

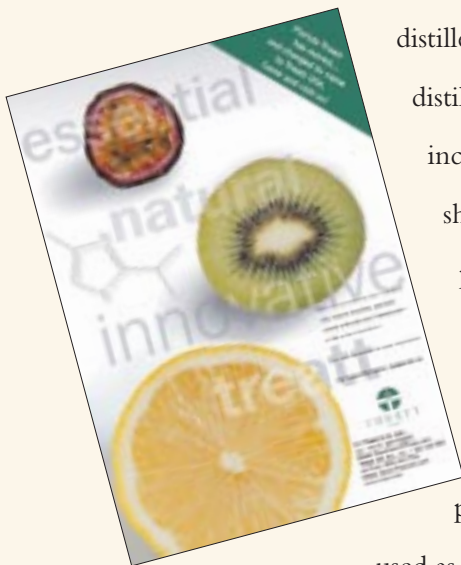


# About *the* Company

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Treatt is a supplier of ingredients to the flavour and fragrance industry. These ingredients are included by Treatt's customers as part of a flavour or fragrance which may then be manufactured from a concentrated mixture of hundreds of different ingredients.

The ingredients Treatt manufacture are mainly based on essential oils which are distilled or blended. Aromatic chemicals, and a range of Treatt<sup>TM</sup> natural distillates manufactured from the named food, are also supplied. Typical products including a Treatt ingredient could range from air fresheners, cosmetics, shampoos and soaps to soft drinks, confectionery and basic pharmaceutical products. Treatt is a world leader in the supply of essential oils for these uses.



There are hundreds of different essential oils extracted from many different organic materials. Some examples of common oils are peppermint, lime, lavender, orange and eucalyptus. Essential oils have been used as flavour and fragrance ingredients for centuries and their use for this purpose far outweighs other uses such as aromatherapy.

<http://www.treatt.com>

**Treatt USA's new site located in Lakeland, Florida.  
The company moved into their new facility in September 2002.**



# Financial Summary

	<b>2002</b>	2001
TURNOVER	<b>£30.74m</b>	£27.66m
PROFIT BEFORE TAX	<b>£2.03m</b>	£2.83m
EARNINGS PER SHARE		
Before exceptional items	<b>19.7p</b>	19.4p
After exceptional items	<b>14.6p</b>	19.4p
DIVIDENDS PER SHARE	<b>8.4p</b>	8.1p
NET ASSETS PER SHARE	<b>£1.65</b>	£1.62

## Calendar

Financial year ended	30 September 2002
Results for year announced	2 December 2002
Annual Report and Financial Statements published	23 December 2002
Annual General Meeting	24 February 2003
Final dividend for 2002 goes 'ex-dividend'	5 March 2003
Record date for 2002 final dividend	7 March 2003
Final dividend for 2002 paid	8 April 2003
Interim results to 31 March 2003 announced	19 May 2003

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# Chairman's Statement

## *"Dividends up 4% to 8.4 pence"*

2002 was a year of significant change and modernisation for Treatt. Group turnover increased by 11% during the year to £30.7 million (2001: £27.6 million). Profit before tax and exceptional items is slightly lower at £2.77 million (2001: £2.83 million). Earnings per share before exceptional items was 19.7 pence (2001: 19.4 pence).

The Board is recommending a final dividend of 5.7 pence (2001: 5.5 pence), giving a 4% increase in the total dividend for the year to 8.4 pence (2001: 8.1 pence) per share.

Exceptional items this year included £591,000 for the full write-off of R. C. Treatt's Customer Relationship Management ("CRM") system, which will be superseded by our Enterprise Resource Planning ("ERP") Group-wide IT system. A further £148,000 is in respect of reorganisational costs, spread across various departments, where measures have been taken to ensure staffing levels are more closely aligned to our business needs.

After a dull first quarter's sales, the following nine months were strong, assisted by the Group's position in orange oil products, which resulted in some significant stock profits.

Florida Treatt, now renamed Treatt USA Inc., had a very good year winning new business across its product range with sales growing by 27%. This supports the Board's decision to invest in new facilities in the USA. In the UK, sales from the main operating Company, R. C. Treatt, grew largely due to increased orange oil prices and also due to increased sales to existing customers across the product range. Distribution of aroma chemicals out of the UK continue to grow, but at reduced margins due to competitive conditions.

The move to a new site by our American subsidiary, Treatt USA, was completed on schedule at the end of September. The purpose-designed 65,000 sq foot facility in Lakeland, Florida, was also finished within budget (US\$6.3 million). As previously announced, the Group has begun implementation of our new JD Edwards ERP computer system. This began successfully at Treatt USA in October 2002. We intend to implement the system throughout the Group over the next two years, the next phase being the installation in the UK during 2003/4. This ERP system will be integrated across all the functions of our business and will allow the Group to satisfy all of the current business requirements and those which are expected to arise in the future. The Group will continue to invest in information technology in order to facilitate its future profitable growth.

### Prospects

The Group's order books at year-end, both in the UK and the USA, were higher than last year. The results for 2003 will reflect our increased level of capital investment, both in the UK and the USA, resulting in higher depreciation charges. Similarly, the additional borrowing at fixed interest rates will also increase the amount of interest payable. We are optimistic for growth in the US but higher depreciation and interest charges will, in the short term, moderate any improvement in results.

Additionally, orange oil, an orange juice by-product which is an important raw material for Treatt, is at a high price level. Orange products accounted for 19% (2001: 12%) of the Group's turnover in 2002, mainly due to higher prices of orange oil. For R. C. Treatt in the UK, the majority of orange oil is sourced from Brazil and the balance from Florida, USA. Orange oil is unusually firm for this time of year, when it normally weakens as Florida's new crop approaches.

Due to the strengthening position of Treatt USA in beverage ingredients for the American domestic market the Group's business is becoming more seasonal in that the first quarter of the financial year will normally be a quieter quarter.

It has already become apparent that the ability to manufacture similar products both sides of the Atlantic is of considerable interest to some customers who wish to be assured of continuity of supply when sourcing raw materials. There are very few flavour and fragrance ingredient companies as well placed in this respect as Treatt PLC.

### People

Each year we quite rightly acknowledge the support and dedication of our employees, and the Board would like to thank them on behalf of the shareholders. I am pleased to be able to report that as a demonstration of the strength of our commitment to the development of our personnel, Anita Haines was appointed Human Resources Director of the Group on 1 October 2002. Anita Haines joined the Group in January 1988 as Company Secretary of R. C. Treatt and became Human Resources Manager in September 2000.

In September 2002, Mark Bottjer tendered his resignation from his position as Finance Director of the Group effective from 31 December 2002. We wish him well in his next appointment. We are currently undertaking a selection process and we expect to make an appointment in the next few months.

E. W. DAWNAY  
Chairman

## Operating Review

*“Treatt USA sales increased by 27% and Treattarome™ sales have doubled”*

During 2002, the Group's operations delivered another satisfactory performance with a very high investment programme both in IT and equipment across the Group to meet the increasing globalisation of our customers' needs, in particular the Group's investment (of US\$6.3 million) in the USA referred to below. Margins are under pressure in some areas of the business.

During the last two years, there has been considerable consolidation amongst our customers in our sector. We expect this consolidation to continue as there are very few medium-sized companies with turnovers between US\$75 - US\$150 million remaining in our industry. The tenth largest company is estimated to have sales of US\$200 million, which gives the top ten customers a total sales value of approximately US\$8 billion. This consolidation of our customer base has generally led to increased opportunities as the major Flavour and Fragrance companies wish to work closer with global ingredient suppliers. The Group's customer base has enlarged from 620 customers in 45 countries in 1989 to 1200 in over 80 countries in 2002.

### Trading

#### **Orange oil movement**

The last 12 months saw orange oil rise in price from US\$1.30/kilo to over US\$3.00/kilo. This material is an important raw material for the Group and the price increase in our orange products increased turnover. One-off stock profits were earned, and new significant business was won in part due to our orange oil position and it is expected that some of this will be retained in future years.

#### **R. C. Treatt**

Sales were up by 7% with volumes up by 6% as significantly increased orange oil prices led to some one-off sales and some stock profits. Aroma chemical sales increased by 6% but with lower margins. Some major customers' purchasing patterns were irregular, in part due to their operational difficulties. Demand from customers for shorter lead times continued to increase.

#### **Treatt USA Inc. (formerly Florida Treatt)**

Sales increased by 27% during the year, with new business being won, in particular in our Treattarome™ range, and we remain optimistic for these for the future. Our investment in this product line has proved to be worthwhile and has reduced our exposure in the USA to the volatility of the citrus market.

#### **Singapore Treatt**

The branch sales office was closed in December 2001 but we have continued to satisfactorily increase business directly from England and have strengthened our sales presence in China.

### Investment for the future

#### **R. C. Treatt**

Our Enterprise Resource Planning System “ERP” has been operational in Florida since 1 October 2002, as scheduled, and should be fully implemented across the Group over the next two years. The ERP system is a Group-wide IT system designed to run a manufacturing business. This will supersede our fully operational CRM system in the UK, which we have decided to write off as a non-cash item of £591,000 in the current year, which has been taken as an exceptional charge. We believe the investments made in 2002 and to be made in 2003 are necessary to deliver the long-term growth of the business.

#### **Treatt USA**

Treatt USA has moved to its new site on budget and on time, with the move being made at the end of September 2002. This new site gives considerably increased production capabilities whilst meeting with customers' strict production standards. The name of our USA subsidiary has been changed to Treatt USA Inc. to better represent the Group's activities in the North American market. The word "Florida" in the former name had strong citrus associations rather than representing the wider palate of flavour and fragrance ingredients that Treatt offers. The original site at Haines City is now for sale.

## Operating Review *continued*

### Research and development

The Group remains committed to the development of new products, both for flavour and fragrance usage, which are launched on a regular basis throughout the year. We have strengthened not only our R & D facilities, but also our technical personnel, both in the USA and in the UK. R & D is also undertaken by Treatt in producing countries to develop new economically viable sources of raw materials. Investment in R & D in 2002 remained at a similar level to last year.

### Markets

Sales in the UK increased by 6%, due in part to increased orange oil prices. In the rest of Europe sales were up 8% with gains being made in several countries. In the Americas sales were up 16%, which was due to another good performance at Treatt USA especially as this includes Latin America where, as expected, sales decreased by 8% over last year as a result of the severe economic downturn in the region. Sales to the rest of the world grew at 13%.

### Products

Orange oil, an orange juice by-product, is an important raw material for Treatt and has remained at a price level higher than expected. Orange products accounted for 19% of the Group's turnover in 2002. For R. C. Treatt in the UK, the majority of orange oil is sourced from Brazil and the balance

from Florida, USA. The price of orange oil is unusually firm for this time of year, as it normally weakens as Florida's new crop approaches, and this will increase the Group's turnover in orange oil products.

Sales from our UK based aroma chemical distribution business grew by 6% at lower margins, and there was continued strong growth in our high impact flavour and fragrance molecules. Sales of general commodity chemicals continued to grow, but margins continue to be under pressure.

Sales of the Treattarome™ range of natural distillates, which are manufactured by Treatt USA in Florida, doubled. This increase was across the full Treattarome™ range and we have been advised by many of our customers that they have used them in new submissions to their end consumers. Our optimism for the future growth of these products is undiminished.

### Raw materials

With the exception of orange oil, as forecast last year, 2002 again saw many of the Group's raw materials, and therefore products, remain at historically low price levels. We expect this to continue with orange oil remaining an exception.

## Financial Review

*“Group turnover increased by 11% during the year to £30.7 million”*

### Performance analysis

#### **Profit and Loss account**

Group turnover increased by 11% during the year to £30.7 million (2001: £27.6 million). The Group derived significant benefit from the increase in orange oil prices, with revenues from orange oil products accounting for 19% of the Group's turnover in 2002 (2001: 12%). Our US subsidiary, Treatt USA, continued to perform well with turnover increasing 27% over last year. Group profit before tax, before exceptional items of £739,000, was £2.77 million (2001: £2.83 million).

Gross margins of 29.5% were achieved this year (2001: 30.5%) with a weakening of the US Dollar during the year being the main contributory factor for the fall. Most of our material purchases are made in US Dollars. If the Dollar weakens between the time these materials are purchased and then sold on to customers, Treatt will book the loss in Sterling terms.

The Group's operating costs rose by 10.9% to £6.1 million (2001: £5.5 million). This includes increased payroll costs of £235,000, which reflects last year's pay awards and a full year of cost from new appointments made during 2001, together with additional costs relating to Lakeland, Florida and a £56,000 increase in insurance premiums. An exceptional charge of £739,000 was incurred during the year. This consists of £591,000 for a permanent diminution in the value of fixed assets and a £148,000 provision for reorganisation costs. The permanent diminution in fixed assets of £591,000 is for the full write-off of our CRM system, which will be replaced by the new ERP computer system.

Net interest payable increased during the year to £167,000 (2001: £38,000). This was due to interest charged on the funds drawn from the Variable Rate Demand Bonds and

R. C. Treatt's use of banking facilities to fund the purchase of large quantities of orange oil at competitive prices. Despite this, the Group's current borrowings remain well within its available facilities. The Group's effective tax rate decreased from 30.9% to this year's figure of 27.3%.

Earnings per share before exceptional items improved to 19.7 pence per share (2001: 19.4 pence). The Earnings per share after exceptional items is 14.6 pence per share.

#### **Cashflow**

The Group has seen a reduction in its net cash position during the year. Cash inflow from operating activities was £968,000, which represents a decrease of £2.85 million over last year, which is largely attributable to an increase in stocks of materials.

Group capital expenditure was £3.16 million (2001: £2.38 million) of which £2.14 million relates to the new Lakeland facility in Florida. Future capital expenditure is not envisaged to be at such high levels and will continue to be funded out of operating cashflows with the exception of further engineering and development works on the new Florida facility, to the extent that it can be financed by the remaining £561,000 of restricted use money raised on the issue of Variable Rate Demand Bonds in the USA.

#### **Balance Sheet**

Over the year Group shareholders funds have risen to £16,931,000 or £1.65 per share. 59% of shareholders funds are in the form of liquid assets (excluding the cash held for restricted purposes) and the Group's land and buildings are all held at historical cost.

## Financial Review continued

### Group tax charge

The Group's current year tax charge of £631,000 represents an effective tax rate of 31% (2001: 30.9%). The overall tax charge of £554,000 (note 6) is lower than the 2001 charge of £875,000 due, firstly, to a tax benefit derived from the exceptional charge made against profits and, secondly, to timing differences in our US subsidiary which has posted a deferred tax benefit. The Group rate of tax is likely to reduce next year as some of the taxable profits in our US subsidiary will be offset by capital allowances on the new Lakeland facility.

### Treasury policies

The Group operates a conservative set of treasury policies to ensure no unnecessary risks are taken with the Group's assets.

No investments other than cash and other short-term deposits are currently permitted. Where appropriate these balances are held in foreign currencies, but only as part of the Group's overall hedging activity.

Treatt is potentially vulnerable to a number of different foreign exchange risks, but these can be broken down into two main categories.

Firstly the value of the foreign currency net assets of Treatt USA can fluctuate with Sterling. These are currently not hedged, as the risks are considered less than the cost of putting the hedge in place.

Secondly, with R.C. Treatt exporting to over 80 countries, fluctuations in Sterling's value can affect both the gross margin and operating costs. Sales are principally made in four currencies in addition to Sterling, with the US Dollar being by far the most significant. Raw materials are also mainly purchased in US Dollars and so a US Dollar bank account is operated to allow Dollar denominated sales and purchases to flow through this account. The R.C. Treatt cashflows are such that over a period of time US Dollar inflows and outflows net out, but if there is a mismatch in any one accounting period and the Sterling to US Dollar exchange rate changes, an exchange difference will arise. Hence it is Sterling's relative strength against the US Dollar that is of prime importance. A policy to reduce the US Dollar exposures, where possible, is in place.

Currency accounts are also run for the other main currencies to which R.C. Treatt is exposed. Based on estimated future cashflows for each currency a conservative position is taken with forward contracts in order to protect the Group's asset base. This policy will protect the Group against the worst of any short-term swings in currencies, but like any exporter there are inherent risks if there is a substantial movement in currencies.

## Company Information and Advisers

<b>Directors</b>	<p>Edward William Dawnay (Chairman and Non-executive Director)                  Hugo William Bovill (Managing Director)                  Mark Bottjer (Finance Director, resignation effective 31 December 2002)                  Anita Jane Haines (Human Resources Director, appointed 1 October 2002)                  Robin Mears (Operations Director)                  Douglas David Appleby (Non-executive Director)                  William Geoffrey Bovill (Non-executive Director)                  Peter Alan Thorburn (Non-executive Director, appointed 18 March 2002)</p>	
<b>Secretary</b>	Edward William Dawnay	
<b>Registered Office</b>	Northern Way, Bury St Edmunds, Suffolk IP32 6NL	
	<p><b>Tel</b> + 44 (0) 1284 702500  <b>Fax</b> + 44 (0) 1284 714880</p>	<p><b>E.Mail</b> co.sec@treatt.com  <b>Website</b> www.treatt.com</p>
<b>Registration Number</b>	1568937	
<b>Audit Committee</b>	<p>Edward William Dawnay (Chairman)                  William Geoffrey Bovill                  Peter Alan Thorburn</p>	
<b>Remuneration Committee</b>	<p>Peter Alan Thorburn (Chairman, appointed 24 May 2002)                  Edward William Dawnay                  William Geoffrey Bovill</p>	
<b>Nomination Committee</b>	<p>William Geoffrey Bovill (Chairman)                  Douglas David Appleby                  Hugo William Bovill                  Edward William Dawnay                  Peter Alan Thorburn</p>	
<b>Stockbrokers</b>	<p>Investec Henderson Crosthwaite                  2 Gresham Street, London EC2V 7QP</p>	
<b>Auditors</b>	<p>BDO Stoy Hayward                  87 Guildhall Street, Bury St Edmunds, Suffolk IP33 1PU</p>	
<b>Solicitors</b>	<p>Macfarlanes                  10 Norwich Street, London EC4A 1BD</p>	
<b>Bankers</b>	<p>HSBC Bank plc                  140 Leadenhall Street,                  London EC3V 4PS</p>	<p>Barclays Bank plc                  P.O. Box 613, 20 Bank Plain,                  Norwich, Norfolk NR2 4RQ</p>
<b>Registrar and Transfer Office</b>	<p>CAPITA IRG Plc                  Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU</p>	
<b>Share Price</b>	<p>The Company's share price is listed in the Financial Times and The Daily Telegraph and is also available on <a href="http://www.ft.com">http://www.ft.com</a>. Share price information can be obtained by calling FT Cityline on 0906 843 4853. At 5 November 2002 all calls to this number are charged at 60p per minute.</p> <p>Annual and interim reports are available on the Company's Website (<a href="http://www.treatt.com">www.treatt.com</a>).</p>	

# Five Year Trading Record

	Years ended 30 September				
	1998 £'000	1999 £'000	2000 £'000	2001 £'000	2002 £'000
<b>PROFIT AND LOSS ACCOUNT</b>					
<b>Turnover</b>	22,058	22,443	24,137	27,664	<b>30,740</b>
Profit before exceptional items	2,166	2,571	2,723	2,832	<b>2,771</b>
Exceptional items	–	–	–	–	<b>(739)</b>
<b>Profit on ordinary activities before taxation</b>	2,166	2,571	2,723	2,832	<b>2,032</b>
Tax on profit on ordinary activities	(597)	(707)	(782)	(875)	<b>(554)</b>
<b>Profit on ordinary activities after taxation, attributable to shareholders</b>	1,569	1,864	1,941	1,957	<b>1,478</b>
Dividends	(645)	(716)	(786)	(818)	<b>(864)</b>
<b>Profit retained for the financial year</b>	924	1,148	1,155	1,139	<b>614</b>
<b>BALANCE SHEET</b>					
Fixed assets	4,238	5,117	5,831	7,663	<b>9,523</b>
Current assets	13,220	13,592	13,828	16,984	<b>16,803</b>
Current liabilities	(3,806)	(4,914)	(4,290)	(4,791)	<b>(6,260)</b>
Other liabilities and provisions	(1,051)	(37)	(147)	(3,499)	<b>(3,135)</b>
Shareholders' funds	12,601	13,758	15,222	16,357	<b>16,931</b>
<b>CASHFLOW</b>					
Cash inflow from operating activities	2,629	2,044	1,364	3,821	<b>968</b>
Interest paid	(87)	(26)	(42)	(38)	<b>(167)</b>
Dividends paid	(602)	(646)	(715)	(782)	<b>(820)</b>
Corporation tax paid	(417)	(679)	(736)	(821)	<b>(943)</b>
Additions to fixed assets	(523)	(1,361)	(1,129)	(2,382)	<b>(3,137)</b>
Shares issued	–	–	–	36	<b>195</b>
Other cashflows	(2)	4	20	2	<b>168</b>
(Decrease)/increase in net debt	998	(664)	(1,238)	(164)	<b>(3,736)</b>
Net (borrowings)/cash	1,641	979	(259)	(423)	<b>(4,159)</b>
<b>RATIOS</b>					
Gearing	Nil	Nil	1.7%	2.6%	<b>24.6%</b>
Earnings per share before exceptional items	15.6p	18.5p	19.3p	19.4p	<b>19.7p</b>
Dividend per share	6.4p	7.1p	7.8p	8.1p	<b>8.4p</b>
Dividend cover (times)	2.43	2.60	2.47	2.39	<b>1.71</b>
Net assets per share	125.0p	136.5p	151.0p	161.9p	<b>164.6p</b>

# Report of the Directors

## Financial Statements

The Directors present their report and the audited financial statements for the Group for the year ended 30 September 2002.

## Principal Activity and Review of the Business

The Group's principal activity is the supply of flavour and fragrance ingredients. This involves blending and distilling essential oils, the marketing of aroma chemicals and the production of other natural distillates for the flavour and fragrance industries.

Comments on the Group's activities and its outlook for the future are given in the Chairman's Statement, Operating and Financial Reviews.

## Results and Dividends

The results of the Group for the year are set out on page 22 and show a profit before taxation for the year of £2,032,000.

The Directors recommend a final dividend of 5.7p (2001: 5.5p) per ordinary share.

This, when taken with the interim dividend of 2.7p (2001: 2.6p) per share paid on 4 October 2002, gives a total dividend of 8.4p (2001: 8.1p) per share for the year ended 30 September 2002.

## Market Value of Land and Buildings

The Directors consider the total market value of the Group's land and buildings to be in excess of the £4,520,000 shown in the balance sheet. This belief has been borne out by our property advisers, however, in the absence of a full professional valuation the excess cannot be readily quantified.

All costs incurred during the year which were associated with the new Lakeland facility have been included under a new heading of Assets Under Construction. This includes all of the costs associated with developing the site to its current operational condition. Over the next 12 months these costs will be reclassified into the traditional headings, an element of which will appear under land and buildings.

## Directors

The Directors of the Company are shown on page 9.

In accordance with the Company's Articles of Association R. Mears retires by rotation and being eligible offers himself for re-election.

As reported in the Corporate Governance Statement on page 16, in recognition of Provision A.6.2 of the Combined Code, H.W. Bovill submits himself for re-election at the next Annual General Meeting.

Both P.A. Thorburn and A.J. Haines retire as Directors, in accordance with the Company's Articles of Association, and being eligible, offer themselves for re-election at the Annual General Meeting. P.A. Thorburn was appointed a Non-executive Director on 18 March 2002 and A.J. Haines was appointed Human Resources Director on 1 October 2002.

R.S. Fenn resigned as a Non-executive Director on 12 October 2001.

## Non-executive Directors

### *D.D. Appleby*

David Appleby was appointed a Non-executive Director of the Company in October 1994. He was formerly Manufacturing Director of R.C. Treatt & Co. Limited.

### *W.G. Bovill*

Geoffrey Bovill joined the principal operating subsidiary R.C. Treatt & Co. Limited in 1948 and was appointed a Director in 1955. He became a Non-executive Director in 1956 and was appointed Chairman in 1961. He was Chairman of the Company from its incorporation in 1981 until February 2001.

### *E.W. Dawnay*

Edward Dawnay was appointed a Non-executive Director of the Company in June 1994. He is a Director of EFG Private Bank Ltd., Chairman of Dunedin Enterprise Investment Trust Plc and a Director of Martin Currie High Income Trust Plc. He was appointed Chairman of the Company in February 2001.

### *P.A. Thorburn*

Peter Thorburn, was appointed to the Board in March 2002. Previously he was Vice President Global Sales & Marketing Flavor and Fragrance Ingredients at International Flavors and Fragrances Inc. ("IFF"). He was with IFF/BBA for over 20 years in a variety of management roles.

## Executive Directors

### *H.W. Bovill*

Hugo Bovill joined R.C. Treatt & Co. Limited in 1976, becoming Marketing Director in 1982 and later Managing Director in 1987. He was appointed to the Board of Directors of the Company in 1985.

## Report of the Directors continued

### **M. Bottjer**

Mark Bottjer was appointed Finance Director in December 2000. He qualified as a Chartered Accountant in 1986 and has experience in food manufacturing and international business both at operational and corporate level. Mr. Bottjer has tendered his resignation and will be leaving the company on 31 December 2002.

### **A.J. Haines**

Anita Haines joined R.C. Treatt & Co. Limited in January 1988 as Company Secretary and was appointed Human Resources

Manager in September 2000. She was appointed Human Resources Director of the Company in October 2002.

### **R. Mears**

Having previously been employed in the industry for 17 years, Robin Mears joined the Group as Technical Director in 1989 and was appointed Operations Director in October 2002. Mr. Mears has notified the Company of his wish to retire earlier than his normal retirement age, but he does not intend to do so before 31 January 2005.

### Directors' Interests in Shares

The Directors who held office at 30 September 2002 had the following interests in the shares of the Company at the beginning and end of the financial year:

	10p ordinary shares fully paid			Options to acquire 10p ordinary shares	
	2002	2001		2002	2001
Hugo William Bovill	<b>493,504</b>	493,504	(a)	<b>20,000</b>	20,000
Mark Bottjer	–	–	(a)	<b>5,646</b>	
			(b)	<b>14,354</b>	20,000
Robin Mears	<b>16,297</b>	5,203	(a)	<b>20,000</b>	
			(b)	<b>22,000</b>	53,094
Douglas David Appleby	<b>128,595</b>	128,595		–	–
William Geoffrey Bovill	<b>72,985</b>	72,985		–	–
Edward William Dawnay	<b>100</b>	100		–	–
Peter Alan Thorburn	–	–		–	–
Joint Holdings	<b>1,224,533</b>	1,224,533		–	–

With the exception of certain of the joint holdings, all of the above were beneficial interests.

Of the jointly held shares, H.W. Bovill had a non-beneficial interest in 1,099,533 of the shares (2001: 1,099,533). W.G. Bovill had a beneficial interest in 225,000 shares (2001: 225,000) and a reversionary life interest in 250,000 shares (2001: 250,000). Additional information on the interests of W.G. Bovill and H.W. Bovill is provided on page 13 under Substantial Shareholders.

Key to Shares under Option:

- (a) Options granted under the Treatt Executive Share Option Scheme No. II
- (b) Options granted under the Treatt Executive Share Option Scheme No. I

There have been no changes between 1 October 2002 and 29 November 2002, the latest date practicable to obtain the information prior to publication of this document.

### Substantial Shareholders

The Company has been notified of the following holdings of 3% or more of the issued share capital at 29 November 2002 (the latest practicable reporting date prior to publication of this document).

	Number	%
Jupiter Ecology Fund	821,500	7.99
H.W. Bovill and O.M. Bovill as Trustees of the W.G. Bovill 1985 Settlement (H.W. Bovill's Childrens Fund)	749,533	7.29
G.R. Bovill and A.J. Bovill as Trustees of the W.G. Bovill 1985 Settlement (G.R. Bovill's Childrens Fund)	749,534	7.29
Fortress Finance Investment Inc.	500,861	4.87
G.R. Bovill	423,649	4.12
Clydesdale Bank (Head Office) Nominees Limited DUT Account (Unit Trust)	401,000	3.90
Mineworkers Pension Scheme	374,000	3.64

### Bovill Family Shareholdings

Based on an analysis of the shareholders' register at 30 September 2002 W.G. Bovill, H.W. Bovill and G.R. Bovill, along with their dependants were interested in 2,964,205 (2001: 2,964,205) ordinary shares representing 28.81% (2001: 29.34%) of the issued share capital. This holding is not under one beneficial holding, the interests of each individual being disclosed in either the Directors' shareholdings or substantial shareholders detailed herein.

### Contracts of Significance

No Director had an interest in any contract of significance during the year.

### Policy on the Payment of Creditors

The Group's policy is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. The Holding Company had no trade creditors at the year end.

### Going Concern

Given the comments in the Chairman's Statement and based on the plans for 2003, the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason the going concern basis has been adopted in preparing the financial statements.

### Charitable Contributions

During the year the Group made charitable donations in the United Kingdom of £2,034.

### Health and Safety

The Group's policy of investment in health and safety was continued during the financial year.

### Environment

The Group is committed to finding new ways of reducing the impact of its operations upon the environment and continues to look for improvements in the following areas:

- Reduction of waste and improvements in waste management
- Conservation of energy and improvements in energy management

This approach was considered during the construction of our new site in Lakeland, Florida, where handling and movement of materials has been minimised by improving storage and locating materials in close proximity to their areas of operation. Increased bulk storage will also lead to a reduction in waste packaging materials.

It is believed that in many instances the Group's operational needs will align closely to our environmental initiatives, so that improvements in our environmental impact will benefit the Group in cash terms.

## Report of the Directors *continued*

### Employment Policies

The Group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination. Applications for employment by disabled persons are given full and fair consideration for suitable vacancies, having regard to their particular aptitudes and abilities. Where a person becomes disabled while in the Group's employment a suitable position will be sought for that person within the Group.

### Pension Scheme

Having closed its final salary pension scheme to new entrants in October 2001, R.C. Treatt employees in the UK becoming eligible for pension benefits now participate in a Stakeholder plan, into which the Company makes a defined annual contribution. This scheme was launched in January 2002.

### Employee Involvement

Meetings are held with employees to discuss the operations and progress of the business and employees are encouraged to become involved in the success of the Company through share option schemes (see note 15). Bonus schemes, based on the performance of the business are in place.

### Annual General Meeting

Notice of the Annual General Meeting of the Company to be held at The British Racing School, Snailwell Road, Newmarket, Suffolk on 24 February 2003 accompanies this document.

Resolutions dealing with the following Special Business will be proposed at the Annual General Meeting:

- a) As in previous years, shareholder approval will be sought to renew the authorities granted to the Directors to issue new shares. Resolution 11 will give the Directors authority ("the Section 80 authority") to allot ordinary shares up to an aggregate nominal value of £221,100 (representing approximately 21.5% of the existing issued ordinary share capital). Subject to the terms of the Section 80 authority, the Directors will be further authorised ("the Section 89 authority") by Resolution 12, to allot any new ordinary shares for cash pursuant to a rights issue proportionate to existing shareholdings and, in order to give the Directors a limited degree of flexibility, to allot new ordinary shares up to a maximum nominal amount of £51,400 (representing 5% of the existing issued ordinary share capital) otherwise than pro rata to existing shareholdings.

If approved, the Section 80 authority and the Section 89 authority will expire at the conclusion of the next Annual General Meeting of the Company or 23 May 2004, whichever is the earlier.

- b) The Directors believe that it would be advantageous for the Company to be in a position to purchase its own ordinary shares (as permitted by Article 5.2 of the Articles of Association), under the terms of Section 162 of the Companies Act 1985. The Directors therefore request shareholders to give the Company authority to make market purchases of a proportion of its own ordinary shares, subject to the limits referred to below. Purchases will only be made on the London Stock Exchange and only in circumstances where they are, in the opinion of the Directors, in the interests of the Company and of the Group and would result in an increase in earnings per share. Such purchases will be financed out of distributable profits of the Company. It is not the Directors' current intention to stand in the market for any particular period or until any specified number of ordinary shares has been acquired.

The Directors are seeking authority (Resolution 13) to purchase up to 1,028,000 issued ordinary shares, representing approximately 10% of the present issued ordinary share capital of the Company, at a maximum price per share, exclusive of expenses, of 5% above the average of the middle market quotations for the ordinary shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase. The minimum price per ordinary share exclusive of expenses for any purchase will be 10p which is the nominal value of the ordinary shares.

The authority, if granted, will be subject to renewal on the earlier of the date of the next Annual General Meeting of the Company and 23 May 2004.

As already reported, M. Bottjer has tendered his resignation and will be leaving the Company on 31 December 2002. If a suitable successor is appointed by the Board in the period between the despatch of this document and the day of the Annual General Meeting a resolution for his/her reappointment will be proposed to Shareholders as Ordinary Business under Item 10 of the Notice of Meeting. To the extent practicable, summary information regarding any relevant appointee will be circulated to Shareholders prior to the AGM.

This report was approved by the Board  
on 29 November 2002

E.W. DAWNAY  
Secretary

# Corporate Governance Statement

There is a commitment to high standards of corporate governance throughout the Group. The Board confirms that throughout the year ended 30 September 2002 the Group has complied with the provisions set out in Section 1 of the Combined Code, except for:

- Two Executive Directors had service contracts which provided for two years notice. The Board believes this is appropriate to attract and retain key Executive Directors who possess specialist industry knowledge and is therefore in the best interests of shareholders.
- W.G. Bovill is not considered to be independent due to his shareholding in the Company. However, it is considered that this does not affect his independent judgement of matters dealt with by the various Committees on which he serves.
- R.S. Fenn resigned from the Board and therefore the audit committee on 12 October 2001, with P.A. Thorburn subsequently appointed on 18 March 2002. As such there were not three serving non-executive directors on the committee for the full year. The Board does not believe that this impacted upon the effectiveness of the committee's role.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code (appended to the Stock Exchange Listing Rules) are applied by the Company.

## Directors

Throughout the year the Board consisted of a Chairman, E.W. Dawnay, three Non-executive Directors and three Executive Directors, of which H.W. Bovill is the Managing Director. In addition R.S. Fenn was a Non-executive director until his resignation on 12 October 2001 and P.A. Thorburn was appointed a Non-executive Director on 18 March 2002. Of the Non-executive Directors the Board considers E.W. Dawnay and P.A. Thorburn to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. Neither have any significant interest in the shares of the Company and both received a fixed fee for their services.

Biographies of the Board members appear on pages 11 and 12.

The Board meets at least six times each year and more frequently where business needs require. The Board has a schedule of matters reserved to it for decision and the

requirement for Board approval on these matters is communicated widely throughout the Senior Management of the Group. This includes matters such as material capital commitments, commencing or settling major litigation, business acquisitions and disposals and appointments to Subsidiary Company Boards.

The Board has established a number of standing Committees to which various matters are delegated according to defined terms of reference. The principal Committees are the Nomination Committee, the Remuneration Committee and the Audit Committee. The principle terms of reference for each Committee are shown below.

## Nomination Committee

To consider the appointment or retirement of Directors, to review proposed nominations and make recommendations thereon to the Board.

## Remuneration Committee

To determine the remuneration of the Executive Directors and the Senior Executives of the Group.

## Audit Committee

To review the scope and findings of the Company's auditors, to commission any additional investigation work and to ensure the adequacy of accounting controls and procedures.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed.

When new members are appointed to the Board they are provided with access to an appropriate external training course and to advice from the Company's solicitors in respect of their role and duties as a public company director. Where a new Board member has significant relevant experience training may be felt to be unnecessary.

The differing roles of Chairman and Managing Director are acknowledged and defined in separate statements approved by the Board. The key functions of the Chairman are to conduct Board Meetings and Meetings of Shareholders and to ensure that all Directors are properly briefed in order to take a full and constructive part in Board discussions. The Managing Director is required to develop and lead business strategies and processes to enable the Group's business to meet the requirements of its Shareholders.

## Corporate Governance Statement continued

The Senior Independent Director is E.W. Dawnay and concerns relating to the executive management of the Company or the performance of the other Non-executive Directors may be raised with him.

To enable the Board to function effectively and Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board Meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

Appointments to the Board of both Executive and Non-executive Directors are considered by the Nomination Committee. Members of the Nomination Committee throughout the year are shown on page 9. The Nomination Committee consults with Executive Directors when considering appointments and ensures that a wide range of candidates is considered. The Remuneration Committee considers any remuneration package before it is offered to a potential appointee. The recommendations of the Nomination Committee are ultimately made to the full Board which considers them before any appointment is made.

Any Director appointed during the year is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. The Articles so require that one third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. The Directors required to retire are those in office longest since their previous re-election and this usually means that each Director retires at least every three years, although there is no absolute requirement to this effect. In order to comply with the Combined Code, but to avoid the expense of amending the Company's Articles to deal with this single point, the Board has resolved that each Director will retire at least every three years, even if this is not strictly required by the Articles.

Full details of the Directors' remuneration and a statement of the Company's remuneration policy is set out in the Report of the Board on Directors' Remuneration appearing on pages 18 to 20. Members of the Remuneration Committee throughout the year are shown on page 9 and the principal terms of reference of the Committee appear on page 9. The Managing Director attends meetings of the Remuneration Committee to discuss the performance of the other Executive Directors and make proposals as necessary, but is not present when his own position is being discussed.

Each Executive Director abstains from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package. The details of each Executive Director's individual package are fixed by the Committee in line with the policy adopted by the full Board.

### Communication

The Company places a great deal of importance on communication with its shareholders. The Company mails to all shareholders half yearly results, as well as its full report and financial statements. This information is also available on its Website and, upon request, to other parties who have an interest in the Group's performance. Shareholders also have direct access to the Company and the Company responds to letters from shareholders and customers on a wide range of issues.

There is regular dialogue with individual institutional shareholders as well as presentations after the interim and preliminary results. All shareholders have the opportunity to put questions at the Company's Annual General Meeting and the Company makes a presentation at the meeting to highlight the key business developments during the financial year.

### Financial and Internal Control

The respective responsibilities of the Directors and the auditors in connection with the financial statements are explained on pages 17 and 21 and the statement of the Directors on going concern appears on page 13.

The Board confirms that a process for the ongoing identification, evaluation and management of significant risks faced by the Company has been in place throughout the year and to the date of approval of this report, which complies with the guidance Internal Control: Guidance for Directors on the Combined Code. The process is subject to regular review by the Board.

The Directors are responsible for the Company's system of internal control, the effectiveness of which is reviewed by them annually. In addition to monitoring reports received via the Executive Directors they consider the risks faced by the Company, whether the control systems are appropriate and consult with internal and external experts on environmental, insurance, legal and health and safety compliance. However such a system can only provide reasonable but not absolute assurance against material misstatement or loss. The key procedures that the Directors have established to provide effective internal controls are as follows:

### Financial Reporting

A detailed formal budgeting process for all Group businesses culminates in an annual Group budget which is approved by the Board. Results for the Company and its main constituent businesses are reported monthly against the budget to the Board and revised forecasts for the year are prepared through the year.

### Financial and Accounting Principles

Financial controls and accounting policies are set by the Board so as to meet appropriate levels of effective financial control. Compliance with these policies and controls is reviewed where necessary by external auditors.

### Capital Investment

The Company has clearly defined guidelines for capital expenditure. These include annual budgets, appraisal and review procedures, and levels of authority. Post investment appraisals are performed for major investments.

### Audit Committee

The Audit Committee on behalf of the Board has reviewed the effectiveness of the system of internal control from information provided by management and the Group's auditors. Any system of internal control can only provide

reasonable and not absolute assurance of meeting the internal control objectives.

The Audit Committee keeps the scope and cost effectiveness of the external auditors under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit fees for the year under review appears on page 29. The non-audit fees were paid mainly in respect of tax advice and tax compliance work, and are considered by the Committee not to affect independence or objectivity.

### Risk Assessment and Information

Operational management in conjunction with the Executive Directors, who report regularly to the Board, are responsible for identification and evaluation of significant risks applicable to their area of business and design and operate suitable internal controls.

### Internal Audit

The Directors continue to monitor the need for an internal audit function by considering the cost of maintaining an effective internal audit function and the risks associated with not maintaining one.

## Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 Group will continue in business.

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

Financial statements are published on the Company's website in accordance with legislation in the U.K. governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

# Report of the Board on Directors' Remuneration

## The Remuneration Committee

Members of the Remuneration Committee throughout the year are shown on page 9.

As well as complying with the provisions of the Combined Code as disclosed in the Corporate Governance Statement, the Company has applied the principles relating to Directors' remuneration as described below.

## Policy on Remuneration of Executive Directors and Senior Executives

### General Principles

The Remuneration Committee endeavours to offer competitive remuneration packages that are designed to attract, retain and motivate Executive Directors and Senior Executives of the highest calibre. Packages are reviewed each year to ensure that they are in line with the Group's business objectives.

The main components in determining pay are:

#### • Basic Salary

Salary ranges are established by reference to those in a selected group of comparable companies for executives of similar status, responsibility and skill. Basic salary for each Director takes into account performance measured by an appraisal process.

#### • Bonus Schemes

The Group has introduced performance-related reward policies for senior employees to provide a growing element of "at-risk" pay, which is only available when good results are achieved. In this way, shareholders and employees share in success.

Annual performance targets for Executive Directors are set for both the short and long term. Superior performance is encouraged by providing challenging goals, which must be achieved before the maximum bonus is payable. The annual bonus scheme is linked to the Group's performance in profit before tax and the return on shareholder funds.

To encourage continuing improvement in the Company's performance over the longer term, targets contained in a long term bonus scheme were set in 1997 for Senior Executives who are best placed to influence such performance. The Company's growth in earnings per share relative to the Financial Times Stock Exchange ('FTSE') All Share Index is measured over three year rolling periods. The scheme provides for cash benefits on attainment of target levels of earnings per share growth in excess of the FTSE All Share earnings growth.

#### • Benefits

Taxable benefits provided to Executive Directors include a company car, or payment in lieu, and private medical insurance.

## Directors' Remuneration

	Salary and Fees £'000	Bonus Payments £'000	Taxable Benefits £'000	Compensation for Loss of Office £'000	<b>2002 Total £'000</b>	2001 Total £'000
<b>Executive Directors</b>						
H.W. Bovill	105	44	15	–	<b>164</b>	179
M. Bottjer	85	16	17	65	<b>183</b>	91
R. Mears	91	32	15	–	<b>138</b>	147
<b>Non-executive Directors</b>						
E.W. Dawnay (Chairman)	21	–	–	–	<b>21</b>	19
D.D. Appleby	14	–	2	–	<b>16</b>	16
W.G. Bovill	15	–	4	–	<b>19</b>	23
R.S. Fenn (resigned 12 October 2001)	–	–	–	–	<b>–</b>	14
P.A. Thorburn	10	–	–	–	<b>10</b>	–
	<b>341</b>	<b>92</b>	<b>53</b>	<b>65</b>	<b>551</b>	<b>489</b>

No payments for compensation for loss of office were made during 2001.

### Share Option Schemes

The Company believes that share ownership by Executive Directors and Senior Executives continues to strengthen the link between their personal interests and those of the shareholders. It therefore has two Executive Share Option Schemes under which options are granted according to length of service and performance and a Savings Related Share Option Scheme by which Executive Directors are able to subscribe for shares in the Company. The value of options issued to Executive Directors under the Executive Share Option Schemes are restricted to three times salary.

The share options of the Directors are as set out below:

	Exercise Dates	Exercise Price	At 1 October 2001	Exercised During the Year	At 30 September 2002
H.W. Bovill	Between June 2004 and June 2008	209p	20,000	–	20,000
M. Bottjer	Between December 2002 and June 2003	209p	20,000	–	20,000
R. Mears	Between July 2000 and June 2004	146.5p	3,000	3,000	–
	Between August 2002 and January 2003	104p	8,094	8,094	–
	Between June 1997 and June 2004	233p	22,000	–	22,000
	Between June 2004 and June 2008	209p	20,000	–	20,000
			53,094	11,094	42,000

The aggregate amount of gains made by the Directors on the exercise of share options in the year were £1,755.

There have been no further changes in the interests of the Directors to subscribe for or acquire shares since the year end.

The market price of the shares at 30 September 2002 was £1.95 and the range during the financial year was £1.80 to £2.45.

### Directors' Pension Policy

All Executive Directors are members of the R.C. Treatt & Co. Limited Pension & Assurance Scheme. Executive Directors participate in this pension scheme on the same basis as all other members. The plan is a non-contributory, Inland Revenue approved, defined benefit occupational pension scheme. Its main features are:

- a normal pension age of 65 but early retirement may be permitted from age 50
- a pension at normal pension age of two thirds of final pensionable salary, subject to completion of 20 years' service for those who commenced their employment with the Group prior to 1 August 1990 and 40 years' service for all others
- life assurance cover of four times pensionable salary
- pensions payable in the event of ill health
- spouse's pension on death

Pensionable salary is the member's basic salary, excluding all bonuses.

# Report of the Board on Directors' Remuneration

continued

The pension entitlement of the Directors is as follows:

	Increase in Accrued Pension During Year (Excluding Inflation)		Transfer Value in Respect of Increase		Accumulated Total Pension at	
	2002 £	2001 £	2002 £	2001 £	2002 £	2001 £
H.W. Bovill	<b>1,605</b>	1,747	<b>6,285</b>	9,200	<b>39,023</b>	36,786
M. Bottjer	<b>1,526</b>	938	<b>5,318</b>	4,313	<b>2,479</b>	983
R. Mears	<b>1,817</b>	1,960	<b>10,435</b>	15,126	<b>39,763</b>	37,305

The transfer value has been calculated on the basis of actuarial advice in accordance with the Institute of Actuaries Guidance Note GN11 'Retirement Benefit Schemes – Transfer Values'. Further details of the scheme are included in note 20.

### Directors' Permanent Health Insurance Policy

All Executive Directors are members of the R.C. Treatt & Co. Limited Permanent Health Insurance Scheme and participate in the scheme on the same basis as all other members. The scheme is underwritten by an insurance company and benefits commence after an initial period of twenty six weeks of absence and evidence of disability. The main provisions of the scheme are:

- 66 2/3% of pre-disability salary payable up to normal retirement date
- supplementary benefit payable in respect of contributions to the R.C. Treatt & Co. Limited Pension and Assurance Scheme
- benefits in payment increased at the rate of 3% per annum

### Companies Used In Comparisons

In assessing all aspects of pay and benefits, the Group compares the packages offered by similar companies that are selected on the grounds of:

- size in terms of turnover, profits and number of people employed
- the diversity and complexity of its businesses
- the geographical spread of its businesses
- its growth, expansion and change profile

### Service Contracts

Having agreed in September 1995 to a reduction in the three year notice period for termination of their service contracts two Executive Directors at the year end served under contracts which are terminable by the Company giving not less than two years' notice. The Board believes this to be appropriate for key Executive Directors who possess specialist industry knowledge and is therefore in the best interests of shareholders. Non-executive Directors do not have service contracts but are engaged under a letter of appointment.

### Non-executive Directors

The remuneration for Non-executive Directors consists of fees for their services in connection with Board and Board Committee meetings. In their Non-executive capacities they do not qualify for participation in any of the Company's bonus, share option or other incentive schemes. With the exception of W.G. Bovill and D.D. Appleby, who are in receipt of a pension from the R.C. Treatt & Co. Limited Pension & Assurance Scheme, Non-executive Directors are not eligible for pension scheme membership.

This report was approved by the Board  
on 29 November 2002

E.W. DAWNAY  
Secretary

# Independent Auditors' Report to the Shareholders of Treatt plc

We have audited the financial statements of Treatt plc for the year ended 30 September 2002 on pages 22 to 44. These financial statements have been prepared under the accounting policies set out on pages 27 and 28.

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review, the Corporate Governance Statement,

the Remuneration Report, the financial summary and the five year trading record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 30 September 2002 and of the profit for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward  
Chartered Accountants and Registered Auditors  
Bury St Edmunds

29 November 2002

# Group Profit and Loss Account

For the year ended 30 September 2002

	Notes	2002 £'000	2001 £'000
<b>Turnover - continuing operations</b>	2	<b>30,740</b>	27,664
Cost of sales		<b>(21,662)</b>	(19,234)
<b>Gross profit</b>		<b>9,078</b>	8,430
Distribution costs		<b>(1,446)</b>	(1,408)
Administrative expenses			
Exceptional items	4	<b>(739)</b>	–
Other administration costs		<b>(4,694)</b>	(4,152)
		<b>(5,433)</b>	(4,152)
<b>Operating profit</b>	3	<b>2,199</b>	2,870
Interest receivable	5	<b>33</b>	49
Interest payable	5	<b>(200)</b>	(87)
<b>Profit on ordinary activities before taxation</b>		<b>2,032</b>	2,832
Tax on profit on ordinary activities	6	<b>(554)</b>	(875)
<b>Profit on ordinary activities after taxation</b>		<b>1,478</b>	1,957
Dividends	7	<b>(864)</b>	(818)
<b>Retained profit for the year</b>	16	<b>614</b>	1,139
Earnings per share			
- basic			
- after exceptional items	8	<b>14.6p</b>	19.4p
- before exceptional items	8	<b>19.7p</b>	19.4p
- diluted	8	<b>14.6p</b>	19.3p

Notes 1 - 24 form part of these accounts

## Group Statement of Total Recognised Gains and Losses

*For the year ended 30 September 2002*

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Profit for the financial year before dividends	<b>1,478</b>	1,957
Currency translation differences on foreign currency net investments	<b>(235)</b>	(40)
<b>Total recognised gains and losses</b>	<b>1,243</b>	1,917

## Reconciliation of Movements in Group Shareholders' Funds

*For the year ended 30 September 2002*

	<b>2002</b>	2001
Profit for the financial year before dividends	<b>1,478</b>	1,957
Dividends	<b>(864)</b>	(818)
Issue of ordinary shares	<b>195</b>	36
Currency translation differences on foreign currency net investments	<b>(235)</b>	(40)
<b>Net addition to shareholders' funds</b>	<b>574</b>	1,135
Opening shareholders' funds	<b>16,357</b>	15,222
<b>Closing shareholders' funds</b>	<b>16,931</b>	16,357

# Group Balance Sheet

*As at 30 September 2002*

	Notes	2002		2001	
		£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Tangible assets	9		<b>9,523</b>		7,663
<b>CURRENT ASSETS</b>					
Stocks		<b>10,080</b>		8,480	
Debtors	11	<b>6,006</b>		5,525	
Cash at bank - restricted	13(2)	<b>561</b>		2,201	
- unrestricted		<b>156</b>		778	
		<b>717</b>		2,979	
		<b>16,803</b>		16,984	
<b>CREDITORS: amounts falling due within one year</b>	12	<b>(6,260)</b>		(4,791)	
<b>Net current assets</b>			<b>10,543</b>		12,193
<b>Total assets less current liabilities</b>			<b>20,066</b>		19,856
<b>CREDITORS: amounts falling due after more than one year</b>	13(1)		<b>(2,941)</b>		(3,274)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	14		<b>(194)</b>		(225)
<b>Net assets</b>			<b>16,931</b>		16,357
<b>CAPITAL AND RESERVES</b>					
Called up share capital	15		<b>1,029</b>		1,010
Share premium account	16		<b>2,139</b>		1,963
Profit and loss account	16		<b>13,763</b>		13,384
<b>SHAREHOLDERS' FUNDS</b>					
<b>Equity interests</b>			<b>16,931</b>		16,357

*Notes 1 - 24 form part of these accounts*

Approved by the Board on 29 November 2002

E.W. Dawnay  
H.W. Bovill

} Directors  
}

# Company Balance Sheet

*As at 30 September 2002*

	Notes	2002		2001	
		£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Investments	10		<b>4,141</b>		4,231
<b>CURRENT ASSETS</b>					
Debtors	11	<b>1,530</b>		1,412	
Cash at bank		<b>6</b>		8	
		<b>1,536</b>		1,420	
<b>CREDITORS: amounts falling due within one year</b>					
	12	<b>(870)</b>		(826)	
<b>Net current assets</b>			<b>666</b>		594
<b>Net assets</b>			<b>4,807</b>		4,825
<b>CAPITAL AND RESERVES</b>					
Called up share capital	15		<b>1,029</b>		1,010
Share premium account	16		<b>2,139</b>		1,963
Profit and loss account	16		<b>1,639</b>		1,852
<b>SHAREHOLDERS' FUNDS</b>					
<b>Equity interests</b>			<b>4,807</b>		4,825

*Notes 1 - 24 form part of these accounts*

Approved by the Board on 29 November 2002

E.W. Dawnay  
H.W. Bovill

} Directors  
}

# Group Cashflow Statement

For the year ended 30 September 2002

	Notes	2002 £'000	2001 £'000
<b>Cash inflow from operating activities</b>	17	<b>968</b>	3,821
Returns on investments and servicing of finance	19	(167)	(38)
Taxation		(943)	(821)
Capital expenditure and financial investment	19	(1,507)	(4,583)
Equity dividends paid		(820)	(782)
<b>Cash outflow before financing</b>		<b>(2,469)</b>	(2,403)
<b>Financing</b>			
- issue of shares		195	36
- (Decrease)/increase in debt	18	(85)	3,402
<b>(Decrease)/increase in unrestricted funds in the year</b>	18	<b>(2,359)</b>	1,035
<b>Reconciliation of net cashflow to increase in debt (see Note 18)</b>			
(Decrease)/increase in unrestricted funds in the year		(2,359)	1,035
Cash inflow from change in net debt		(1,545)	(1,201)
<b>Increase in net debt resulting from cashflows</b>		<b>(3,904)</b>	(166)
Exchange difference		168	2
<b>Increase in net debt in the year</b>		<b>(3,736)</b>	(164)
Net debt at 1 October 2001		(423)	(259)
<b>Net debt at 30 September 2002</b>		<b>(4,159)</b>	(423)

# Notes to the Financial Statements

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*For the year ended 30 September 2002*

## 1. ACCOUNTING POLICIES

### Accounting convention

The accounts are prepared under the historical cost convention and are in accordance with applicable UK Accounting Standards.

In preparing these financial statements the Group has adopted Financial Reporting Standard 19 'Deferred taxation' for the first time. It has also taken advantage of the transitional arrangements available under Financial Reporting Standard 17 'Retirement Benefits'.

The adoption of FRS 19 has had no material impact on the results of the Group. The transitional arrangements under FRS 17 have given rise to additional disclosures about the Group's defined benefit pension scheme (see note 20).

The Company has taken advantage of the exemption under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in the financial statements.

The Group profit for the year includes a profit after tax and before dividends paid and payable of £651,290 (2001: £723,934) which is dealt with in the financial statements of the parent company.

### Basis of consolidation

The Group accounts consolidate the accounts of Treatt plc and all of its subsidiary undertakings made up to 30 September each year.

No profit and loss account for Treatt plc has been presented, as permitted by section 230 of the Companies Act 1985.

### Turnover

Turnover represents amounts receivable net of trade discounts, VAT and other sales related taxes.

### Investments

Fixed asset investments are stated at cost, less provision for permanent diminution in value.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided on all tangible fixed assets, except freehold land, using the straight-line basis to write off the cost of the asset, less estimated residual value, as follows:

- |                                  |          |
|----------------------------------|----------|
| • Computer hardware and software | 4 years  |
| • Laboratory equipment           | 5 years  |
| • Motor vehicles                 | 5 years  |
| • Fixtures and fittings          | 10 years |
| • Plant and machinery            | 10 years |
| • Buildings                      | 50 years |

# Notes to the Financial Statements continued

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*For the year ended 30 September 2002*

## **1. ACCOUNTING POLICIES (continued)**

### **Impairment of fixed assets**

The need for any fixed asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

### **Leasing commitments**

Rentals paid under operating leases are charged against income on a straight line basis over the lease term.

### **Stocks**

Stocks, which consist of finished goods and goods for resale, are stated at the lower of cost and net realisable value. Cost is based on purchase cost on a first-in, first-out basis plus attributable overheads.

Net realisable value is based on estimated selling price less further costs expected to be incurred to disposal. Provision is made for obsolete, slow-moving and defective items.

### **Pension costs**

The Group's principal subsidiary undertaking, R.C. Treatt & Co. Limited, operates a defined benefit scheme through an independently administered pension scheme. The contributions are charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme.

R.C. Treatt & Co. Limited and Treatt USA, Inc also operate defined contribution pension schemes. The contributions for these schemes are charged to the profit and loss account in the year in which they become payable.

### **Deferred taxation**

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to situations where the Directors anticipate the reversal of the underlying timing differences in the future.

### **Foreign currency translation**

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction or, if hedged forward, at the rate of exchange under related forward currency contracts. Assets and liabilities in foreign currencies are translated into Sterling in the balance sheet at the year-end or contract exchange rate, as appropriate. The exchange rate of the US Dollar, the principal foreign currency, was \$1.57 (2001: \$1.47) at the year end.

Profits and losses of the group's overseas subsidiary, Treatt USA, Inc, are translated into Sterling at the average rate for the year. Its balance sheet is translated at the rate ruling at the balance sheet date.

Exchange differences which arise from the translation of the opening net assets and results of foreign subsidiary undertakings and from translating the profit and loss account of an average rate are taken to reserves. All other exchange differences are taken to the profit and loss account.

**2. SEGMENTAL INFORMATION**

<b>Geographical Segments</b>	<b>2002</b>	2001
	<b>£'000</b>	£'000
<b>Turnover by destination</b>		
United Kingdom	<b>7,597</b>	7,119
Rest of Europe	<b>8,044</b>	7,416
The Americas	<b>8,375</b>	7,179
Rest of the World	<b>6,724</b>	5,950
	<b>30,740</b>	27,664

Analysis of turnover by origin, segmental profit before taxation and segmental net assets have not been given as, in the opinion of the Directors, this would be prejudicial to the commercial interest of the Group.

As the Group is engaged substantially in one class of business, the provision of flavour and fragrance ingredients, no analysis of turnover or profit by class of business has been provided.

<b>3. OPERATING PROFIT</b> is stated after charging/(crediting):	<b>2002</b>	2001
	<b>£'000</b>	£'000
Depreciation	<b>480</b>	550
Impairment of fixed assets	<b>659</b>	–
Loss on disposal of tangible fixed assets	<b>2</b>	5
Research and development costs	<b>219</b>	205
Operating lease rentals		
- plant and machinery	<b>13</b>	7
- other	<b>103</b>	100
Auditors' remuneration		
- audit fees	<b>29</b>	27
- other services - UK	<b>9</b>	14
- other services - overseas	<b>4</b>	16
Net exchange loss/(gain) on trading activities	<b>52</b>	(24)
Rent receivable	<b>(36)</b>	(36)

**4. EXCEPTIONAL ITEMS**

The operating exceptional items referred to in the Group Profit and Loss Account are categorised as follows:

	<b>Total</b>
	<b>£'000</b>
<b>Reorganisation Costs</b>	<b>148</b>
<b>Impairment of fixed assets</b>	<b>591</b>
	<b>739</b>

# Notes to the Financial Statements continued

*For the year ended 30 September 2002*

<b>5. INTEREST</b>	<b>2002</b>	2001
	<b>£'000</b>	£'000
<b>(1) Interest receivable</b> - bank	<b>33</b>	49
<b>(2) Interest payable</b> - bank overdraft	<b>(62)</b>	(71)
- loan repayable outside five years	<b>(138)</b>	(16)
	<b>(200)</b>	(87)

<b>6. TAXATION</b>	<b>2002</b>	2001
	<b>£'000</b>	£'000
<b>(a) Analysis of tax charge for the year</b>		
<b>Current year taxation</b>		
UK Corporation tax	<b>414</b>	600
Overseas tax	<b>248</b>	204
	<b>662</b>	804
<b>Deferred taxation</b>	<b>(31)</b>	70
	<b>631</b>	874
<b>Prior years</b>		
UK Corporation tax	<b>(5)</b>	1
Overseas tax	<b>(72)</b>	-
<b>Tax on profit on ordinary activities</b>	<b>554</b>	875

**(b) Factors affecting tax charge for the year**

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Profit on ordinary activities multiplied by standard rate of UK Corporation tax at 30% (2001: 30%)	<b>610</b>	850
Effects of:		
Expenses not deductible for tax purposes	<b>25</b>	4
Depreciation for year in excess of capital allowances	<b>2</b>	(59)
Allowable expenses charged to reserves	<b>(16)</b>	(10)
Higher tax rates on overseas earnings	<b>41</b>	19
<b>Corporation tax charge for the current year</b>	<b>662</b>	804

**7. DIVIDENDS**

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Interim declared of 2.7p per share (2001: 2.6p per share)	<b>278</b>	262
Final proposed of 5.7p per share (2001: 5.5p per share)	<b>586</b>	556
	<b>864</b>	818

**8. EARNINGS PER ORDINARY SHARE****(1) Basic earnings per share**

Basic earnings per share is based on the weighted average number of ordinary shares in issue and ranking for dividend during the year of 10,132,905 (2001: 10,090,249) and earnings of:

- £1,478,000 (2001: £1,957,000), being the profit on ordinary activities after taxation and exceptional item.
- £1,996,000 (2001: n/a) being the profit on ordinary activities, after taxation, excluding the net impact of exceptional items of £739,000 and tax thereon of £221,000.

**(2) Diluted earnings per share**

Diluted earnings per share is based on the weighted average number of ordinary shares in issue and ranking for dividend during the year, adjusted for the effect of all dilutive potential ordinary shares, of 10,135,757 (2001: 10,166,263); and the same earnings as above.

Notes to the Financial Statements *continued**For the year ended 30 September 2002***9. TANGIBLE FIXED ASSETS**

	Land and Buildings £'000	Assets under Construction £'000	Plant and Equipment £'000	<b>Total £'000</b>
<b>Cost</b>				
1 October 2001	4,751	–	7,654	<b>12,405</b>
Exchange adjustment	(71)	–	(144)	<b>(215)</b>
Reclassification	95	–	(95)	<b>–</b>
Additions	7	2,141	1,014	<b>3,162</b>
Disposals	(18)	–	(280)	<b>(298)</b>
<b>30 September 2002</b>	<b>4,764</b>	<b>2,141</b>	<b>8,149</b>	<b>15,054</b>
<b>Depreciation</b>				
1 October 2001	161	–	4,581	<b>4,742</b>
Exchange adjustment	(16)	–	(63)	<b>(79)</b>
Reclassification	19	–	(19)	<b>–</b>
Charge for the year	30	–	450	<b>480</b>
Impairment adjustment	68	–	591	<b>659</b>
Disposals	(18)	–	(253)	<b>(271)</b>
<b>30 September 2002</b>	<b>244</b>	<b>–</b>	<b>5,287</b>	<b>5,531</b>
<b>Net book value</b>				
<b>30 September 2002</b>	<b>4,520</b>	<b>2,141</b>	<b>2,862</b>	<b>9,523</b>
30 September 2001	4,590	–	3,073	7,663
<b>Analysis of land and buildings</b>				
			<b>2002</b>	2001
			<b>£'000</b>	£'000
<b>Net book value</b>				
Freehold			<b>3,785</b>	3,855
Long leasehold (999 years)			<b>735</b>	735
			<b>4,520</b>	4,590
<b>Capital commitments</b>				
			<b>2002</b>	2001
			<b>£'000</b>	£'000
Contracted but not provided for			<b>239</b>	–

**10. FIXED ASSET INVESTMENTS**

	<b>2002</b>	2001
<b>Company</b>	<b>£'000</b>	£'000
<b>Subsidiary Undertakings:</b>		
R.C. Treatt & Co. Limited - at cost 50,000 ordinary shares of £1 each, fully paid	<b>2,299</b>	2,299
Treatt USA, Inc. (formerly Florida Treatt Inc.) - at cost 2,975,000 common stock of US\$1 each, fully paid	<b>1,842</b>	1,842
Singapore Treatt Pte Limited - at cost 200,000 ordinary shares of S\$1 each, fully paid, fully provided against in the year	-	90
	<b>4,141</b>	4,231

<b>Subsidiary</b>	<b>Country</b>	<b>Holding</b>	<b>Principal activity</b>
R.C. Treatt & Co. Limited	UK	100%	Supply of flavour and fragrance ingredients
Treatt USA Inc.	USA	100%	Supply of flavour and fragrance ingredients
Singapore Treatt Pte Limited	Singapore	100%	Struck off (12 May 2002)

**11. DEBTORS**

	Group		Company	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Trade debtors	<b>5,710</b>	5,165	-	-
Amounts owed by subsidiary undertakings	-	-	<b>1,530</b>	1,412
Other debtors	<b>91</b>	144	-	-
Prepayments	<b>205</b>	216	-	-
	<b>6,006</b>	5,525	<b>1,530</b>	1,412

Included within prepayments is £40,000 (2001: £39,000) representing contributions paid in advance to the Group's defined benefit pension scheme.

**12. CREDITORS: amounts falling due within one year**

	Group		Company	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Loan	<b>159</b>	128	-	-
Bank overdrafts	<b>1,776</b>	-	-	-
Trade creditors	<b>2,007</b>	2,344	-	-
Corporation tax	<b>29</b>	386	-	-
Other taxes and social security costs	<b>138</b>	79	-	-
Accruals	<b>1,281</b>	1,028	-	-
Proposed dividends	<b>870</b>	826	<b>870</b>	826
	<b>6,260</b>	4,791	<b>870</b>	826

# Notes to the Financial Statements continued

*For the year ended 30 September 2002*

## 13. CREDITORS: amounts falling due after more than one year

	Group	
	<b>2002</b>	2001
	<b>£'000</b>	£'000
Loan	<b>2,941</b>	3,274

### (1) Loan

The Industrial Development Loan is repayable by fixed quarterly instalments over 20 years.

Interest is payable on the loan at a rate which has been fixed at 4.05% for ten years.

An additional 1% on the outstanding balance of the loan is payable annually in respect of Letter of Credit charges. Other on going banking charges in respect of the loan amounted US\$ 9,996 in the year.

### (2) Restricted Funds

The funds are available exclusively for use in connection with the purchase and upgrade for manufacturing purposes of new premises for Treatt USA, Inc. The unspent portion of the funds, shown in the balance sheet as Restricted Funds, is kept on deposit and must be utilised within three years of the loan being granted. The funds are held in US Dollars and carry interest at a variable rate which has to be lower than that charged on the connected loan (see note 13(1))

The loan is repayable as follows:

	<b>2002</b>	2001
	<b>£'000</b>	£'000
- in one year or less	<b>159</b>	128
- in more than one year but not more than two years	<b>159</b>	159
- in more than two years but not more than five years	<b>477</b>	477
- in more than five years	<b>2,305</b>	2,638
	<b>3,100</b>	3,402

## 14. DEFERRED TAX

	<b>2002</b>	2001
<b>Group</b>	<b>£'000</b>	£'000
Accelerated capital allowances	<b>270</b>	265
Other timing differences	<b>(76)</b>	(40)
	<b>194</b>	225

The movement in the year represents the transfer from the profit and loss account.

**15. SHARE CAPITAL**

<b>Company and Group</b>	<b>2002 Number</b>	2001 Number
<b>Authorised</b>		
Ordinary shares of 10p each	<b>12,500,000</b>	12,500,000
	<b>£'000</b>	£'000
<b>Called up, allotted and fully paid</b>		
10,287,247 (2001: 10,102,749) ordinary shares of 10p each	<b>1,029</b>	1,010

During the year 185,294 options were exercised, as noted below:

Shares issued in the year were:

	Number	Nominal Value £	Consideration £
Treatt Executive Share Option Scheme No II	3,000	300	4,395
Treatt Saving Related Share Option Scheme	182,294	18,229	190,586
	<b>185,294</b>	<b>18,529</b>	<b>194,981</b>

**Share option schemes**

Under the schemes listed below, options have been granted to subscribe for the following number of existing ordinary shares of 10p each in the capital of the Company.

The options have been allocated as follows:

	Number of shares	Option price per share	Date option exercisable
Treatt Executive Share Option Scheme No I	128,000	233p	Between June 1997 and June 2004
	62,879	209p	Between June 2004 and June 2011
	14,354	209p	Between December 2002 and June 2003
Treatt Executive Share Option Scheme No II	58,121	209p	Between June 2004 and June 2008
	5,646	209p	Between December 2002 and June 2003
Treatt Savings Related Share Option Scheme	4,046	104p	Between August 2002 and January 2003

During the year 20,000 options lapsed from the Treatt Executive Share Option Scheme No I and 2,255 lapsed from the Treatt Savings Related Share Option Scheme.

# Notes to the Financial Statements continued

*For the year ended 30 September 2002*

## 16. RESERVES

	Share premium £'000	Profit and loss account £'000
<b>Group</b>		
1 October 2001	1,963	13,384
Exchange differences	–	(235)
Retained profit for the year	–	614
Issue of shares	176	–
<b>30 September 2002</b>	<b>2,139</b>	<b>13,763</b>
<b>Company</b>		
1 October 2001	1,963	1,852
Loss for the year	–	(213)
Issue of shares	176	–
<b>30 September 2002</b>	<b>2,139</b>	<b>1,639</b>

## 17. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASHFLOWS

	<b>2002</b> £'000	2001 £'000
Operating profit	<b>2,199</b>	2,870
Depreciation charge	<b>480</b>	550
Impairment of fixed assets	<b>659</b>	–
Loss on disposals	<b>2</b>	5
(Increase)/decrease in stocks	<b>(1,600)</b>	795
Increase in debtors	<b>(481)</b>	(1,141)
(Decrease)/increase in creditors	<b>(25)</b>	782
Currency translation differences on foreign currency net investments	<b>(266)</b>	(40)
<b>Net cash inflow from operating activities</b>	<b>968</b>	3,821

**18. ANALYSIS OF DEBT**

	2001 £'000	Cashflow £'000	Exchange Difference £'000	2002 £'000
Cash at bank				
- restricted	2,201	(1,630)	(10)	<b>561</b>
- unrestricted	778	(583)	(39)	<b>156</b>
Bank overdraft	-	(1,776)	-	<b>(1,776)</b>
Debt due within 1 year	(128)	(42)	11	<b>(159)</b>
Debt due outside 1 year	(3,274)	127	206	<b>(2,941)</b>
<b>Total Debt</b>	<b>(423)</b>	<b>(3,904)</b>	<b>168</b>	<b>(4,159)</b>

**19. ANALYSIS OF CASHFLOWS FOR HEADINGS NETTED IN THE CASHFLOW STATEMENT**

	2002 £'000	2001 £'000
<b>Returns on investments and servicing of finance</b>		
Interest received	<b>33</b>	49
Interest paid	<b>(200)</b>	(87)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(167)</b>	(38)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	<b>(3,162)</b>	(2,385)
Sale of tangible fixed assets	<b>25</b>	3
Restricted cash	<b>1,630</b>	(2,201)
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(1,507)</b>	(4,583)

# Notes to the Financial Statements continued

*For the year ended 30 September 2002*

## 20. PENSION SCHEME

The Group has continued to operate a defined benefit pension scheme for certain UK employees. The scheme's assets are held separately from the assets of the Group and are administered by trustees and managed professionally. From 1 October 2001 this scheme was closed to new entrants, who will be eligible to join a new Stakeholder defined contribution scheme.

The UK Stakeholder and overseas defined contribution schemes are operated on behalf of certain employees. The assets are held separately from those of the company in independently administered funds.

The pension charge for the year represents contributions payable by the company to the schemes, amounting to:

	<b>2002</b>	2001
	<b>£</b>	£
Defined benefit scheme	<b>502</b>	459
Defined contribution schemes	<b>38</b>	21
	<b>540</b>	480

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in section (a) are those required by that standard. FRS 17, Retirement Benefits, was issued in November 2000 but following an amendment issued recently by the Accounting Standards Board, will not be mandatory for the Group and Company until the year ended 30 September 2006. Prior to this, phased transitional disclosures are required. These disclosures, which relate to the defined benefit pension scheme, to the extent not given in section (a), are set out in section (b).

### (1) SSAP 24 Retirement Benefits

The latest valuation of the scheme was made at 1 January 2000 by Mr. I. Tait, Fellow of the Faculty of Actuaries. The principal methods and assumptions used and the results of the valuation are set out below:

Valuation method	Projected unit
Investment rate of return	8.5%
Future increases in salaries	7.0%
Rate of dividend growth implied by asset valuation method	4.5%
Actuarial value of assets	£3,839,000
Market value of assets	£6,401,000
Level of funding (actuarial value of assets as a % of accrued service liabilities)	82%

The contribution rate was 19.7% of pensionable earnings.

**(2) FRS 17 Retirement Benefits**

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 1 January 2000 and updated by Mr N.P. Hacking, a Fellow of the Institute of Actuaries, to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 30 September 2002. Scheme assets are stated at their market value as at that date.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method	Projected unit	
	2002	2001
Discount rate	5.5%	6.0%
Inflation rate	2.4%	2.5%
Increase to deferred benefits during deferment	2.4%	2.5%
Increases to pensions in payment	2.4%	2.5%
Salary increases	4.0%	4.0%

The assets in the scheme and the expected rate of return were:

	Expected long term return	Value at 2002 £'000	Expected long term return	Value at 2001 £'000
Equities	10.0%	3,515	8.5%	4,323
Bonds	5.5%	1,081	6.0%	685
Other	5.5%	265	6.0%	403
Total market value of assets		4,861		5,411
Present value of scheme liabilities		(9,108)		(6,867)
Deficit in the scheme		(4,247)		(1,456)
Related deferred tax		1,274		437
Pension liability		(2,973)		(1,019)

The potential impact on the balance sheet would be as follows:

**Group net assets**

Net assets excluding pension liability	16,931	16,357
Pension liability	(2,973)	(1,019)
Net assets including pension liability	13,958	15,338

**Group reserves**

Profit and loss reserve excluding pension liability	13,763	13,384
Pension liability	(2,973)	(1,019)
Profit and loss reserve including pension liability	10,790	12,365

# Notes to the Financial Statements continued

*For the year ended 30 September 2002*

## 20. PENSION SCHEME (continued)

The potential impact on the profit and loss account and statement of total recognised gains and losses would be as follows:

	Year Ended September 2002 £'000
<b>Amount charged to operating profit</b>	
Current service cost (excluding employee contributions)	573
Past service cost	10
<b>Total operating charge</b>	<b>583</b>
<b>Amount credited to other finance income</b>	
Expected return on assets	442
Interest on scheme liabilities	(423)
<b>Net income</b>	<b>19</b>
<b>Amount recognised in statement of total recognised gains and losses</b>	
Actual less expected return on assets	(1,212)
Experience gains on liabilities	152
Effect of change in assumptions on liabilities	(1,615)
<b>Total loss recognised in statement of total recognised gains and losses</b>	<b>(2,675)</b>
<b>Movement in deficit during the year</b>	
Deficit in scheme at start of year	(1,456)
Current service cost (excluding employee contributions)	(573)
Cash contribution (excluding employee contributions)	448
Past service costs	(10)
Other finance income	19
Actuarial loss	(2,675)
<b>Deficit in scheme at end of year</b>	<b>(4,247)</b>
<b>History of experience gains and losses</b>	
Difference between expected and actual returns on scheme assets:	
Amount	(1,212)
% of assets at end of year	-24.93%
Experience gains on scheme liabilities:	
Amount	152
% of liabilities at end of year	1.67%
Total actuarial loss:	
Amount	(2,675)
% of liabilities at end of year	-29.37%

## 21. EMPLOYEES

### (1) Number of employees

During the year the average number of staff employed by the Group, including Directors, was as follows:

	<b>2002 Number</b>	2001 Number
Technical and production	<b>81</b>	81
Administration and sales	<b>84</b>	78
	<b>165</b>	159

### (2) Employment costs

The following costs were incurred in respect of the above:

	<b>£'000</b>	£'000
Wages and salaries	<b>4,317</b>	4,187
Social security costs	<b>375</b>	330
Other pension costs	<b>540</b>	480
	<b>5,232</b>	4,997

A full analysis of Directors' costs is included in the Report of the Board on Directors' Remuneration on pages 18 to 20.

# Notes to the Financial Statements continued

*For the year ended 30 September 2002*

## 22. COMMITMENTS UNDER OPERATING LEASES

As at 30 September 2002, the Group had annual commitments under non-cancellable operating leases as set out below:

	<b>2002</b>	2001
	<b>£'000</b>	£'000
<b>Operating leases which expire:</b>		
Within one year		
- land and buildings	-	14
- other	<b>40</b>	26
In two to five years		
- land and buildings	-	-
- other	<b>30</b>	23
	<b>70</b>	63

## 23. CONTINGENT LIABILITY

### Company

- (1) The Company has guaranteed the Industrial Development Loan of Treatt USA Inc. At the balance sheet date the liability covered by this guarantee amounted to US\$4,875,000 (£3,099,962) (2001: US\$5,000,000 (£3,402,000)).
- (2) The Company has secured the bank borrowings of its UK subsidiary undertaking, R.C. Treatt & Co. Limited. At the year end the liabilities covered by these guarantees amounted to £1,776,000 (2001: £Nil).

## 24. FINANCIAL INSTRUMENTS

### (1) Maturity profile of financial liabilities

Details of the maturity profile of the US Dollar Variable Rate Demand Bonds taken out in the previous year are disclosed in note 13(1).

### (2) Interest rate profile

<i>Financial assets</i>	<b>Floating rate financial assets £'000</b>
At 30 September 2002	
Sterling	156
US Dollars	561
	<b>717</b>
At 30 September 2001	
Sterling	778
US Dollars	2,201
	<b>2,979</b>

Financial assets comprise cash at bank of £156,000 (2001: £778,000) and restricted cash funds of £561,000 (2001: £2,201,000) denominated in US Dollars. Interest on floating rate Sterling bank deposits is based on the inter bank rate. Interest on the US Dollar bank deposit is outlined in note 13(2).

<i>Financial liabilities</i>	<b>Floating rate financial liabilities £'000</b>	<b>Fixed rate financial liabilities £'000</b>	<b>Total £'000</b>
At 30 September 2002			
US Dollars	—	3,100	3,100
Sterling	1,776	—	1,776
	<b>1,776</b>	<b>3,100</b>	<b>4,876</b>
At 30 September 2001			
US Dollars	1,701	1,701	3,402

Financial liabilities comprise the Variable Rate Demand Bonds of US\$4,875,000.00 (see note 13(1)) and 5 bank overdrafts of £1,776,000 (2001: £Nil) denominated in Sterling.

Interest on the bank overdrafts are charged at 1% above UK base rates.

### (3) Fair values of financial assets and liabilities

The estimated fair values of financial assets and liabilities is not considered to be significantly different from their book values.

# Notes to the Financial Statements continued

*For the year ended 30 September 2002*

## **24. FINANCIAL INSTRUMENTS (continued)**

### **(4) Hedges**

As explained in the operating and financial reviews on pages 5 to 8 the Group's policy is to hedge currency risk in times of significant currency fluctuations using forward foreign currency contracts for debtors and liabilities. At the year end there were no material unrecognised or deferred gains or losses on forward foreign currency trading contracts.

### **(5) Currency exposure**

The Group's currency exposure, ie those exposures arising from transactions the net currency gains and losses from which will be recognised in the profit and loss account, is as follows:

	<b>Net foreign currency monetary assets</b>		
	<b>US Dollar £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
At 30 September 2002	(689)	835	146
At 30 September 2001	1,956	475	2,431

# Notice of Annual General Meeting

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Notice is hereby given that the Annual General Meeting of the Shareholders of Treatt plc will be held at The British Racing School, Snailwell Road, Newmarket, Suffolk on 24 February 2003, at 11.30 am for the transaction of the following business:

## Ordinary Business

1. To receive and adopt the Report of the Directors for the year ended 30 September 2002.
2. To receive and adopt the accounts for the year ended 30 September 2002 and the Independent Auditors' Report thereon.
3. To declare a final dividend of 5.7p per share on the ordinary shares of the Company for the year ended 30 September 2002.
4. To re-elect R. Mears as a Director of the Company.
5. To re-elect H.W. Bovill as a Director of the Company.
6. To re-elect P.A. Thorburn as a Director of the Company.
7. To re-elect A.J. Haines as a Director of the Company.
8. To appoint Auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting.
9. To authorise the Directors to determine the remuneration of the Auditors of the Company.
10. Any other business.

## Special Business

To consider and, if thought fit, to pass the following resolutions, of which Resolution 11 will be proposed as an Ordinary Resolution and Resolutions 12 and 13 will be proposed as Special Resolutions.

11. THAT:
  - (a) In accordance with Section 80 of the Companies Act 1985 the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities within the terms of the restrictions and provisions following; namely:
    - (i) this authority shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next Annual General Meeting of the Company following the passing of this Resolution and 23 May 2004; and
    - (ii) this authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount of £221,100 (representing approximately 21.5% of the existing issued share capital of the Company).
  - (b) For the purpose of sub-paragraph (a) above:
    - (i) the said power shall allow and enable the Directors to make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired; and
    - (ii) words and expressions defined in or for the purpose of Part IV of the Companies Act 1985 shall bear the same meaning herein.
12. THAT:
  - (a) conditionally upon the passing of Resolution 11 above and in accordance with Section 95 of the Companies Act 1985, the Directors be and are hereby given power to allot equity securities pursuant to the authority conferred by Resolution 11 above as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that:

## Notice of Annual General Meeting continued

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- (i) the power hereby granted shall be limited:
    - (aa) to the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body in any territory; and
    - (bb) to the allotment (otherwise than pursuant to sub-paragraph (i) (aa) of this proviso) of equity securities up to an aggregate nominal amount of £51,400 (representing approximately 5% of the existing issued share capital of the Company);
  - (ii) the power hereby granted shall expire on the earlier of the date of the next Annual General Meeting of the Company following the passing of this Resolution and 23 May 2004;
  - (b) (i) the said power shall allow and enable the Directors to make an offer or agreement before the expiry of the said power which would or might require securities to be allotted pursuant to the agreement as if the power conferred herein had not expired; and
  - (ii) words and expressions defined in or for the purpose of Part IV of the Companies Act 1985 shall bear the same meaning herein.
13. THAT the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of ordinary shares of 10p each in the capital of the Company ("ordinary shares") provided that:
- (i) the maximum number of ordinary shares authorised to be purchased is 1,028,000 (representing approximately 10% of the present issued share capital of the Company);
  - (ii) the minimum price (excluding stamp duty, dealing or other costs) which may be paid for an ordinary share so purchased is 10p;
  - (iii) the maximum price which may be paid for an ordinary share so purchased is an amount equal to 5% above the average of the middle market quotations shown for an ordinary share in The London Stock Exchange Daily Official List on the five business days immediately preceding the day on which that ordinary share is purchased;
  - (iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004, unless such authority is renewed, varied or revoked prior to such time; and
  - (v) the Company may prior to the expiry of such authority make a contract to purchase ordinary shares under the authority hereby conferred which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

E.W. Dawnay  
Secretary

23 December 2002

Registered Office:

Northern Way  
Bury St Edmunds  
Suffolk  
IP32 6NL

#### NOTE:

A member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him or her. The proxy need not be a member of the Company. Instruments appointing proxies must be lodged with the Company's registrars not less than forty eight hours before the time fixed for the meeting.

The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those members registered in the Register of Members of the Company as at 11.30 am on 22 February 2003 shall be entitled to attend and vote at this meeting in respect of the number of shares registered in their name at 11.30 am on 22 February 2003. Changes to entries in the Register of Members after 11.30 am on 22 February 2003 shall be disregarded in determining the rights of any person to attend or vote at this meeting.

A statement of Directors' share transactions and copies of their service contracts are available for inspection during usual business hours at the registered office of the Company from the date of this notice until the date of the Annual General Meeting (Saturdays and Sundays excluded) and will be available at the place of the meeting for fifteen minutes prior to and during the meeting.

## *South-Eastern Africa*

Treatt sources its raw materials from over 90 countries throughout the world. Many of these producers have had relationships with Treatt for more than 50 years. Regular visits are made to suppliers, to review facilities and production methods and to ensure the continuity of supply as well as to ascertain that the rules governing international labour regulations are observed.

In the 1920s, we commenced purchasing hand-pressed bitter orange oil from a village in south-eastern Africa. The trees were planted in the early 1920s and have not been replaced. The production has been slowly diminishing but in a village of 300 people there are 30 men who process fruit to obtain the oil. The village has no other income, as they are subsistence farmers.





TREATT  
*PLC*

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