they are indemnified. The company has purchased and maintains insurance against directors' and officers' liabilities in relation to the company.

Share capital and control

Details of the company's share capital are contained in note 24 to the Financial Statements. During 2007 no shares were issued or re-purchased. A total of 41,730 shares were purchased on the open market on behalf of shareholders who elected to participate in the Dividend Reinvestment Plan.

The rights and obligations attaching to the company's ordinary shares, being the only class of issued share capital, as well as the powers of the company's directors, are set out in the company's Articles of Association, copies of which can be obtained from Companies House or by writing to the Company Secretary. There are no restrictions on the voting rights attaching to the company's ordinary shares or on the transfer of securities in the company. No person holds securities in the company carrying special rights with regard to the control of the company. The company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. Unless expressly specified to the contrary in the Articles of Association of the company, the company's Articles of Association may be amended by special resolution of the company's shareholders.

Other than in relation to its borrowings which, unless certain conditions are satisfied, become repayable on a takeover the company is not party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

The company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover.

All of the company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Major shareholdings

Other than the shareholdings disclosed as directors' interests in the Remuneration Report as at 29 February 2008, the company had been notified under Section 5 of the Disclosure and Transparency Rules of the UK Listing Authority of the following significant holdings of voting rights in its ordinary shares:

	Ordinary shares number	Per cent of ordinary shares in issue	Nature of holding
Kuala Lumpur Kepong Berhad	27,414,414	18.82	Direct interest
Franklin Resources Inc	17,472,562	12.00	Indirect interest
UBS Global Asset Management (UK) Limited and UBS Global Asset Management Life Limited	8,646,817	5.94	Part direct interest
Dr M J Peagram	5,178,502	3.56	Direct interest
Legal & General Group plc	4,501,892	3.09	Direct interest

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 2008 Annual General Meeting, to make market purchases of not more than 14,566,318 of the company's ordinary shares in accordance with the terms of the special resolution passed at the 2007 Annual General Meeting. A resolution will be tabled at the 2008 Annual General Meeting to renew this authority.

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.

Two longer term share incentive plans for directors and senior executives were introduced in 2002 and 2006 with the approval of shareholders.

UK pension funds

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

Creditor payment policy

The Group's policy is to make payments to creditors and other suppliers in accordance with terms of payment agreed at the time the contract of supply is made, subject to all the terms and conditions of the order being satisfied by the supplier. Trade creditor days of the company for the year ended 31 December 2007 were **31 days** (2006 32 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 **£54,000** (2006 £92,000). There were no political donations during the year.

Statement as to disclosure of information to auditors

Each director of the company confirms that, so far as he is aware, there is no relevant audit information of which the company's auditors are unaware and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information. For these purposes, relevant audit information means information needed by the company's auditors in connection with preparing their reports on pages 36 and 70. This confirmation is given and should be interpreted in accordance with s234ZA of the Companies Act 1985.

Auditors

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

Annual General Meeting

The Annual General Meeting will be held at noon on Thursday 15 May 2008 at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR.

By Order of the Board

R Atkinson
Secretary

12 March 2008

Corporate governance

This compliance statement is produced in relation to the Combined Code on Corporate Governance ("the Code") which was published in June 2006 by the Financial Reporting Council.

Statement of Compliance

The company considers that it has complied throughout the financial year ended 31 December 2007 with the provisions set out in Section 1 of the Code.

Application of the Code

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

The Board

Operation of the Board

The activities of the company are controlled by the Board which comprises two executive directors and nine non-executive directors. The roles of Chairman and Chief Executive are clearly divided between Mr A E Richmond-Watson who heads the Board in his capacity as non-executive Chairman and Mr A M Whitfield who has responsibility for the running of the company's business as Chief Executive. The non-executive directors all have wide business and boardroom experience gained in a broad range of business sectors.

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

The Board meets quarterly to review current and projected performance and to determine strategic issues. The directors receive in advance full information on all matters to be discussed at Board meetings as well as a detailed quarterly review of performance prepared by the Chief Executive. The Board has established Audit, Nomination and Remuneration committees which are discussed below.

In addition arrangements are made each year for the Board to visit up to two of the Group's operational sites and meet local management. Ad hoc site visits are facilitated for individual non executive directors on request.

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

Board membership and balance

The Chairman, Chief Executive and senior independent director are identified on page 21. The chairmen and members of the Audit, Nomination and Remuneration committees are identified below.

The Board met on four occasions in 2007. All Board and Committee meetings were fully attended during 2007 except for the Board meetings held in March, August and December when Dato' Seri Lee Oi Hian was unable to attend.

The Board considers the following non-executive directors to be independent in accordance with the provisions of the Code: Dr A A Dobbie, Mr R H Hunting, Mr J K Maiden, Mr C J Williams and Mr P S Wood.

Induction and training

Induction arrangements are in place in order to ensure new directors receive a full formal and tailored induction on appointment. The skills and knowledge of Board members are updated by briefings provided by the company's internal resources and materials and seminars offered by external advisers.

Performance evaluation

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

- an assessment of the performance of individual non-executive directors is carried out by the Chairman through a rolling programme of one-to-one discussions using performance evaluation questions as the centrepiece for those discussions. Every non-executive director is assessed in this way once a year;
- the performance of the executive directors was reviewed in September 2007 at a meeting of the non-executive directors chaired by the Chairman;
- a meeting of the non-executive directors (in the absence of the Chairman) chaired by the senior independent director was held in December 2007 to evaluate the performance of the Chairman, taking into account the views of the executive directors; and
- the Board and its Committees carry out an annual self assessment of performance led by the Chairman and the chairman of each committee respectively. The results of assessment questionnaires completed by those chairmen were reviewed by the relevant committees and the Board and were shared with and discussed by the Board as a whole at its meeting in December 2007.

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

Shareholder communications

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

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

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

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

Board Committees

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

Audit Committee

The Audit Committee comprised Mr P J Welch (Chairman), Mr R H Hunting, Mr P S Wood and Mr C J Williams until 16 May 2007. Thereafter it comprised Mr P S Wood (Chairman), Mr R H Hunting and Mr C J Williams until 30 August 2007 when Mr J K Maiden joined it. Mr Welch was and Mr Wood and Mr Maiden are considered by the Board to have "recent and relevant financial experience" for the purposes of Provision C.3.1 of the Code. The Committee has established a detailed remit regarding the application of financial reporting and internal control principles. The Finance Director and senior members of his department attend meetings of the Committee as part of the review of the Group's interim and final statements prior to their submission to the Board. The Committee meets periodically with the company's auditors to discuss the adequacy of the Group's financial management, internal controls and information systems. The Committee's remit includes the review of the cost effectiveness, independence and objectivity of the auditors

(including the extent of non-audit services and fees payable to the auditors) which is carried out and discussed with the auditors on a periodic basis. With regard to seeking to ensure the independence and objectivity of the auditors, the Audit Committee's policy is to avoid the auditors providing services in areas which may create or be perceived to create a conflict of interest. Accordingly, other than in circumstances where time constraints render it impractical or assignments are of a minor nature, the auditors are not invited to tender or propose for services of the following nature: corporate finance, legal, information technology and systems, recruitment or remuneration, accounting, internal audit or control, acquisition due diligence, valuations or appraisals, actuarial or general business consulting. In addition the auditors have been requested not to provide services to executive directors or senior executives. Non-executive directors are required to disclose any relationship they have with the auditors.

The Group does not have an internal audit function. The Committee has reviewed this during the year and has concluded that there are in place appropriate procedures for assuring the integrity and effectiveness of the Group's governance, risk management and control processes. The Board has accepted this recommendation.

The current auditors were first appointed in 2002 and their appointment was reviewed by the Committee in 2006. Details of audit and non-audit fees paid to them in 2007 are set out in note 6 on page 48. Non-audit fees principally relate to taxation advice. The Board accepts the Committee's recommendation that the current auditors be proposed for re-appointment at the forthcoming Annual General Meeting.

The Committee met formally three times during 2007 and the Chairman of the Committee had regular dialogue with the auditors during the course of the year. As well as complying with the terms of its remit during the year the Committee reviewed its remit and, with the approval of the Board, updated it.

Nomination Committee

The Nomination Committee comprised Mr R H Hunting (Chairman), Mr P J Welch and Mr P S Wood until 16 May 2007. Thereafter it comprised Mr R H Hunting (Chairman), Mr P S Wood and Mr A E Richmond-Watson until 30 August 2007 when Mr Richmond-Watson was replaced by Dr A A Dobbie. The Committee is responsible for: the regular review of the structure, size and composition of the Board and the making of recommendations with regard to any changes; leading the process for Board appointments and nominating candidates for non-executive positions; and considering succession planning. The Committee led the process for recruiting the Finance Director and was assisted in this process by an external recruitment consultancy. The Committee also nominated Dr A A Dobbie and Mr J K Maiden for appointment as non-executive directors. Messrs Dobbie and Maiden were nominated as replacements on the Board for Dr M J Peagram and Mr P J Welch respectively following a review of prospective candidates put forward by an external recruitment consultancy. The Nomination Committee held two formal meetings during 2007 and a number of informal discussions and interviews associated with the foregoing recruitment processes.

Remuneration Committee

All matters relating to the Remuneration Committee and remuneration are covered in the Remuneration Report, set out on pages 28 to 32.

Accountability

An explanation of the directors' responsibility for preparing the financial statements, their report that the business is a going concern and their statement as to disclosure of information to the auditors are set out on pages 35 and 23 respectively. Statements by the auditors about their reporting responsibilities are set out on pages 36 and 70 respectively. A report on the approach to internal control is set out below. The directors endeavour to make the annual report and financial statements as informative and understandable as possible.

Internal control

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

The system of internal control deployed within the Group is designed to reduce the risks of failure to meet business objectives, but these risks cannot be 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 has been in place since 2000. This has since been built upon so as to embed further the process into the businesses and to enhance the usefulness of the relevant processes and information, and has been operated throughout 2007 and up to the date of approval of the Annual Report and Accounts, and accords with the Turnbull Guidance.

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

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

The individual submissions are consolidated, reviewed and agreed at a board meeting of the subsidiary. A business risk report is prepared that is closely linked to business strategy and takes account of key internal and external factors. Risks are prioritised using a common risk matrix, which forms the basis of a single corporate risk report that is reviewed and discussed by the Yule Catto Audit Committee.

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

The process was last reviewed by the Yule Catto Board of Directors in March 2007.

The nature of the risks identified as a result of this process during the year primarily relate to matters of an operational nature and the most significant of those which faced the Group in 2007 are reviewed in the reports of the Chairman, Chief Executive and Group Finance Director.

Risks associated with safety, health and the environment are, by the nature of the Group's business, always of the utmost concern and the Corporate Social Responsibility Report on pages 15 to 20 reviews the Group's performance in this connection in 2007.

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

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

In addition, the Board:

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

Environmental, social and governance matters

In January 2007 the Association of British Insurers (ABI) published a revised version of its guidelines on responsible investment disclosure. These guidelines require statements on the extent to which environmental, social and governance matters are taken into account by the Board and identified, assessed, managed and monitored particularly in relation to the risks and opportunities they present to the value of the company.

Environmental matters

The maintenance of high standards of environmental (together with health and safety) protection is central to the company's business. A separate statement on safety, health and environmental (SHE) matters has been a feature of the annual report for a number of years. The Corporate Social Responsibility Report statement on pages 15 to 20 incorporates the ABI guidelines and includes a report on the initiatives the company has adopted regarding sustainable development.

Social and ethical matters

The Board takes account of social and ethical matters as part of its review of internal control which, by virtue of its approach to risk identification, covers areas which encompass social and ethical matters.

The Board is conscious of its responsibility to the communities in which the Group's businesses operate and is supportive of local initiatives by management.

The Board is also aware of the reputational risk associated with social and ethical issues and has a Group wide code of business conduct on corruption and anti-competitive activities. The purpose of this code is to ensure that the Group's employees have a clear understanding of the principles that are important in these areas when conducting the Group's business. The application of the code is explained to senior management at regular intervals who are charged with its communication throughout their businesses. A compliance procedure was initiated in 2007 involving annual certification by the senior management of each operating company. A report is made to the Audit Committee annually on the code and the company's whistleblowing procedure.

Governance

The Board's approach to governance, training of directors and identification and assessment of risk is set out above.

Directors' remuneration report

The following report complies with the Directors' Remuneration Report Regulations 2002 and satisfies the requirements of the Listing Rules of the Financial Services Authority and the Combined Code on Corporate Governance which was published in June 2006 by the Financial Reporting Council.

Remuneration Committee

The Remuneration Committee comprised Mr P S Wood (Chairman), Mr P J Welch and Mr C J Williams, until 16 May 2007. Thereafter it comprised of Mr P S Wood (Chairman), Mr R H Hunting and Mr C J Williams until 30 August 2007 when Dr A A Dobbie and Mr J K Maiden joined and Mr R H Hunting stood down. The Committee is responsible for determining the company's policy on executive remuneration and the specific remuneration for the Chairman and each of the executive directors, including pension rights. The Committee is also responsible for reviewing the remuneration of senior executives throughout the Group. The Committee was assisted in its deliberations on executive directors' remuneration by Monks, part of PricewaterhouseCoopers LLP, ("Monks") and the Chief Executive. With the approval of the Remuneration Committee, Monks was retained by the company and during the year provided general executive remuneration advice for salary review purposes and advice on incentives, employer pension contributions and company car allowances. 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 2007 and each meeting was fully attended by the Committee's members.

Remuneration Policy

Non-executive directors' remuneration

It is the Board's policy to review fees paid to non-executive directors periodically. A review of non-executive director remuneration was last carried out in December 2006 with the assistance of advice provided by Monks. With effect from 1 January 2007 non-executive director fees are as follows: £30,000 pa for those who do not sit on a committee; £33,000 pa for those who do sit on a committee; £36,000 pa for those who are Committee chairmen. The fees payable to the Chairman of the Board are £110,000 pa.

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

Executive directors' remuneration

The company's policy for 2007 was and continues to be to structure executive pay in such a way that key executives may be recruited, motivated and retained through being offered remuneration packages that are competitive. For this purpose, the Committee uses data provided by external independent surveys relevant to the industry or sector in which each Yule

Catto subsidiary operates. Whilst not adopting set formulae the Committee is also sensitive to the pay and employment conditions elsewhere in the Group when considering annual salary increases and total remuneration. The Committee also has the discretion to consider the company's performance on environmental, social and governance matters when setting the remuneration of the executive directors.

The major element of the remuneration package of senior executives is a competitive basic salary which is reviewed with effect from 1 January each year. For executive directors this review is conducted with the assistance of an annual independent survey of salaries at UK industrial and service companies with a similar profile to the company in terms of overseas operations, turnover and market capitalisation. The survey presents market guidelines for basic pay and increases in basic salaries for executive directors in the UK during the previous twelve months. The Committee then uses this information to recommend basic salaries for the executive directors in line with the Board's policy of awarding for good performance a basic salary of approximately the market median for companies of a similar size and complexity. In addition, the Remuneration Committee has overseen the introduction of incentives, which are designed to reward the achievement of predetermined targets by the individuals concerned. These incentives, which were designed in accordance with the provisions of Schedule A to the Code, currently comprise annual cash bonuses and membership of one of two shareholder approved longer term incentive plans (the "Share Plans"). The Committee does not consider that the incentive structure for senior executives gives rise to environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

- **Annual cash bonuses**

The annual cash bonus payment for the executive directors and senior head office employees is an amount equal to a percentage of basic pay calculated by reference to the annual growth in the company's basic earnings per share for underlying performance (EPS) after taking account of the annual rise in the rate of headline inflation (RPI). For the maximum bonus to be awarded EPS growth must exceed RPI plus 10%. For the minimum bonus to be awarded EPS growth must exceed RPI plus 2.5%. The percentage of basic pay which will be awarded for performance between these points is calculated on a straight line basis with no bonus being awarded if EPS growth is RPI plus 2.5% or less. For 2007 the maximum and minimum percentage of basic pay awardable to the executive directors upon attainment of the maximum and minimum performance criteria was 80% and 5% respectively.

For divisional chief executives and managing directors of subsidiary companies the annual cash bonus payments are based on appropriate combinations of profit, cash flow, working capital and safety and environmental targets. In 2007 the bonuses were subject to limits of 60% and 50% of basic pay respectively.

- **Share plans**

The Share Plans comprise the Performance Share Plan (the "Performance Plan") and the Yule Catto Deferred Bonus Plan 2006 (the "Deferred Plan").

The Performance Plan was introduced in 2002 following shareholder approval at that year's Annual General Meeting and covers the executive directors, divisional chief executives and senior head office employees. An award consists of a right to acquire shares which can be exercised for a nominal price, subject to the company satisfying performance conditions. The value of shares awarded under the Performance Plan in any financial year to any individual currently may not exceed 100% of their annual basic salary. For awards made from 2002 to 2005 performance conditions related to growth in earnings per share over a three year period. Following review by the Remuneration Committee and shareholder approval the earnings per share based performance conditions were replaced by performance conditions related to relative and absolute growth in total shareholder return. These conditions were chosen in order to better align the interests of the participants in the Performance Plan with shareholders. Details of performance conditions are set out at pages 33 to 34. An award which vests in accordance with the former and current performance conditions will only be exercisable and allocated shares may only be transferred as to one half after the third anniversary of the date the award is made and as to the remaining half after the fourth anniversary of the date the award is made. In order to further align the interests of the executive directors and shareholders there are share ownership requirements in connection with the Performance Plan requiring the retention of a percentage of the shares acquired by executive directors until such time as ordinary shares in the company have been built up to a level equivalent in value to their annual basic salary.

The Deferred Plan covers managing directors of subsidiary companies and was introduced following approval at the 2006 Annual General Meeting to replace an expired plan. An award takes the form of a deferred bonus structured as a deferred 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 30% of any participant's basic salary in any year. The application of the plan is currently under review.

During 2007 478,173 shares and 9,497 shares were awarded under the Performance Plan and the Deferred Plan respectively.

For the awards made under the Performance Share Plan in 2005 the Remuneration Committee decided that as the results of the Group for the year ended 31 December 2004 have been converted onto an audited IFRS basis that basic earnings per share for underlying performance should replace adjusted earnings per share for the purposes of comparing performance in 2004 with that for 2007.

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

- **Pension arrangements**

Mr A M Whitfield and Mr D C Blackwood are not members of the company pension scheme and receive payments from the company to enable them to make their own arrangements. There are no unfunded pension promises or similar arrangements for directors. Mr S V Cummins was a member of the company pension scheme. To the extent that his benefits from the company pension scheme were restricted, payments were made to him to enable him to make his own arrangements.

- **Remuneration details**

The amount and components of the directors' remuneration are set out below. No elements of remuneration other than basic salary are pensionable. A payment was made to Mr Whitfield during the year of £25,000 in respect of compensation for loss of vested options with his former employer.

- **Service contracts**

No director other than Mr A M Whitfield and Mr D C Blackwood has a service contract. Mr Whitfield's contract is dated 22 November 2005, has no unexpired term, provides for a notice period of one year and makes no provision for pre-determined compensation on termination. Mr Blackwood's contract is dated 12 September 2007, has no unexpired term, provides for a notice period of three months, increasing to 12 months after one year's service, and makes no provision for pre-determined compensation on termination. Mr S V Cummins resigned as a director on 22 March 2007 and ceased to be employed by the company on 26 July 2007. Details of his termination payment are set out on page 34. His service contract comprised a letter of appointment dated 21 June 1999, had no unexpired term, provided for a notice period of one year and made no provision for pre-determined compensation on termination.

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

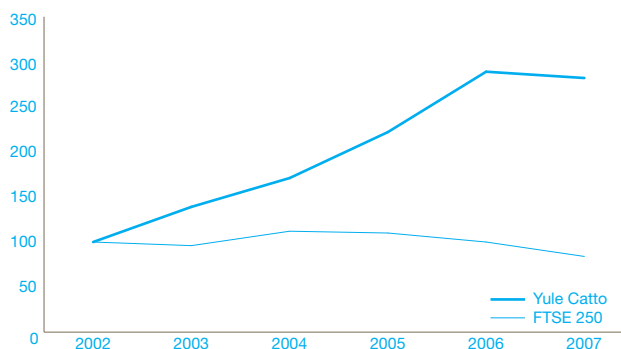
All non-executive directors are appointed in writing. The first year of each director's appointment is shown in the directors' biographies on page 21. The periods of appointment and the requirements for re-election of non-executive directors are provided within the Performance Evaluation section of the Corporate Governance Report on page 24.

- **Non-executive directorships held by the executive directors**
Mr Whitfield does not hold any non-executive directorships. Mr Blackwood is a non executive member of the Cabinet Office Audit and Risk Committee and is a member of the Board for Actuarial Standards for which he receives and retains £4,000 and £10,000 per annum respectively.

- **Total shareholder return over five years**

The following graph compares the share price performance of the company (by reference to total shareholder return) with that of the FTSE 250 and is considered to be the most appropriate index against which to make a comparison.

Yule Catto total shareholder return versus FTSE 250 total return (cumulative) years ended 31 December 2007



AGM approval

The directors' remuneration report has been submitted to the 2008 Annual General Meeting for approval.

Audited Information Directors' Remuneration

	2007 £'000	2006 £'000
Emoluments		
The total amounts for directors' remuneration and other benefits were:		
Emoluments	1,156	1,270
Compensation for loss of office	293	–
	1,449	1,270

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

	Base Salary 2007 £	Bonuses 2007 £	Benefits 2007 £	Total 2007 £	Total 2006 £
A M Whitfield – Highest paid director	335,000	268,000	18,016	621,016	266,559
D C Blackwood	57,500	35,250	1,857	94,607	–
S V Cummins (to 22.03.07)	58,294	–	4,940	63,234	274,733

In addition to the above, A M Whitfield received £25,000 in compensation for loss of benefits due from his previous employer and S V Cummins received £293,159 as compensation for loss of office.

Pension Arrangements

A M Whitfield and D C Blackwood are not members of the company's defined benefit pension scheme, the Yule Catto Group Retirement Benefits Scheme. To fund their pension arrangements, they received the following payments:

	2007 £	2,006 £
A M Whitfield	83,750	50,000
D C Blackwood	11,500	–

S V Cummins was an active member of the Yule Catto Group Retirement Benefits Scheme until he ceased to be an employee of the Group on 26 July 2007 when he became a deferred member. His accrued entitlement, the amount that would be paid each year on retirement, is shown below:

	Accrued pension at 01/01/07 £	Increase in accrued pension excluding inflation		Accrued pension at 31/12/07 £
		£	inflation £	
S V Cummins	12,562	742	1,283	13,812

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

	Transfer value at 01/01/07 £	Increase in transfer value during the year £	Directors' contributions during the year £	Transfer value at 31/12/07 £
S V Cummins	119,670	16,747	1,246	137,663

The pension benefits of S V Cummins, through membership of the Yule Catto Group Retirement Benefits Scheme, are restricted by the Scheme rules. To fund his pension arrangements above this limit he received a payment of **£11,659** (2006 £50,400).

Directors' remuneration report continued

Directors' fees

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

	2007 £	2006 £
A E Richmond-Watson – Chairman	110,000	100,000
The Hon. A G Catto	30,000	26,000
Dr A A Dobbie	12,269	–
R H Hunting	36,000	26,000
Dato' Lee Hau Hian	30,000	26,000
Dato' Seri Lee Oi Hian	30,000	26,000
J K Maiden	12,269	–
Dr M J Peagram	8,758	33,000
P J Welch	13,799	26,000
C J Williams	33,000	26,000
P S Wood	36,000	26,000
	352,095	315,000

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

Fees in respect of the services of C J Williams were paid to Colin Williams Consulting.

As Mr Cummins ceased to be employed by the company on 26 July 2007 the performance criteria were tested by reference to the company's earnings per share for the year ended 31 December 2006 and were determined by the Remuneration Committee not to have been met and accordingly the award has lapsed.

- (ii) For the award made in 2006 to Mr A M Whitfield it will vest in respect of 50% of the shares only if the company's total shareholder return (TSR) over a three year period, ending on 31 December 2008 has increased by the rise in RPI plus 15.76% or more compared with the company's TSR at the start of the three year performance period. If growth in the company's TSR is equal to the rise in RPI plus 7.69% over the three year performance period 25% of the shares subject to the award will vest. Performance between these points will result in between 25% to 50% of the shares vesting on a straight line basis with lesser performance resulting in no part of the 50% of the shares vesting. Vesting of the other 50% of the shares subject to an award will be based on the growth in the Company's TSR compared with the growth of the FTSE 250 total return index over the same three year period. If the company's TSR exceeds the FTSE 250 total return index by 7.69% or more over the three year period 50% of the shares subject to an award will vest. If growth in the company's TSR is equal to the FTSE 250 over the three year performance period 5% of the shares subject to the award will vest. Performance between these points will result in between 5% to 50% of the shares vesting on a straight line basis, with lesser performance resulting in no part of the 50% of the shares vesting.

The award made in 2006 to Mr S V Cummins was granted subject to the same performance criteria as for Mr Whitfield however as Mr Cummins ceased to be employed by the company on 26 July 2007 the performance criteria were tested as at that date and were determined by the Remuneration Committee not to have been met and accordingly the award has lapsed.

- (iii) For the award made in 2007 to Mr A M Whitfield it will vest in respect of 50% of the shares only if the company's total shareholder return (TSR) over a three year period, ending on 31 December 2009 has increased by the rise in RPI plus 15.76% or more compared with the company's TSR at the start of the three year performance period. If growth in the company's TSR is equal to the rise in RPI plus 9.27% over the three year performance period 25% of the shares subject to the award will vest. Performance between these points will result in between 25% to 50% of the shares vesting on a straight line basis with lesser performance resulting in no part of the 50% of the shares vesting. Vesting of the other 50% of the shares subject to an award will be based on the growth in the Company's TSR compared with the growth of the FTSE 250 total return index over the same three year period. If the company's TSR exceeds the FTSE 250 total return index by 7.69% or more over the three year period 50% of the shares subject to an award will vest. If growth in the company's TSR is equal to the FTSE 250 over the three year performance period 5% of the shares subject to the award will vest. Performance between these points will result in between 5% to 50% of the shares vesting on a straight line basis, with lesser performance resulting in no part of the 50% of the shares vesting.

The award made in 2007 to Mr S V Cummins was granted subject to the same performance criteria as for Mr Whitfield however as Mr Cummins ceased to be employed by the company on 26 July 2007 the performance criteria were tested as at that date and were determined by the Remuneration Committee not to have been met and accordingly the award has lapsed.

The notional value of unexercised share options is based on the mid-market price of a share on 31 December 2007 of 188.25 pence. During the year the market price ranged between 149 pence and 258.25 pence.

By Order of the Board

R Atkinson

Secretary

12 March 2008

Statement of Directors' responsibilities

Financial statements, including adoption of going concern basis

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Other matters

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Yule Catto & Co plc

We have audited the group financial statements of Yule Catto & Co plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 35. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Yule Catto & Co plc for the year ended 31 December 2007.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes that specific information that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the Chairman's statement, the unaudited part of the Directors' Remuneration Report, the Enhanced Business Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, 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 group financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the group financial statements.

Separate opinion in relation to IFRSs

As explained in Note 2 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Cambridge, United Kingdom

12 March 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 Continuing operations			2006 Continuing operations		
		Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
Group revenue	4,5	565,595	–	565,595	543,226	8,429	551,655
Share of joint ventures' revenue	4,5	15,046	–	15,046	14,131	–	14,131
Total sales		580,641	–	580,641	557,357	8,429	565,786
Group revenue		565,595	–	565,595	543,226	8,429	551,655
Company and subsidiaries before special items		44,885	–	44,885	41,888	–	41,888
Operations sold or closed during the year	4	–	(28,237)	(28,237)	–	(1,809)	(1,809)
UK Pension Fund – past service credit	23	–	10,797	10,797	–	–	–
Impairment of non-current assets	4	–	–	–	–	(19,699)	(19,699)
Company and subsidiaries Share of joint ventures	4,5	44,885 1,129	(17,440) –	27,445 1,129	41,888 1,071	(21,508) –	20,380 1,071
Operating profit/(loss)	5	46,014	(17,440)	28,574	42,959	(21,508)	21,451
Interest payable	8	(16,046)	–	(16,046)	(13,564)	–	(13,564)
Interest receivable	8	4,549	–	4,549	2,121	–	2,121
		(11,497)	–	(11,497)	(11,443)	–	(11,443)
Fair value adjustment	8	–	4,447	4,447	–	3,618	3,618
Finance costs		(11,497)	4,447	(7,050)	(11,443)	3,618	(7,825)
Profit/(loss) before taxation		34,517	(12,993)	21,524	31,516	(17,890)	13,626
Taxation	9	(7,646)	1,586	(6,060)	(8,820)	(35)	(8,855)
Profit/(loss) for the year		26,871	(11,407)	15,464	22,696	(17,925)	4,771
Profit attributable to minority interests	25	1,679	–	1,679	1,344	–	1,344
Profit attributable to equity holders of the parent	25	25,192	(11,407)	13,785	21,352	(17,925)	3,427
		26,871	(11,407)	15,464	22,696	(17,925)	4,771
Earnings per share – Basic	12	17.3p	(7.8)p	9.5p	14.7p	(12.3)p	2.4p
– Diluted	12	17.2p	(7.8)p	9.4p	14.6p	(12.3)p	2.3p

Special Items

The special items are shown in more detail in note 3.

Consolidated balance sheet

31 December 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Goodwill	14	172,443	172,443
Other intangible assets	15	591	439
Property, plant and equipment	16	108,468	110,167
Deferred tax assets	10	762	1,179
Investment in joint ventures	17	3,177	3,300
		285,441	287,528
Current assets			
Inventories	18	65,001	66,080
Trade and other receivables	19	115,078	105,166
Cash and cash equivalents	20	108,352	65,917
Derivatives at fair value	21	1,813	–
		290,244	237,163
Current liabilities			
Borrowings	20	(133,585)	(57,802)
Trade and other payables	22	(148,300)	(124,892)
Current tax liability	9	(48,948)	(52,100)
Derivatives at fair value	21	(26,000)	(22,336)
		(356,833)	(257,130)
Non-current liabilities			
Borrowings	20	(125,108)	(158,771)
Trade and other payables	22	(460)	(372)
Deferred tax liability	10	(6,445)	(6,316)
Post retirement benefit obligations	23	(41,236)	(77,884)
		(173,249)	(243,343)
Net assets		45,603	24,218
Equity			
Called up share capital	24	14,566	14,566
Share premium	25	33,034	33,034
Capital redemption reserve	25	949	949
Hedging and translation reserve	25	(9,087)	(7,371)
Retained earnings	25	416	(21,031)
Equity attributable to equity holders of the parent		39,878	20,147
Minority interests	25	5,725	4,071
Total equity		45,603	24,218
Analysis of net borrowings			
Cash and cash equivalents	20	108,352	65,917
Current borrowings	20	(133,585)	(57,802)
Non-current borrowings	20	(125,108)	(158,771)
Net borrowings		(150,341)	(150,656)
Add back: special items	20	(20,490)	(15,615)
Net borrowings (underlying performance)		(170,831)	(166,271)

The financial statements were approved by the Board of Directors and authorised for issue on 12 March 2008. They are signed on its behalf by:

A M Whitfield
D C Blackwood
Directors

Consolidated cash flow statement

for the year ended 31 December 2007

	Note	2007		2006	
		£'000	£'000	£'000	£'000
Operating					
Cash generated from operations	26		49,447		46,376
Interest received		4,549		2,121	
Interest paid		(15,611)		(13,581)	
Net interest paid			(11,062)		(11,460)
UK corporation tax received		1,179		–	
Overseas corporate tax paid		(11,636)		(9,196)	
Total tax paid			(10,457)		(9,196)
Net cash inflow from operating activities			27,928		25,720
Investing					
Dividends received from joint ventures	17		1,202		1,385
Purchase of property, plant and equipment		(16,994)		(18,468)	
Sale of property, plant and equipment		2,413		1,539	
Net capital expenditure and financial investment			(14,581)		(16,929)
Sale of businesses	27	–		3,660	
Net cash impact of acquisitions and disposals			–		3,660
Net cash outflow from investing activities			(13,379)		(11,884)
Financing					
Equity dividends paid	11		(13,689)		(13,251)
Dividends paid to minority interests	25		(537)		(1,697)
Purchase of own shares			(25)		(246)
Issue of shares			–		1,291
Proceeds of non-current borrowings	28		174		154
Net cash outflow from financing activities			(14,077)		(13,749)
Increase in cash and bank overdrafts during the year			472		87
Comprised of:					
Cash and cash equivalents	28		51,896		23,160
Bank overdrafts	28		(51,424)		(23,073)
			472		87
Reconciliation of net cash flow from operating activities to movement in net borrowings					
Net cash inflow from operating activities			27,928		25,720
Add back: dividends received from joint ventures	17		1,202		1,385
Less: net capital expenditure and financial investment			(14,581)		(16,929)
Less: dividends paid to minority interests	25		(537)		(1,697)
Free cash flow before dividends			14,012		8,479
Net cash impact of acquisitions and disposals	27		–		3,660
Purchase of own shares	25		(25)		(246)
Issue of shares	25		–		1,291
Equity dividends paid	11		(13,689)		(13,251)
Exchange movements			(4,858)		(613)
Movement in net borrowings (underlying performance)			(4,560)		(680)

Consolidated statement of recognised income and expense

for the year ended 31 December 2007

	2007			2006		
	Minority interests £'000	Equity holders of the parent £'000	Total £'000	Minority interests £'000	Equity holders of the parent £'000	Total £'000
Actuarial gains and losses	–	21,698	21,698	–	(13,551)	(13,551)
Tax on items recognised directly in equity	–	(519)	(519)	–	(1,409)	(1,409)
Exchange differences	512	(1,716)	(1,204)	(296)	(6,890)	(7,186)
Profit for the year	1,679	13,785	15,464	1,344	3,427	4,771
Total recognised income/(expenditure) for the period	2,191	33,248	35,439	1,048	(18,423)	(17,375)

Notes to the consolidated financial statements

31 December 2007

1 General information

Yule Catto & Co plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 21.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 8 Operating segments
Amendments to IAS 1 Presentation of financial statements – A revised presentation
Amendments to IAS 23 Borrowing costs
IFRIC 11 IFRS 2: Group and treasury share transactions
IFRIC 12 Service concession arrangements
IFRIC 13 Customer Loyalty programmes
IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

The results of joint ventures are accounted for using equity accounting.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of combination. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

Software development and environmental licensing costs resulting in development of a long term intangible asset are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions in IAS 38 are met:

- an asset is created that can be separately identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

2 Significant accounting policies continued

No research or development costs met the criteria for required capitalisation under IAS 38 during the year.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Except for freehold land and land grants in Malaysia, which are not depreciated, the cost or valuation of property, plant and equipment is depreciated using a straight line basis over its expected useful life 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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Operating leases

Operating lease payments are expensed on a straight line basis to the income statement over the term of the relevant lease. Any benefits received as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss where there is objective evidence that the asset is impaired.

Amortised costs

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Fair Value through the income statement

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.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives, as set out in note 21.

Impairment of financial assets

At each balance sheet date, the Group reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Finance costs

Finance costs of debt are recognised in the income statement 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 in accordance with IAS 23.

Foreign currencies

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling-denominated assets and liabilities.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

The costs of defined benefit contributions to the Group's pension schemes and of augmenting existing pensions are charged to the income statement on a systematic basis over the expected period of benefits from employees' service.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Actuarial gains on the defined benefit schemes are recognised in full in each period in which they occur. They are recognised outside of profit or loss and are presented in the statement of recognised income and expense.

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

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

Provisions

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's liability.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

2 Significant accounting policies continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed, where delivery is defined in accordance with Incoterms 2000.

Share based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Definitions

Total sales

Total sales represent the total of revenue from Yule Catto & Co plc, its subsidiaries, and its share of the revenue of joint ventures.

Operating profit

Operating profit represents profit before financing costs and taxation.

EBITDA

EBITDA is calculated as operating profit before depreciation, amortisation and non-recurring items.

Non-recurring items

Non-recurring items includes those items that are not directly or indirectly associated with the Group's trading performance, which need to be separately disclosed in order to enable improved understanding of the accounts by users.

Non-recurring items are defined as:

- Profit or loss impact arising from the sale or closure of an operation;
- Impairment of non-current assets; and
- Other non-operating or one-off items.

Special items

The following are disclosed separately in note 3 as special items in order to provide a clearer indication of the Group's underlying performance:

- Non-recurring items;
- Mark-to-market adjustments in respect of cross currency and interest rate derivatives used for hedging purposes where IAS 39 hedge accounting is not applied; and
- Revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate.

Net borrowings

Net borrowings represents cash and cash equivalents together with short and long term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts to be recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £172.4 million after an impairment loss of £58.9 million was recognised during the transition to IFRS in 2004. Details of the impairment loss calculation are provided in note 14.

Post retirement benefit obligations

Included in the actuaries' calculation of the post retirement benefit obligations are a number of assumptions. These are shown in detail in note 23.

Current tax liability

When calculating the current tax liability an appropriate estimate has been made regarding the outstanding items in respect of previous years with various tax authorities to which the outcome of discussions is uncertain.

Closure of manufacturing sites

Included in costs to close the manufacturing sites are estimates for redundancy, decontamination and dismantling costs. These estimates are based on experience gained in previous closures.

3 Special items

Special items

The special items are made up as follows:

	Special items 2007 £'000	Special items 2006 £'000
Total sales		
Revenue of operations sold or closed during the year	–	8,429
Operating profit/(loss)		
Operating profit/(loss) of operations sold or closed during the year	–	117
Profit or loss arising from the sale or closure of operations (see note 7)	(28,237)	(1,926)
	(28,237)	(1,809)
UK Pension Fund – past service credit	10,797	–
Impairment of non-current assets	–	(19,699)
	(17,440)	(21,508)
Finance costs		
Fair value adjustment (see note 8)	4,447	3,618
Taxation		
Taxation on operating profit/(loss) of operations sold or closed during the year	1,586	(35)
Taxation on profit or loss arising from the sale or closure of operations	–	–
	1,586	(35)

4 Segmental analysis

Primary format

	Total sales			Operating profit		
	Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
2007						
Analysis by activity						
Continuing activity						
Polymer Chemicals	410,175	–	410,175	40,028	–	40,028
Share of Polymer joint ventures	15,046	–	15,046	1,129	–	1,129
	425,221	–	425,221	41,157	–	41,157
Pharma Chemicals	63,784	–	63,784	7,443	(12,461)	(5,018)
Impact Chemicals	91,636	–	91,636	3,005	(15,776)	(12,771)
Total sales	580,641	–	580,641			
Divisional operating profit				51,605	(28,237)	23,368
Unallocated corporate expenses				(5,591)	10,797	5,206
Operating profit				46,014	(17,440)	28,574

	Total sales			Operating profit		
	Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
2006						
Analysis by activity						
Continuing activity						
Polymer Chemicals	384,953	–	384,953	37,678	–	37,678
Share of Polymer joint ventures	14,131	–	14,131	1,071	–	1,071
	399,084	–	399,084	38,749	–	38,749
Pharma Chemicals	64,404	–	64,404	8,133	–	8,133
Impact Chemicals	93,869	8,429	102,298	964	(21,508)	(20,544)
Total sales	557,357	8,429	565,786			
Divisional operating profit				47,846	(21,508)	26,338
Unallocated corporate expenses				(4,887)	–	(4,887)
Operating profit				42,959	(21,508)	21,451

Notes to the consolidated financial statements continued

31 December 2007

4 Segmental analysis continued

Special items

	Pharma Chemicals £'000	Impact Chemicals £'000	Unallocated corporate expenses £'000	Total £'000
2007				
Revenue of businesses sold or closed during the year	-	-	-	-
Profit or loss arising from the sale or closure of operations	(12,461)	(15,776)	-	(28,237)
UK Pension Fund – past service credit	-	-	10,797	10,797
	(12,461)	(15,776)	10,797	(17,440)

	Pharma Chemicals £'000	Impact Chemicals £'000	Unallocated corporate expenses £'000	Total £'000
2006				
Revenue of businesses sold or closed during the year	-	8,429	-	8,429
Operating profit/(loss) of businesses sold or closed during the year	-	117	-	117
Profit or loss arising from the sale or closure of operations	-	(1,926)	-	(1,926)
Impairment of non-current assets	-	(19,699)	-	(19,699)
	-	(21,508)	-	(21,508)

	Total assets £'000	Total liabilities £'000	Capital expenditure £'000	Depreciation and amortisation £'000
2007				
Analysis by activity				
Continuing activity				
Polymer Chemicals	175,479	(110,894)	(11,758)	(7,111)
Pharma Chemicals	61,525	(25,242)	(3,289)	(5,205)
Impact Chemicals	54,121	(44,605)	(3,511)	(3,079)
	291,125	(180,741)	(18,558)	(15,395)
Holding companies	664	(90,652)	(129)	(618)
	291,789	(271,393)	(18,687)	(16,013)
Share of Polymer joint ventures	7,338	(4,233)		
Goodwill (see note 14)	172,443			
Net borrowings		(150,341)		
	471,570	(425,967)		
Net assets		45,603		

	Total assets £'000	Total liabilities £'000	Capital expenditure £'000	Depreciation and amortisation £'000
2006				
Analysis by activity				
Continuing activity				
Polymer Chemicals	147,891	(109,147)	(8,284)	(6,931)
Pharma Chemicals	62,419	(20,668)	(6,036)	(4,273)
Impact Chemicals	56,981	(51,822)	(3,782)	(6,417)
	267,291	(181,637)	(18,102)	(17,621)
Holding companies	11,587	(98,882)	(96)	(692)
	278,878	(280,519)	(18,198)	(18,313)
Share of Polymer joint ventures	7,453	(3,381)		
Goodwill (see note 14)	172,443			
Net borrowings		(150,656)		
Net assets	458,774	(434,556)		
		24,218		

Secondary format

	Total sales		Segment net assets		Capital expenditure	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Analysis by region of operation						
United Kingdom	163,914	176,985	(61,329)	(87,758)	4,617	5,498
Other Europe	240,707	237,598	34,668	46,549	7,029	7,435
Asia	134,618	112,776	40,955	33,907	6,489	4,201
Rest of World	41,402	38,427	9,207	9,733	552	1,064
	580,641	565,786	23,501	2,431	18,687	18,198
Goodwill			172,443	172,443		
Net borrowings			(150,341)	(150,656)		
Net assets			45,603	24,218		

	2007 £'000	2006 £'000
Analysis of total sales by destination		
United Kingdom	91,349	98,203
Other Europe	231,560	227,158
Asia	150,332	128,003
Africa and Middle East	55,428	54,005
Rest of World	51,972	58,417
	580,641	565,786

Inter-segmental sales

In addition to the amounts included above, inter-segmental sales of **£2,837,000** (2006 £2,545,000) were made as set out below. These sales were eliminated on consolidation.

	Polymer Chemicals £'000	Pharma Chemicals £'000	Impact Chemicals £'000	Total £'000
2007				
Polymer Chemicals	–	–	–	–
Pharma Chemicals	–	–	673	673
Impact Chemicals	–	2,164	–	2,164
Total	–	2,164	673	2,837
2006				
Polymer Chemicals	–	–	–	–
Pharma Chemicals	–	–	511	511
Impact Chemicals	–	2,034	–	2,034
Total	–	2,034	511	2,545

Notes to the consolidated financial statements continued

31 December 2007

5 Operating profit

	Company and subsidiaries 2007 £'000	Joint ventures 2007 £'000	Total 2007 £'000	Company and subsidiaries 2006 £'000	Joint ventures 2006 £'000	Total 2006 £'000
Total sales	565,595	15,046	580,641	551,655	14,131	565,786
Cost of sales	(450,305)	(12,381)	(462,686)	(436,290)	(11,607)	(447,897)
Gross profit	115,290	2,665	117,955	115,365	2,524	117,889
Distribution costs	(43,299)	(784)	(44,083)	(42,873)	(628)	(43,501)
Administrative expenses	(44,546)	(752)	(45,298)	(52,112)	(825)	(52,937)
Operating profit	27,445	1,129	28,574	20,380	1,071	21,451

	2007 £'000	2006 £'000
Operating profit is stated after charging/(crediting) the following:		
Depreciation	15,766	18,086
Amortisation	247	227
Hire of plant and equipment	1,770	1,439
Other lease rentals	2,931	2,832
Research and development expenditure	9,083	10,495
Loss or (profit) arising from the sale or closure of operations	28,237	1,926
UK Pension fund – Past Service Credit	(10,797)	–

6 Auditors' remuneration

	2007 £'000	2006 £'000
Fees payable to the company's auditors for:		
– audit of the company's annual accounts	7	7
Fees payable to the company's auditors and their associates for:		
– audit of the company's subsidiaries pursuant to legislation	478	478
Total audit fees	485	485
Tax services	56	79
Other services	29	–
Total non-audit fees	85	79

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

7 Profit or loss arising from the sale or closure of operations

	2007			2006
	Cash costs £'000	Fixed asset write off £'000	Total £'000	Total £'000
Profit or (loss) arising from the sale or closure of operations				
Closure of Uquifa's Italian manufacturing site	(6,151)	(6,310)	(12,461)	–
Closure of Holliday Pigments UK manufacturing site	(7,616)	–	(7,616)	–
Closure of James Robinson's German manufacturing site	(6,050)	(3,869)	(9,919)	–
Sale of Huddersfield site	1,759	–	1,759	–
Sale of Brencliffe Ltd	–	–	–	198
Sale of Holliday Dispersions Ltd and SA	–	–	–	485
Sale of Autoclenz Ltd	–	–	–	699
Restructuring of James Robinson Ltd	–	–	–	235
Restructuring of William Blythe Ltd	–	–	–	336
Sale of Reabrook Limited	–	–	–	(3,994)
Releases from provisions created prior to 2006	–	–	–	115
	(18,058)	(10,179)	(28,237)	(1,926)

In each case, assets retained that cannot be sold are written off. To the extent that workers are not redeployed, termination terms are agreed.

8 Finance costs

	2007 £'000	2006 £'000
Interest payable on bank loans and overdrafts	11,316	9,227
Interest payable on other loans	4,730	4,337
	16,046	13,564
Less: interest receivable	(4,549)	(2,121)
Net interest payable	11,497	11,443
Fair value adjustment	(4,447)	(3,618)
Total finance costs	7,050	7,825

The fair value adjustment is the mark to market adjustment in respect of cross currency and interest rate derivatives used for hedging purposes where IAS 39 hedge accounting is not applied.

9 Current taxation

	2007 £'000	2006 £'000
Current tax		
UK corporation tax	(1,585)	–
Overseas taxation	9,578	8,553
	7,993	8,553
Tax on special items – overseas	(1,586)	35
Tax charge for the year	6,407	8,588
Deferred tax		
Origination and reversal of temporary differences	(347)	267
Total tax on profit before taxation	6,060	8,855

UK corporation tax is calculated at 30% (2006 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of tax expense to profit before taxation

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

	2007 £'000	2006 £'000
Profit before taxation	21,524	13,626
Tax on profit before taxation at standard UK corporation tax rate of 30% (2006 30%)	6,457	4,088
Effects of:		
Expenses not deductible for tax purposes	503	6,702
Tax incentives	(3,089)	(1,165)
Losses not recognised less utilisation of losses not previously recognised	1,691	(459)
Higher tax rates on overseas earnings	837	10
Tax effect on share of results of joint ventures	(339)	(321)
Tax charge for year	6,060	8,855

Tax charges to equity

	2007 £'000	2006 £'000
Current tax charge on items recognised directly in equity	–	–
Deferred tax charge on items recognised directly in equity	(519)	(1,409)
	(519)	(1,409)

Current tax liabilities

	2007 £'000	2006 £'000
Current tax liabilities	(48,948)	(52,100)

Notes to the consolidated financial statements continued

31 December 2007

10 Deferred taxation

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets to the extent that it is probable that these assets will be recovered. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to offset) are shown below:

Deferred tax liabilities

	Accelerated tax depreciation £'000	Other £'000	Total £'000
2007			
At 1 January	(5,034)	(1,282)	(6,316)
Credit to P&L account	276	71	347
Exchange adjustment	(451)	(25)	(476)
At 31 December	(5,209)	(1,236)	(6,445)

Deferred tax assets

	Pensions £'000	Other £'000	Total £'000
2007			
At 1 January	1,179	–	1,179
Credited to P&L account	102	–	102
Charged through P&L reserves	(519)	–	(519)
At 31 December	762	–	762

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 31 December 2007 is as follows:

Net deferred tax asset/(liability)

	Total £'000
At 31 December 2007	(5,683)
At 31 December 2006	(5,137)

Deferred tax asset not recognised

Deferred tax has not been recognised where it has been assumed that the deferred tax asset is not recoverable. The amounts of deferred tax not recognised at the balance sheet dates are as follows:

	2007 £'000	2006 £'000
UK pension liability	9,419	20,786
Tax losses	3,463	5,107
Accelerated capital allowances	11,183	11,781
Other timing differences	2,731	2,780
	26,796	40,454

In March 2007 the UK Government announced that they would introduce legislation that would reduce the corporation tax rate to 28% with effect from 1 April 2008. Deferred tax asset not recognised for the UK entities, previously stated at 30% of the temporary differences, have been restated at 28% of those amounts.

Deferred tax on unremitted overseas earnings

The estimated deferred tax relating to the retained profits held within subsidiary Group companies and not yet remitted, excluding any mitigation through use of loss relief, double taxation credits and other reliefs is as follows:

	2007 £'000	2006 £'000
Deferred tax not recognised	66,965	68,243

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, associates and joint ventures was £67.3 million (2006 £68.8 million). Calculation of the potential deferred tax liability has not been undertaken as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. If the temporary differences were to reverse in the future, it is probable that the majority of the potential tax liability would be covered by tax credits in respect of tax paid locally.

11 Dividends

	2007 £'000	2006 £'000
Ordinary		
– prior year final of 5.5 pence per share (2005 5.3 pence)	8,011	7,670
– interim of 3.9 pence per share (2006 3.8 pence)	5,678	5,581
	13,689	13,251
– proposed final of 5.7 pence per share (2006 5.5 pence)	8,303	8,011

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12 Earnings per share

	2007			2006		
	Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
Earnings (Profit attributable to equity holders of the parent)	25,192	(11,407)	13,785	21,352	(17,925)	3,427
Earnings per share	17.3p	(7.8)p	9.5p	14.7p	(12.3)p	2.4p
Diluted earnings per share	17.2p	(7.8)p	9.4p	14.6p	(12.3)p	2.3p

Earnings per share are calculated using the weighted average number of shares in issue during the year of 145,639,000 (2006 145,535,000).

Diluted earnings per share are calculated using the weighted average number of shares in issue in the year as adjusted for dilutive share options of 146,355,000 (2006 146,469,000).

13 Employees

	2007 Number	2006 Number
The average monthly number of employees during the year by activity was:		
Polymer Chemicals	1,442	1,439
Pharma Chemicals	473	461
Impact Chemicals	604	696
Holding companies	45	42
	2,564	2,638
Share of joint ventures	108	117
	2,672	2,755

Notes to the consolidated financial statements continued

31 December 2007

13 Employees continued

	2007 £'000	2006 £'000
The aggregate remuneration of all Group employees comprised:		
Wages and salaries	57,646	59,109
Social security costs	9,642	9,421
Post retirement benefit obligations	3,472	4,148
	70,760	72,678

14 Goodwill

	2007 £'000	2006 £'000
Cost		
At 31 December	309,371	309,371
Accumulated impairment losses		
At 31 December	136,928	136,928
Net book value		
At 31 December	172,443	172,443

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Cash generating units ("CGU") comprise primarily acquired entities monitored at business unit level. The exception is where management monitor a cash generating unit across similar businesses as a whole or components of businesses largely independent of other parts of that business.

The allocation of the carrying value of goodwill is represented below:

	31 December 2005		31 December 2006		31 December 2007 Net book value
	Net book value	Impairments during the year	Net book value	Impairments during the year	
Polymer Chemicals					
Synthomer Ltd and Harlow Chemical Company Ltd	70,521	–	70,521	–	70,521
Synthomer GmbH	13,120	–	13,120	–	13,120
Synthomer Hasselt BV	3,089	–	3,089	–	3,089
	86,730	–	86,730	–	86,730
Pharma Chemicals					
UQUIFA Spain SA	61,713	–	61,713	–	61,713
UQUIFA Mexico SACV	5,172	–	5,172	–	5,172
	66,885	–	66,885	–	66,885
Impact Chemicals					
Holliday Chemical Espana SA	97	–	97	–	97
Holliday France SA	136	–	136	–	136
Holliday Pigments Ltd and SA	14,977	–	14,977	–	14,977
James Robinson GmbH	3,382	–	3,382	–	3,382
Other	236	–	236	–	236
	18,828	–	18,828	–	18,828
Total	172,443	–	172,443	–	172,443

In compiling the above table, the recoverable amounts for the CGUs are determined from value in use calculations, based upon discounted cash flows. The key assumptions for the discounted cash flow calculations are those regarding the discount rate, profit and growth rate. Management estimates pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to each CGU. Discount rates of 8.0 – 10.0% have been used. The profit used in the cash flows for the first five years is derived from management forecasts, for years 6 to 10 a growth rate is applied. The profit for year 10 is then assumed to apply without further growth into perpetuity. Growth rates of between 2.5 and 5.0% have been used, representing management's best estimate of each CGU's circumstances, and these do not exceed average long term growth rates for the markets concerned.

15 Other intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

No development expenditure met the requirements to be recognised as an internally generated intangible asset, therefore all development costs in the period were expensed.

	Software £'000	Environmental licences £'000	Total £'000
Cost			
At 1 January 2007	6,035	215	6,250
Exchange adjustments	(280)	–	(280)
Additions	349	–	349
At 31 December 2007	6,104	215	6,319
Accumulated amortisation and impairment			
At 1 January 2007	5,596	215	5,811
Exchange adjustments	(330)	–	(330)
Amortisation charge for the year	247	–	247
At 31 December 2007	5,513	215	5,728
Net book value			
At 31 December 2007	591	–	591

	Software £'000	Environmental licences £'000	Total £'000
Cost			
At 1 January 2006	6,483	215	6,698
Exchange adjustments	(192)	–	(192)
Additions	183	–	183
Disposals	(439)	–	(439)
At 31 December 2006	6,035	215	6,250
Accumulated amortisation and impairment			
At 1 January 2006	5,883	–	5,883
Exchange adjustments	(119)	–	(119)
Amortisation charge for the year	227	–	227
Impairment of non current assets	–	215	215
Disposals	(395)	–	(395)
At 31 December 2006	5,596	215	5,811
Net book value			
At 31 December 2006	439	–	439

Notes to the consolidated financial statements continued

31 December 2007

16 Property, plant and equipment

	Land and buildings			Plant and equipment £'000	Total £'000
	Freeholds £'000	Leaseholds			
		Long £'000	Short £'000		
Cost					
At 1 January 2007	60,185	4,818	809	343,428	409,240
Exchange adjustments	2,944	16	166	16,658	19,784
Additions	940	20	595	16,783	18,338
Assets written off on closure of business	(10,660)	–	–	(61,947)	(72,607)
Disposals	(104)	(256)	(36)	(1,665)	(2,061)
At 31 December 2007	53,305	4,598	1,534	313,257	372,694
Accumulated depreciation and impairment					
At 1 January 2007	27,198	1,987	40	269,848	299,073
Exchange adjustments	1,306	2	18	12,144	13,470
Depreciation charge for the year	1,265	125	80	14,296	15,766
Assets written off on closure of business	(7,093)	–	–	(55,335)	(62,428)
Disposals	(11)	(14)	(34)	(1,596)	(1,655)
At 31 December 2007	22,665	2,100	104	239,357	264,226
Net book value					
At 31 December 2007	30,640	2,498	1,430	73,900	108,468

	Land and buildings			Plant and equipment £'000	Total £'000
	Freeholds £'000	Leaseholds			
		Long £'000	Short £'000		
Cost					
At 1 January 2006	69,733	4,837	473	342,532	417,575
Exchange adjustments	(2,354)	(19)	–	(7,970)	(10,343)
Additions	295	–	–	17,720	18,015
Reclassifications	(336)	–	336	–	–
Disposals	(7,153)	–	–	(8,854)	(16,007)
At 31 December 2006	60,185	4,818	809	343,428	409,240
Accumulated depreciation and impairment					
At 1 January 2006	24,859	1,862	187	250,603	277,511
Exchange adjustments	(860)	(1)	–	(5,311)	(6,172)
Depreciation charge for the year	1,570	126	5	16,385	18,086
Impairment of non current assets	3,762	–	–	15,722	19,484
Reclassifications	152	–	(152)	–	–
Disposals	(2,285)	–	–	(7,551)	(9,836)
At 31 December 2006	27,198	1,987	40	269,848	299,073
Net book value					
At 31 December 2006	32,987	2,831	769	73,580	110,167

Freehold land amounting to **£9,357,000** (2006 £9,357,000) has not been depreciated.

17 Investment in joint ventures

	2007 £'000	2007 £'000	2006 £'000	2006 £'000
At 1 January				
Share of non-current assets		1,012		1,251
Share of current assets		6,516		5,837
Share of non-current liabilities		–		–
Share of current liabilities		(4,228)		(3,024)
		3,300		4,064
Share of income	15,046		14,131	
Share of expenses	(13,806)		(12,938)	
	1,240		1,193	
Tax	(111)		(122)	
Dividends paid during the year	(1,202)		(1,385)	
Exchange adjustments	(50)		(450)	
Retained loss	(123)		(764)	
At 31 December				
Share of non-current assets		975		1,012
Share of current assets		6,439		6,516
Share of non-current liabilities		–		–
Share of current liabilities		(4,237)		(4,228)
		3,177		3,300

There are no significant contingent liabilities to which the Group is exposed, nor does the Group have any significant contingent liabilities, in relation to its interest in the joint ventures.

A list of principal subsidiaries and joint ventures is given on pages 80 to 81.

18 Inventories

	2007 £'000	2006 £'000
Group		
Raw materials and consumables	22,457	21,068
Work in progress	4,513	5,808
Finished goods	38,031	39,204
	65,001	66,080

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

19 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	102,169	95,176
Amounts owed by joint ventures	44	147
Other receivables	9,557	6,008
Prepayments and accrued income	3,308	3,835
	115,078	105,166

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Credit risk

Amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Before accepting a new customer, the Group uses appropriate procedures to assess the potential customer's credit quality in order to set a credit limit.

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19 Trade and other receivables continued

Ageing of trade receivables

	2007 £'000	2006 £'000
Not yet due	86,262	82,090
0 – 60 days overdue	15,353	12,783
61 – 120 days overdue	1,287	1,220
Over 120 days due	1,042	1,032
	103,944	97,125
Less: provision for impairment	(1,775)	(1,949)
	102,169	95,176

Provision for impairment of receivables

	2007 £'000	2006 £'000
At 1 January	1,949	2,505
Exchange adjustments	80	(38)
Credit for the year	(12)	(15)
Amounts written off as uncollectible	(233)	(484)
Amounts recovered previously written off	(9)	(19)
At 31 December	1,775	1,949

The provision is predominantly against trade receivables more than 61 days overdue.

20 Cash and Borrowings

Cash pooling

The Group runs notional pooling facilities in a number of countries, principally the UK. The structure facilitates interest and balance compensation of cash and bank overdrafts. This notional pooling does not meet the strict set-off rules under IFRS, and as a result the cash and bank overdraft balances must be reported 'gross' on the balance sheet.

The table below shows the impact of netting the cash and overdraft balances in each of the pooled facilities. It is the opinion of the directors that this treatment reflects the commercial reality of the Group's position with its banks.

	2007		2006	
	Cash £'000	Bank loans and overdrafts £'000	Cash £'000	Bank loans and overdrafts £'000
As disclosed under IFRS	108,352	(104,623)	65,917	(57,802)
Notional pooling adjustment	(82,646)	82,646	(48,635)	48,635
Underlying position	25,706	(21,977)	17,282	(9,167)

	2007 £'000	2006 £'000
Current borrowings		
Bank loans		
Bank loans and overdrafts	104,623	57,802
Other loans		
\$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010*	24,013	–
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010*	5,000	–
	133,636	57,802
Less: capitalised costs	(51)	–
	133,585	57,802

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

	2007 £'000	2006 £'000
Non-current borrowings		
Bank loans		
Unsecured £60 million revolving credit facility expiring 2009	–	–
Other loans		
\$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010*	48,025	75,596
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010*	10,000	15,000
\$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012	21,529	21,949
\$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014	35,048	35,731
\$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016	11,015	11,229
	125,617	159,505
Less: capitalised costs	(509)	(734)
	125,108	158,771

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

Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents or government bond rates appropriate to the country in which the borrowing is incurred.

At 31 December 2007, the Group had available **£60 million** (2006 £60 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The directors calculate the carrying value of the Group's borrowings as follows:

Analysis of borrowings at carrying value by currency

	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
31 December 2007					
Bank loans and overdrafts	44,780	2,638	55,517	1,688	104,623
Loan notes	15,000	139,630	–	–	154,630
Capitalised costs	(560)	–	–	–	(560)
	59,220	142,268	55,517	1,688	258,693
Cash and cash equivalents					(108,352)
Net borrowings					150,341
Add back: special item					20,490
Net borrowings (underlying performance)					170,831
31 December 2006					
Bank loans and overdrafts	14,127	3,472	35,754	4,449	57,802
Loan notes	15,000	144,505	–	–	159,505
Capitalised costs	(734)	–	–	–	(734)
	28,393	147,977	35,754	4,449	216,573
Cash and cash equivalents					(65,917)
Net borrowings					150,656
Add back: special item					15,615
Net borrowings (underlying performance)					166,271

Cash and cash equivalents comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

The special item represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate, together with the transitional adjustment required to reflect movements in fair value caused by variations in interest rates, and subsequent amortisation thereof, to the extent that these constituted effective hedges under UK GAAP.

Notes to the consolidated financial statements continued

31 December 2007

21 Financial instruments

The Group's treasury function 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.

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the cash and borrowings disclosed in note 20 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 25.

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.

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

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

	Carrying values at 31 December		Fair values at 31 December	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Fair value of financial assets				
Trade and other receivables excluding prepayments	111,770	101,331	111,770	101,331
Cash and cash equivalents	108,352	65,917	108,352	65,917
Derivatives at fair value	1,813	–	1,813	–
	221,935	167,248	221,935	167,248
Fair value of financial liabilities				
Loan notes	154,070	158,771	174,741	178,319
Bank loans and overdrafts	104,623	57,802	104,623	57,802
Derivatives at fair value	26,000	22,336	26,000	22,336
Trade and other payables	148,760	125,264	148,760	125,264
	433,453	364,173	454,124	383,721

Fair values have been obtained from the relevant institutions where appropriate. Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flow at prevailing interest rates and by applying year end exchange rates. The carrying amount of short term borrowings approximate to book value.

The main risks arising from the Group's financial instruments are market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below, together with related disclosure required by IFRS.

Market risk

The Group's main exposure to market risk is in the form of interest rate risk and foreign currency risk. The policies adopted to address these risks are as follows:

Interest rate risk

The Group finances its operations through a mixture of retained profits, loan notes 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.

Foreign currency risk

The Group uses currency borrowings, forward contracts and currency swaps to hedge overseas net assets, which are predominantly denominated in euros. Profit translation exposures are not hedged.

The Group hedges currency transaction exposures at the point of confirmed order, using forward foreign exchange contracts. The Group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. Consequently, there are no material currency exposures to disclose (2006 none).

Impact on income statement

Changes in the fair value of derivative contracts amounting to £4,446,883 have been credited to the income statement in the year (2006 credit of £3,618,002). These changes are shown separately as a special item in the consolidated income statement.

Hedge accounting

The Group has a number of cross currency and interest rate swaps that are used to reduce the exposure to interest rate and currency risk.

These swaps are fully effective at eliminating the risks they address.

The Group has reviewed the requirements necessary to permit the application of hedge accounting under IAS 39. It has concluded that the costs involved in meeting these requirements cannot be justified and therefore IAS 39 hedge accounting will not be applied.

Changes in the fair value of derivative financial instruments to which hedge accounting is not applied are recognised in the income statement as they arise.

Interest rate risk profile

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 2007 was:

	Floating rate borrowings 2007 £'000	Fixed rate borrowings 2007 £'000	Total borrowings 2007 £'000	Floating rate borrowings 2006 £'000	Fixed rate borrowings 2006 £'000	Total borrowings 2006 £'000
Sterling	89,340	130,000	219,340	53,513	135,000	188,513
Euro	55,517	–	55,517	35,754	–	35,754
US dollar	2,638	–	2,638	3,472	–	3,472
Other	1,688	–	1,688	4,449	–	4,449
	149,183	130,000	279,183	97,188	135,000	232,188
Cash and cash equivalents			(108,352)			(65,917)
Net borrowings (underlying performance)			170,831			166,271

The effective interest rate for the year was 6.8% (2006 6.6%).

Sensitivity analysis

The following table shows the illustrative effect on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in changes in UK and US interest rates and in euro & US dollar to sterling exchange rate, before the effect of tax.

	2007			2006		
	Income statement Underlying -/+ £m	IFRS -/+ £m	Equity IFRS -/+ £m	Income statement Underlying -/+ £m	IFRS -/+ £m	Equity IFRS -/+ £m
Interest rate sensitivity analysis						
UK Interest rate +/- 1.0%	0.8	5.4	–	0.6	5.4	–
Euro Interest rate +/- 1.0%	0.6	0.6	–	0.4	0.4	–
US Interest rate +/- 1.0%	–	6.4	–	–	6.0	–
Foreign currency sensitivity analysis						
Euro exchange rate -/+ 10%	–	0.9	4.1	–	2.5	4.1
US dollar exchange rate -/+ 10%	0.3	1.3	–	0.3	1.5	–

The interest rate sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

The foreign currency sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or borrower.

Notes to the consolidated financial statements continued

31 December 2007

21 Financial instruments continued

Liquidity risk

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

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

A committed syndicated bank revolving credit facility of £60 million which expires in November 2009. This credit facility was negotiated in November 2004.

Unsecured loan notes totalling approximately £175 million raised from the US private placement market in 1999 and 2004. With maturity between 2008 and 2016, these loan notes provide the Group's long term requirements. Please see note 20 for further details.

The following table details the remaining contractual maturity for its non-derivative financial liabilities:

	2007					2006				
	Amount due					Amount due				
	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000
Non-interest bearing										
Trade and other payables	148,300	460	-	-	148,760	124,892	372	-	-	125,264
Variable interest rate instruments										
Bank loans and overdrafts	104,623	-	-	-	104,623	57,802	-	-	-	57,802
Fixed interest rate instruments										
Loan notes	33,461	33,429	33,461	74,209	174,560	-	33,358	66,880	74,148	174,386
	286,384	33,889	33,461	74,209	427,943	182,694	33,730	66,880	74,148	357,452

The following table details the remaining contractual maturity for its non-derivative financial assets:

	2007					2006				
	Amount due					Amount due				
	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000
Non-interest bearing										
Trade and other receivables excluding prepayments	111,770	-	-	-	111,770	101,331	-	-	-	101,331
Variable interest rate instruments										
Cash and cash equivalents	108,352	-	-	-	108,352	65,917	-	-	-	65,917
	220,122	-	-	-	220,122	167,248	-	-	-	167,248

The following table details the remaining contractual maturity for its derivative financial instruments:

	2007					2006				
	Amount due					Amount due				
	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000
Interest rate swaps	(148)	171	119	–	142	602	602	786	–	1,990
Cross currency swaps	1,904	1,485	3,305	1,368	8,062	434	434	1,452	1,106	3,426
Foreign exchange forward contracts	1,152	–	–	–	1,152	–	–	–	–	–
	2,908	1,656	3,424	1,368	9,356	1,036	1,036	2,238	1,106	5,416

In accordance with IFRS 7, the above table show undiscounted cashflows. In contrast IAS 39 requires these items to be carried in the balance sheet at Fair Value which is based on discounted cashflows.

22 Trade and other payables

	2007 £'000	2006 £'000
Amount due within one year		
Trade creditors	89,964	83,513
Other creditors	26,845	24,109
Accruals and deferred income	31,491	17,270
	148,300	124,892
Amount due in greater than one year		
Other creditors	460	372
	148,760	125,264

Accruals and deferred income includes £14,171,000 (2006 £1,807,000) in respect of restructuring costs.

Average trade creditor days in 2007 was 67 (2006 68). This figure represents trade creditor days for all trading operations within the Group, calculated as a weighted average based on cost of sales.

The directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the consolidated financial statements continued

31 December 2007

23 Post retirement benefit obligations

Charge to income statement in respect of the Group's pension schemes

	2007			2006			2005			2004			2003		
	UK Overseas		Total	UK Overseas		Total	UK Overseas		Total	UK Overseas		Total	UK Overseas		Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Defined benefit	1,598	763	2,361	2,200	937	3,137	4,000	226	4,226	4,700	217	4,917	5,100	952	6,052
Defined contribution	159	952	1,111	299	712	1,011	347	710	1,057	338	636	974	265	743	1,008
	1,757	1,715	3,472	2,499	1,649	4,148	4,347	936	5,283	5,038	853	5,891	5,365	1,695	7,060
Defined benefit – special item	(10,797)	–	(10,797)	–	–	–	–	–	–	–	–	–	–	–	–
	(9,040)	1,715	(7,325)	2,499	1,649	4,148	4,347	936	5,283	5,038	853	5,891	5,365	1,695	7,060

The fair value of the assets in the schemes, and the present value of the liabilities in the schemes at each balance sheet date were:

	2007			2006			2005			2004			2003		
	UK Overseas		Total	UK Overseas		Total	UK Overseas		Total	UK Overseas		Total	UK Overseas		Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Present value of funded defined benefit obligations	(228,966)	(15,530)	(244,496)	(260,425)	(16,591)	(277,016)	(225,000)	(16,233)	(241,233)	(203,800)	(14,297)	(218,097)	(191,100)	(14,000)	(205,100)
Fair value of scheme assets	195,325	7,935	203,260	191,137	7,995	199,132	167,400	4,196	171,596	138,500	3,795	142,295	121,100	3,600	124,700
Post retirement benefit obligations	(33,641)	(7,595)	(41,236)	(69,288)	(8,596)	(77,884)	(57,600)	(12,037)	(69,637)	(65,300)	(10,502)	(75,802)	(70,000)	(10,400)	(80,400)

UK pension schemes

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

The assets of the scheme are held separately from those of the companies concerned.

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

Defined benefit scheme

A full actuarial valuation was carried out as at 6 April 2006 and updated to 31 December 2007 by a qualified actuary. The major assumptions used by the actuary were:

	2007	2006	2005	2004	2003
Rate of increase in salaries	3.10%	3.30%	3.50%	3.60%	3.50%
Rate of increase in pensions in payment	2.50%	2.50%	2.50%	2.50%	2.50%
Discount rate	5.90%	5.20%	4.90%	5.40%	5.50%
Rates of return on plan assets	7.33%	6.95%	7.21%	7.26%	7.26%
Inflation assumption	3.10%	2.80%	2.50%	2.60%	2.50%

Amount charged to operating profit

	2007 £'000	2006 £'000
Current service cost	2,252	3,200
Gain on settlements and curtailments	–	(300)
Past service credit	(10,797)	–
Expected return on plan assets	(13,885)	(11,500)
Interest cost relating to pension scheme liabilities	13,231	10,800
	(9,199)	2,200

The past service credit relates to reductions in the benefits provided by the scheme which were actioned during the year. This item is disclosed as a special item.

Actuarial gain/(loss) recognised in the statement of recognised income and expense

	2007 £'000	2006 £'000
Actual return less expected return on pension scheme assets	(5,891)	13,800
Experience gains and losses arising on the scheme liabilities	25,872	(30,988)
	19,981	(17,188)

History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	(5,891)	13,800	17,200	8,300	12,300
Percentage of scheme assets	(3.02)%	7.22%	10.27%	5.99%	10.10%
Experience gains and losses arising on the scheme liabilities					
Amount (£'000)	25,872	(30,988)	(12,100)	(5,500)	(26,300)
Percentage of the present value of scheme liabilities	11.30%	(11.90)%	(5.38)%	(2.70)%	(13.80)%
Total actuarial gains/(losses) recognised in the statement of recognised income and expense					
Amount (£'000)	19,981	(17,188)	5,100	2,800	(14,000)
Percentage of the present value of scheme liabilities	8.73%	(6.61)%	2.27%	1.37%	(7.30)%

The actual return on plan assets was £25,400,000 (2006 £27,300,000).

Movements in the present value of defined benefit obligations were as follows:

	2007 £'000	2006 £'000
At 1 January	(260,425)	(225,000)
Current service cost	(2,252)	(3,200)
Past service cost	10,797	–
Interest cost	(13,231)	(10,800)
Contributions from scheme members	(746)	(900)
Experience gains and losses arising on the scheme liabilities	25,872	(30,988)
Benefits paid	11,019	10,163
Gains on settlements and curtailments	–	300
At 31 December	(228,966)	(260,425)

Movements in the fair value of the scheme assets were as follows:

	2007 £'000	2006 £'000
At 1 January	191,137	167,400
Expected return on scheme assets	13,885	11,500
Actual return less expected return on pension scheme assets	(5,891)	13,800
Contributions from sponsoring companies	6,467	7,700
Contributions from scheme members	746	900
Benefits paid	(11,019)	(10,163)
At 31 December	195,325	191,137

Contributions from the sponsoring companies are expected to be £5,835,000 in 2008.

Notes to the consolidated financial statements continued

31 December 2007

23 Post retirement benefit obligations continued

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

	2007 %	2007 £'000	2006 %	2006 £'000	2005 %	2005 £'000	2004 %	2004 £'000	2003 %	2003 £'000
Equities	8.00	148,447	7.90	154,821	7.50	134,900	7.75	110,000	7.75	97,700
Bonds	5.17	44,925	4.92	36,316	4.63	31,800	5.13	27,600	5.25	22,600
Cash	4.25	1,953	4.25	–	4.00	700	4.00	900	4.00	800
Total fair value of assets		195,325		191,137		167,400		138,500		121,100
Present value of scheme liabilities		(228,966)		(260,425)		(225,000)		(203,800)		(191,100)
Post retirement benefit obligations		(33,641)		(69,288)		(57,600)		(65,300)		(70,000)

Overseas pension schemes

The Group operates a number of smaller overseas pension and post-retirement schemes. The assets of these schemes are held separately from those of the Group with the exception of the German schemes, where in line with common practice, the assets are held within the respective company.

Defined benefit schemes

The aggregated pension disclosure below for the overseas defined benefit schemes has been compiled from a number of actuarial valuations at 31 December 2007. The major assumptions do not differ significantly from those disclosed above in relation to the UK pension schemes.

Amount charged to operating profit

	2007 £'000	2006 £'000
Current service cost	417	474
Expected return on plan assets	(397)	(244)
Interest cost relating to pension scheme liabilities	743	707
	763	937

Actuarial gain recognised in the statement of recognised income and expense

	2007 £'000	2006 £'000
Actual return less expected return on pension scheme assets	(1,481)	(166)
Experience gains and losses arising on the scheme liabilities	2,784	118
Changes in assumptions underlying the present value of the scheme liabilities	414	3,685
	1,717	3,637

The actual return on plan assets was £144,000 (2006 £228,000).

Analysis of the movements in the net balance sheet liability before deferred tax

	2007 £'000	2006 £'000
Net liability at 1 January	(8,596)	(12,037)
Total expense as detailed above	(763)	(937)
Contributions made	733	480
Actuarial gain	1,717	3,637
Exchange movements	(687)	261
Net liability at 31 December	(7,596)	(8,596)

24 Share capital

	2007 £'000	2006 £'000
Authorised		
219,111,230 (2006 219,111,230) ordinary shares of 10 pence each	21,911	21,911
Issued and fully paid		
145,663,187 (2006 145,663,187) ordinary shares of 10 pence each	14,566	14,566

Ordinary shares carry no right to fixed income.

Share options

As at 31 December 2007 the following options were outstanding:

	Number	Option Price
Executive share options		
Exercisable between 2007–2010	1,884	(a)
Exercisable between 2008–2012	5,784	(a)
Exercisable between 2008–2015	115,172	(a)
Exercisable between 2009–2013	6,706	(a)
Exercisable between 2009–2016	264,895	(a)
Exercisable between 2010–2017	321,340	(a)
SAYE options		
Exercisable between 2008–2009	293,974	261.0p

(a) options granted under the Performance Share Plan, Longer Term Deferred Bonus Plan and the Deferred Bonus Plan 2006 with a total exercise price of £54.

25 Changes in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Hedging and translation reserve £'000	Minority interest £'000	Retained earnings £'000	Total £'000
At 1 January 2007	14,566	33,034	949	–	(7,371)	4,071	(21,031)	24,218
Profit for the year	–	–	–	–	–	1,679	13,785	15,464
Actuarial gains and losses	–	–	–	–	–	–	21,698	21,698
Tax on items recognised directly in equity	–	–	–	–	–	–	(519)	(519)
Exchange differences on translation of overseas operations	–	–	–	–	7,429	512	–	7,941
Net investment hedging	–	–	–	–	(9,145)	–	–	(9,145)
Total recognised (expenditure) / income for the period	–	–	–	–	(1,716)	2,191	34,964	35,439
Dividends paid	–	–	–	–	–	(537)	(13,689)	(14,226)
Shares purchased by ESOP Trust	–	–	–	25	–	–	–	25
Share based payments	–	–	–	(25)	–	–	172	147
At 31 December 2007	14,566	33,034	949	–	(9,087)	5,725	416	45,603

Notes to the consolidated financial statements continued

31 December 2007

25 Changes in equity continued

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Hedging and translation reserve £'000	Minority interest £'000	Retained earnings £'000	Total £'000
At 1 January 2006	14,480	31,829	949	–	(481)	4,720	4,009	55,506
Profit for the year	–	–	–	–	–	1,344	3,427	4,771
Actuarial gains and losses	–	–	–	–	–	–	(13,551)	(13,551)
Tax on items recognised directly in equity	–	–	–	–	–	–	(1,409)	(1,409)
Exchange differences on translation of overseas operations	–	–	–	–	(7,558)	(296)	–	(7,854)
Net investment hedging	–	–	–	–	668	–	–	668
Total recognised (expenditure) /income for the period	–	–	–	–	(6,890)	1,048	(11,533)	(17,375)
Dividends paid	–	–	–	–	–	(1,697)	(13,251)	(14,948)
Shares purchased by ESOP Trust	–	–	–	246	–	–	–	246
Share based payments	–	–	–	(246)	–	–	(256)	(502)
Issue of shares	86	1,205	–	–	–	–	–	1,291
At 31 December 2006	14,566	33,034	949	–	(7,371)	4,071	(21,031)	24,218

26 Reconciliation of operating profit to cash generated from operations

	2007 £'000	2006 £'000
Operating profit	28,574	21,451
Less: share of profits of joint ventures	(1,129)	(1,071)
	27,445	20,380
Impairment of non-current assets	–	19,699
Depreciation and amortisation	16,013	18,313
Profit or loss arising from the sale or closure of operations	28,237	1,926
UK Pension Fund – Past service credit	(10,797)	–
Profit on sale of fixed assets	(196)	(794)
Share based payments	298	299
Cash impact of termination of businesses	(8,985)	(6,096)
Pension funding in excess of IAS 19 charge	(5,550)	(3,181)
Decrease/(increase) in inventories	3,925	(3,947)
Increase in trade and other receivables	(6,398)	(10,496)
Increase in trade and other payables	6,434	10,547
Unrealised exchange gains	(979)	(274)
Cash generated from operations	49,447	46,376

27 Disposal of subsidiary

The disposal in the 2006 accounts related to Reabrook Limited.

28 Analysis of changes in net borrowings

	1 January 2007 £'000	Reclassification of borrowings £'000	Cash inflows/ (outflows) £'000	Exchange and other movements £'000	31 December 2007 £'000
Cash and cash equivalents	65,917	–	51,896	(9,461)	108,352
Current borrowing – Bank overdrafts	(57,802)	–	(51,424)	4,603	(104,623)
	8,115	–	472	(4,858)	3,729
Current borrowings – Loan notes	–	(28,962)	–	–	(28,962)
Non-current borrowings	(158,771)	28,962	(174)	4,875	(125,108)
Net borrowings	(150,656)	–	298	17	(150,341)
Add back: special item	(15,615)				(20,490)
Net borrowings (underlying performance)	(166,271)				(170,831)

The special item represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate, together with the transitional adjustment required to reflect movements in fair value caused by variations in interest rates, and subsequent amortisation thereof, to the extent that these constituted effective hedges under UK GAAP.

29 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Transactions between the company and its subsidiaries are disclosed in the company's financial statements where appropriate.

Key management compensation

	2007 £'000	2006 £'000
Short term employee benefits	3,242	2,563
Post retirement benefit obligations	279	833
Share based payments	1,185	1,009
	4,706	4,405

The key management figures given above include the directors and all participants of the Performance Share Plan.

30 Commitments

	2007 £'000	2006 £'000
Capital expenditure authorised but not provided for in the accounts		
Contracted	6,240	3,680

	2007 £'000	2006 £'000
Commitments under operating leases are as follows		
Payments under operating leases which fall due		
Within 1 year	2,028	2,589
Between 2 and 5 years	2,979	5,595
After 5 years	11,272	11,268
	16,279	19,452

31 Contingent assets, contingent liabilities and guarantees

Guarantees of the parent company in respect of bank and other facilities of subsidiaries and joint ventures totalled **£18,178,000** (2006 £14,049,000).

Other guarantees and contingent liabilities of the Group amount to **£1,361,000** (2006 £1,363,000).

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.

Notes to the consolidated financial statements continued

31 December 2007

32 Share based payments

Save As You Earn share option plan

This plan, which is available to almost all UK employees, provides for a grant price equal to the average quoted market price of the Group shares on the date of grant. The vesting period is five to seven years, followed by an exercise period of six months after which the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

	Options 2007	Weighted av. exercise price (£) 2007	Options 2006	Weighted av. exercise price (£) 2006
Outstanding at 1 January	333,980	2.610	1,347,254	1.889
Exercised during the period	–	–	(862,917)	1.508
Lapsed during the period	(40,006)	2.610	(150,357)	2.478
Outstanding at 31 December	293,974	2.610	333,980	1.889
Exercisable at 31 December	259,431	–	–	–

No grants have been made under the plan since 7 November 2002, and the Group has elected not to apply IFRS 2 to awards made before that date. For options expected to be settled with shares purchased by the Yule Catto Employee Benefit Trust in the open market, the charge to profit reflects the anticipated cash cost of these shares spread over the vesting period. For options expected to be settled by the issue of new shares, no charge to profit is made.

For options outstanding as at 31 December 2007, the exercise price is £2.61, and the weighted average remaining contractual life was 0.7 years (2006 1.7 years).

Executive share option schemes

Details of the share option schemes available to senior management are included in the remuneration report on pages 28 to 32.

For grants made after 7 November 2002, the charge to profit is calculated on the assumption that, given that the exercise price is effectively nil, the share price at grant provides a reasonable estimate of the option value at grant.

For grants made before 7 November 2002, the charge to profit is based on the anticipated cash cost of acquiring shares to meet the options exercised.

	Options 2007	Weighted av. exercise price (£) 2007	Options 2006	Weighted av. exercise price (£) 2006
Outstanding at 1 January	973,539	0.057	1,322,258	0.372
Granted during the period	321,340	–	426,983	–
Exercised during the period	(35,328)	1.579	(128,493)	0.411
Lapsed during the period	(543,770)	–	(647,209)	0.028
Outstanding at 31 December	715,781	–	973,539	0.057
Exercisable at 31 December	1,884	–	12,157	–

For options outstanding as at 31 December 2007, the exercise price was £nil and the weighted average remaining contractual life was 5 years (2006 4.7 years).

Yule Catto Employee Benefit Trust

The company established a Trust, the Yule Catto Employee Benefit Trust, on 17 July 1996 to distribute shares to employees enabling the obligations under the Yule Catto Longer Term Performance Share Plan and the Yule Catto Longer Term Deferred Bonus Plan to be met. The Trust is managed by the RBC Trustees (Guernsey) Limited, an independent company located in Guernsey. At 31 December 2007, the Trust held 24,161 (2006 24,161) ordinary shares in the company with a market value of £45,000 (2006 £56,000). The dividends on these shares have been waived. All of the shares are under option. Costs are amortised over the life of the plans.

33 Share price information

The middle market value of the listed ordinary shares at 31 December 2007 was 188.25 pence. During the year, the market price ranged between 149.00 pence and 258.25 pence. The market value of the listed ordinary shares at 31 March 1982 was 19.5 pence. The latest ordinary share price is available on the Financial Times Cityline service, telephone 09060 034567.

34 Reconciliation of EBITDA

	Underlying performance		IFRS	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Operating profit	46,014	42,959	28,574	21,451
Less: profit or loss arising from the sale or closure of operations	-	-	-	(117)
Less: operating profit or loss of businesses sold or closed during the year	-	-	28,237	1,926
Less: UK Pension Fund – Past service credit	-	-	(10,797)	-
Add back: impairment of non-current assets	-	-	-	19,699
Add back: amortisation	247	227	247	227
Add back: depreciation	15,766	18,086	15,766	18,086
EBITDA	62,027	61,272	62,027	61,272

35 Post balance sheet event

On 11 February 2008, the Company announced that it had exchanged conditional contracts for the sale of the entire issued share capital of James Robinson Limited and certain other associated assets for an estimated consideration of \$21.15 million plus working capital of approximately \$4.5 million.

The completion of the sale is conditional on, amongst other things, the purchaser obtaining shareholder approval for the acquisition which is expected to be obtained by mid April 2008.

Should the conditions be met and completion be achieved, the financial impact of this sale will be reflected in the Company's 2008 financial statements.

Independent auditors' report to the members of Yule Catto & Co plc

We have audited the parent company financial statements of Yule Catto & Co plc for the year ended 31 December 2007 which comprise the Balance Sheet and the related notes 1 to 16. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Yule Catto & Co plc for the year ended 31 December 2007 and on the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 parent company 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 parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Cambridge
United Kingdom
12 March 2008

Company balance sheet

31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible fixed assets	6	2,602	2,578
Investments	7	194,253	134,262
		196,855	136,840
Current assets			
Debtors	8	245,333	286,318
Cash at bank and in hand		868	221
		246,201	286,539
Creditors – due within one year			
Borrowings	9	(118,750)	(39,324)
Other creditors	10	(11,913)	(9,702)
Derivatives at fair value		(23,035)	(22,336)
		(153,698)	(71,362)
Net current assets		92,503	215,177
Total assets less current liabilities		289,358	352,017
Creditors – due after more than one year			
Borrowings	9	(125,107)	(158,771)
Net assets		164,251	193,246
Capital and reserves			
Called up share capital	11	14,566	14,566
Share premium	12	33,034	33,034
Revaluation reserve	12	828	830
Capital redemption reserve	12	949	949
Profit and loss account	12	114,874	143,867
Capital employed		164,251	193,246
Analysis of net borrowings			
Cash at bank and in hand		868	221
Borrowings due in less than one year		(118,750)	(39,324)
Borrowings due after more than one year		(125,107)	(158,771)
Net borrowings		(242,989)	(197,874)
Add back: special item		(20,490)	(15,615)
Net borrowings (underlying performance)	9	(263,479)	(213,489)

Approved on 12 March 2008

A M Whitfield
D C Blackwood
Directors

Notes to the Company financial statements

31 December 2007

1 Accounting policies

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.

Foreign currencies

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

Tangible fixed assets

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

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

Revaluation of properties

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

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

Investments

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

Debt

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

Dividends

Dividends are accrued where declared and unpaid at the balance sheet date.

Taxation

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group’s taxable profits and its results

as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

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

Deferred tax is measured on a non-discounted basis.

Financial instruments

Financial assets and financial liabilities are recognised on the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

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

The use of financial derivatives is governed by the Group’s policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Net borrowings

Net borrowings represents cash and cash equivalents together with short and long term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting.

Pension funding

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

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

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

2 Auditors' remuneration

The audit fee of Yule Catto & Co plc amounted to £6,500 (2006 £6,500).

3 Employees

	2007 Number	2006 Number
The average monthly number of employees during the year was:	34	31

	2007 £'000	2006 £'000
The aggregate remuneration of all company employees comprised:		
Wages and salaries	2,495	2,522
Social security costs	293	303
Post retirement benefits	354	496
	3,142	3,321

4 (Loss)/profit attributable to equity shareholders

	2007 £'000	2006 £'000
UK GAAP basis*		
Attributable to Yule Catto & Co plc	(15,304)	2,466

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

* The above has been calculated on a UK GAAP basis as this is consistent with the continued presentation of Yule Catto and Co plc's accounts under UK GAAP.

5 Dividends

	2007 £'000	2006 £'000
Ordinary – prior year final of 5.5 pence per share (2005 5.3 pence)	8,011	7,670
– interim of 3.9 pence per share (2006 3.8 pence)	5,678	5,581
	13,689	13,251
– proposed final of 5.7 pence per share (2006 5.5 pence)	8,303	8,011

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Notes to the Company financial statements continued

31 December 2007

6 Tangible fixed assets

	Land and buildings		Plant and equipment £'000	Total £'000
	Freeholds £'000	Long Leaseholds £'000		
Cost or valuation				
At 1 January 2007	2,777	89	1,432	4,298
Additions	–	–	129	129
Disposals	–	–	(102)	(102)
At 31 December 2007	2,777	89	1,459	4,325
At cost	12	–	1,459	1,471
At professional valuation in 1985	2,765	89	–	2,854
	2,777	89	1,459	4,325
Depreciation				
At 1 January 2007	430	41	1,249	1,720
Charge for the year	20	2	83	105
Eliminated on disposals	–	–	(102)	(102)
At 31 December 2007	450	43	1,230	1,723
Net book value				
At 31 December 2007	2,327	46	229	2,602
Net book value				
At 31 December 2006	2,347	48	183	2,578

Properties included at valuation would have been stated on a historical cost basis at cost of **£1,877,000** (2006 £1,877,000) and depreciation of **£386,000** (2006 £369,000).

Freehold land amounting to **£1,781,000** (2006 £1,781,000) has not been depreciated.

7 Investments

	Subsidiaries £'000	Joint ventures £'000	Other investments £'000	Total £'000
Cost				
At 1 January 2007	135,062	500	46	135,608
Additions	60,000	–	–	60,000
At 31 December 2007	195,062	500	46	195,608
Provisions				
At 1 January 2007	1,118	220	8	1,346
Amortisation	–	–	9	9
At 31 December 2007	1,118	220	17	1,355
Net book value				
At 31 December 2007	193,944	280	29	194,253
Net book value At 31 December 2006	133,944	280	38	134,262

Details of the principal Group companies are given on pages 80 to 81.

8 Debtors

	2007 £'000	2006 £'000
Amounts owed by subsidiaries	238,403	282,817
Other debtors	2,430	584
Prepayments and accrued income	88	94
Corporate tax	4,412	2,823
	245,333	286,318

9 Borrowings

	2007 £'000	2006 £'000
Current borrowings		
Bank loans		
Bank loans and overdrafts	89,788	39,324
Other loans		
\$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010*	24,013	–
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010*	5,000	–
	118,801	39,324
Less: capitalised costs	(51)	–
	118,750	39,324

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

Notes to the Company financial statements continued

31 December 2007

9 Borrowings continued

	2007 £'000	2006 £'000
Non-current borrowings		
Bank loans		
Unsecured £60 million revolving credit facility expiring 2009	–	–
Other loans		
\$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010*	48,025	75,596
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010*	10,000	15,000
\$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012	21,529	21,949
\$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014	35,048	35,731
\$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016	11,015	11,229
	125,617	159,505
Less: capitalised costs	(510)	(734)
	125,107	158,771

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

Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents.

At 31 December 2007, the Company had available £60 million (2006 £60 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The directors calculate the carrying value of the Company's borrowings as follows:

Analysis of borrowings at carrying value by currency

	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
31 December 2007				
Bank loans and overdrafts	33,082	2,489	54,217	89,788
Loan notes	15,000	139,630	–	154,630
Capitalised costs	(561)	–	–	(561)
	47,521	142,119	54,217	243,857
Cash and cash equivalents				(868)
Net borrowings				242,989
Add back: special item*				20,490
Net borrowings (underlying performance)				263,479
31 December 2006				
Bank loans and overdrafts	7,533	2,688	29,103	39,324
Loan notes	15,000	144,505	–	159,505
Capitalised costs	(734)	–	–	(734)
	21,799	147,193	29,103	198,095
Cash and cash equivalents				(221)
Net borrowings				197,874
Add back: special item*				15,615
Net borrowings (underlying performance)				213,489

Cash and cash equivalents comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

*The special item represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate, together with the transitional adjustment required to reflect movements in fair value caused by variations in interest rates, and subsequent amortisation thereof, to the extent that these constituted effective hedges under pre FRS 26 UK GAAP.

10 Other creditors

	2007 £'000	2006 £'000
Amount due within one year		
Trade creditors	1,110	695
Other taxation and social security	131	128
Other creditors	1,944	2,125
Accruals and deferred income	8,728	6,754
	11,913	9,702

11 Share capital

	2007 £'000	2006 £'000
Authorised		
219,111,230 (2006 219,111,230) ordinary shares of 10 pence each	21,911	21,911
Issued and fully paid		
145,663,187 (2006 145,663,187) ordinary shares of 10 pence each	14,566	14,566

Share options

As at 31 December 2007 the following options were outstanding:

Executive share options	Number	Option Price
Exercisable between 2007-2010	1,884	(a)
Exercisable between 2008-2012	5,784	(a)
Exercisable between 2008-2015	115,172	(a)
Exercisable between 2009-2013	6,706	(a)
Exercisable between 2009-2016	264,895	(a)
Exercisable between 2010-2017	321,340	(a)

SAYE options	Number	Option Price
Exercisable between 2008-2009	293,974	261.0p

(a) options granted under the Performance Share Plan and the Longer Term Deferred Bonus Plan and the Deferred Bonus Plan 2006 with a total exercise price of £54.

12 Share premium and reserves

	Share premium £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2007	33,034	830	949	143,867	178,680
Profit for the year	–	–	–	(15,304)	(15,304)
Dividends	–	–	–	(13,689)	(13,689)
Retained loss for the year	–	–	–	(28,993)	(28,993)
Revaluation depreciation	–	(2)	–	–	(2)
At 31 December 2007	33,034	828	949	114,874	149,685

Notes to the Company financial statements continued

31 December 2007

13 Related party transactions

There were no related party transactions during the year (2006 none).

14 Guarantees and other financial commitments

The company has given guarantees amounting to **£18,178,000** (2006 £14,049,000) in respect of bank and other facilities of subsidiaries and joint ventures.

15 Pension commitments

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

The assets of the scheme are held separately from those of the companies concerned.

The pension charge for the year for the company amounted to **£2,623,000** (2006 £2,087,000)

In accordance with FRS 17, the company will account for its contributions to the Defined Benefit scheme as if it were a Defined Contribution scheme because it is not possible to identify the company's share of the assets and liabilities in the scheme on a consistent and reasonable basis. The latest actuarial valuation of the scheme prepared for the purposes of making transitional disclosure in accordance with FRS 17 show a net pension liability of £69,288,000 at 31 December 2006.

FRS 17 Disclosure

Due to the application of IAS 19 to the Group financial statements, resulting in changes to the required disclosures at Group level, the disclosure requirements of FRS 17 for the Group have been included below.

A full actuarial valuation was carried out as at 6 April 2006 and updated to 31 December 2007 by a qualified actuary. The major assumptions used by the actuary were:

	2007	2006	2005	2004	2003
Rate of increase in salaries	3.10%	3.30%	3.50%	3.60%	3.50%
Rate of increase in pensions in payment	2.50%	2.50%	2.50%	2.50%	2.50%
Discount rate	5.90%	5.20%	4.90%	5.40%	5.50%
Inflation assumption	3.10%	2.80%	2.50%	2.60%	2.50%

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

	2007 %	2007 £'000	2006 %	2006 £'000	2005 %	2005 £'000	2004 %	2004 £'000	2003 %	2003 £'000
Equities	8.00	148,447	7.90	154,821	7.50	135,200	7.75	110,300	7.75	98,000
Bonds	5.17	44,925	4.92	36,316	4.63	31,800	5.13	27,600	5.25	22,600
Cash	4.25	1,953	–	–	4.00	700	4.00	900	4.00	800
Total fair value of assets		195,325		191,137		167,700		138,800		121,400
Present value of scheme liabilities		(228,966)		(260,425)		(225,000)		(203,800)		(191,100)
Deficit in the scheme		(33,641)		(69,288)		(57,300)		(65,000)		(69,700)
Related deferred tax asset		–		–		–		–		3,600
Net pension liability		(33,641)		(69,288)		(57,300)		(65,000)		(66,100)

Contributions from the sponsoring companies are expected to be £5,835,000 in 2008 (2007 £6,467,000).

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

	2007 £'000	2006 £'000
Current service cost	2,252	3,200
Past service credit	(10,797)	–
Gain on settlements and curtailments	–	(300)
	(8,545)	2,900

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

	2007 £'000	2006 £'000
Expected return on pension scheme assets	(13,885)	(11,500)
Interest on pension scheme liabilities	13,231	10,800
	(654)	(700)

Analysis of the actuarial gain/(loss) that would have been recognised in the statement of total recognised gains and losses

	2007 £'000	2006 £'000
Actual return less expected return on pension scheme assets	(7,228)	13,800
Experience gains and losses arising on the scheme liabilities	25,872	(30,988)
	18,644	(17,188)

History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	(7,228)	13,800	17,200	8,300	12,300
Percentage of scheme assets	(3.70)%	7.22%	10.27%	5.99%	10.10%
Experience losses on scheme liabilities:					
Amount (£'000)	25,872	(30,988)	(12,100)	(5,500)	(27,800)
Percentage of the present value of scheme liabilities	11.30%	(11.90)%	(5.38)%	(2.70)%	(14.50)%
Total actuarial gains/(losses) recognised in the statement of total recognised gains and losses:					
Amount (£'000)	18,644	(17,188)	5,100	2,800	(14,000)
Percentage of the present value of scheme liabilities	8.14%	(6.61)%	2.27%	1.37%	(7.30)%

16 Share based payments

For details of share based payments please refer to note 32 to the consolidated financial statements, on page 68.

Principal subsidiaries and joint ventures

Operating Companies	Country of incorporation and operation	Effective Group interest in equity %
Arkem (Pty) Ltd <i>Distributor of speciality chemicals and allied products.</i>	South Africa	50#
Dhahran Harco Chemical Industries Ltd <i>Synthetic resin emulsions.</i>	Saudi Arabia	49#
Holliday Chemical Espana SA <i>Sales agent and distributor.</i>	Spain	100
Holliday France SA <i>Sales agent and distributor.</i>	France	100
Holliday Pigments Ltd <i>Ultramarine pigments.</i>	England	100
Holliday Pigments SA <i>Ultramarine pigments.</i>	France	100
James Robinson GmbH <i>Fine chemicals.</i>	Germany	100
James Robinson India (Pvt) Ltd <i>Fine chemicals intermediates.</i>	India	66
James Robinson Ltd <i>Fine chemicals.</i>	England	100
Oxford Chemicals Ltd <i>Flavour chemicals.</i>	England	100
PFW Aroma Chemicals BV <i>Fragrance chemicals.</i>	Netherlands	100
Revertex Chemicals (Pty) Ltd <i>Synthetic resin emulsions and allied products.</i>	South Africa	100

* Shares held by Yule Catto & Co plc

Joint ventures

	Country of incorporation and operation	Effective Group interest in equity %
Operating Companies continued		
Revertex Finewaters Sdn Bhd <i>Adhesives.</i>	Malaysia	63
Revertex (Malaysia) Sdn Bhd <i>Synthetic resin and emulsions, natural rubber latices, plasticers and allied products.</i>	Malaysia	70
Synthomer BV <i>Compounds of synthetic rubber latices.</i>	Netherlands	100
Synthomer GmbH <i>Synthetic rubber latices and related compounds.</i>	Germany	100
Synthomer Hasselt BV <i>Compounds of synthetic rubber latices.</i>	Netherlands	100
Synthomer Ltd <i>Synthetic rubber latices and emulsions.</i>	England	100*
Synthomer SA <i>Compounds, dispersions and adhesives.</i>	Belgium	100
Synthomer Sdn Bhd <i>Synthetic rubber latices and related compounds.</i>	Malaysia	100
Union Quimico Farmaceutica SA (UQUIFA) <i>Pharmaceutical actives and intermediates.</i>	Spain	100
Uquifa Italia SpA <i>Pharmaceutical actives and intermediates.</i>	Italy	100
Uquifa Mexico S.A.C.V. <i>Pharmaceutical actives and intermediates.</i>	Mexico	100
William Blythe Ltd <i>Inorganic chemicals.</i>	England	100
Holding Companies		
Holliday Chemical Holdings	England	100
Holliday International SA	France	100
Yule Catto BV	Netherlands	100
Yule Catto Financing Ltd	Ireland	100
Yule Catto Holdings GmbH	Germany	100
Yule Catto International Ltd	England	100*
Yule Catto Spain SL	Spain	100
Yule Catto Nederland BV	Netherlands	100

* Shares held by Yule Catto & Co plc

Joint ventures

Five year financial summary

	IFRS (underlying performance) ^(a)				UK GAAP	
	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2004 £'000	2003 £'000
Total sales	580,641	557,357	516,458	503,121	549,444	550,114
EBITDA ^(b)	62,027	61,272	65,477	65,614	66,871	96,474
Operating profit ^(c)	46,014	42,959	46,186	45,088	43,961	73,432
Finance costs	(11,497)	(11,443)	(11,741)	(12,930)	(12,950)	(13,518)
Profit before taxation	34,517	31,516	34,445	32,158	31,011	59,914
Earnings per share ^(d)	17.3p	14.7p	16.7p	13.9p	13.9p	27.6p
Dividends per share	9.6p	9.3p	9.0p	13.4p	13.4p	13.0p
Dividend cover	1.8	1.6	1.9	1.0	1.0	2.1
Net borrowings ^(e)	(170,831)	(166,271)	(165,591)	(187,641)	(187,641)	(177,276)
Free cash flow before dividends ^(e)	14,012	8,479	19,786	13,344	13,344	62,979
Capital expenditure	16,994	18,468	14,331	16,920	16,920	21,734

- (a) As presented in note 3 to the Financial Statements on page 45.
 (b) As defined in the accounting policies at note 2 and derived in note 34.
 (c) As defined in note 2 to the Financial Statements on pages 41 to 44.
 (d) Under UK GAAP this figure is adjusted to exclude amortisation.
 (e) As shown with the consolidated cash flow statement on page 39.

Notice of meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Thursday, 15 May 2008 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 2007.
- 2 To consider the recommendation of the Directors as to a final dividend for the year ended 31 December 2007 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 2007.
- 4 To re-elect as a director Mr D C Blackwood.
- 5 To re-elect as a director the Hon. A G Catto.
- 6 To re-elect as a director Dr A A Dobbie.
- 7 To re-elect as a director Dato' Lee Hau Hian.
- 8 To re-elect as a director Dato' Seri Lee Oi Hian.
- 9 To re-elect as a director Mr J K Maiden.
- 10 To re-elect as a director Mr A E Richmond-Watson.
- 11 To re-appoint Deloitte & Touche LLP as auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
- 12 To authorise the Directors to determine the remuneration of the auditors.

Special business

To consider, and if thought fit, to pass the following Resolutions, Resolution 13 being proposed as an Ordinary Resolution and Resolutions 14, 15 and 16 being proposed as Special Resolutions.

13 That:

- (i) the authority conferred on the Directors by paragraph 9.2 of Article 9 of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 2009 or on 15 August, 2009, whichever is the earlier, and for such period the Section 80 Amount shall be £4,855,439; and
- (ii) such authority shall be in substitution for all previous authorities pursuant to Section 80 of the Companies Act 1985 which are hereby revoked, without prejudice to any allotment of securities prior to the date of this Resolution (or thereafter pursuant to any offer or agreement made prior thereto).

14 That:

- (i) subject to the passing of Resolution 13 set out in the notice of Annual General Meeting dated 12 March, 2008, the power conferred on the Directors by paragraph 9.3 of Article 9 of the Company's Articles of Association be renewed for the period referred to in such Resolution and for such period the Section 89 Amount shall be £728,315; and
- (ii) such authority shall be in substitution for all previous powers pursuant to Section 89 of the Companies Act 1985 which are hereby revoked, without prejudice to any allotment or sale of securities prior to the date of this Resolution (or thereafter pursuant to any offer or agreement made prior thereto).

15 That the Company be 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 14,566,318.
- 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% 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.

16 That the amendments to the Articles of Association of the Company contained in the document produced to the meeting and initialled by the Chairman for the purposes of identification be and they are approved and the document be adopted as the Articles of Association of the Company in substitution for and to the complete exclusion of all the existing Articles of Association of the Company.

By order of the Board

R Atkinson
Secretary
12 March 2008
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, speak and vote in his stead. A proxy need not also be a member of the Company. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 to enjoy information rights ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
- (ii) A form of proxy is enclosed which, to be valid, must be completed and deposited with Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY not less than 48 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.
- (iii) The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares registered in the Register of Members of the Company at 11 pm on Tuesday 13 May 2008 shall be entitled to attend and vote at the aforesaid Annual General Meeting in respect of such number of shares registered in their name at that time. Changes to entries on the register of members after 11 pm on Tuesday 13 May 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (iv) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
- (v) The Company's capital consists of 145,663,187 ordinary shares with voting rights.



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CATTO

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