TREATT PLC

Report & Financial Statements 2005
Essential Innovative Natural

About the Company

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. Aroma chemicals, and a range of Treattarome™ 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.

Geoffrey Bovill speaking at the Treatt centenary celebrations in 1986.

The Development of Treatt

1886	R.C. Treatt established in the City of London
1971	R.C. Treatt moves to Bury St Edmunds in Suffolk, UK
1978	Company starts manufacturing by distillation
1989	Treatt plc formed and listed on the London Stock Market (USM)
	Citreatt™ range of products are first launched
1990	Florida Treatt Inc is established in USA
1996	Treattarome™ range of products are launched
	Treatt plc moves up to the full list of the London Stock Exchange
2002	Florida Treatt renamed Treatt USA and moves to a new 65,000 Sq Ft facility in Lakeland, Florida
2004	Enterprise Resource Planning (ERP) computer system installed across Treatt
	Treatt USA achieves record profits
2005	Treatt USA purchases property adjacent to existing facility offering significant scope for future development
	Geoffrey Bovill, Non-executive Director and Chairman (1981 – 2001), retires after 57 years with the company

The fruits pictured on the front cover are Mangos.
Inside back cover shows Nutmeg production in Grenada, Sri Lanka and Indonesia.

Financial Summary

	2005	2004
TURNOVER	**£32.52m**	£31.81m
PROFIT BEFORE TAX	**£3.46m**	£2.37m
EARNINGS PER SHARE		
Before exceptional items	**23.7p**	16.0p
After exceptional items	**23.7p**	16.6p
DIVIDENDS PER SHARE	**9.5p**	8.8p
NET ASSETS PER SHARE	**£1.80**	£1.68

Calendar

Financial year ended	30 September 2005
Results for year announced	12 December 2005
Annual Report and Financial Statements published	21 December 2005
Annual General Meeting	27 February 2006
Final dividend for 2005 goes ‘ex-dividend’	8 February 2006
Record date for 2005 final dividend	10 February 2006
Final dividend for 2005 paid	10 March 2006
Interim results to 31 March 2006 announced	22 May 2006

Contents Page

Financial Statements

Chairman's Statement

"Group profit before tax and exceptionals increased by 50% due to some significant one-off stock gains"

2005 saw Group earnings before interest, tax, depreciation and amortisation increase by 36% to £4.51 million (2004: £3.31 million) with profit before tax and exceptional items for the year increasing by 50% to £3.46 million (2004: £2.31 million). Group turnover for the year rose by 2.2% to £32.52 million (2004: £31.81 million) whilst earnings per share before exceptional items increased by 48% to 23.7 pence (2004: 16.0 pence). The level of the Group's net debt/equity ratio ended the year at just 11% (2004: 9%).

The Board is recommending a final dividend of 6.4 pence (2004: 6.1 pence), increasing the total dividend for the year by 8% to 9.5 pence (2004: 8.8 pence) per share. The final dividend will be payable on 10 March 2006 to all shareholders on the register at close of business on 10 February 2006.

Whilst the underlying performance of the Group's two subsidiaries, R.C. Treatt and Treatt USA, were good, the increase in profits for the year, as previously reported in the Interim Statement published in May 2005, was largely due to significant one-off orange and grapefruit stock gains and the absence of last year's orange stock losses. The orange and grapefruit oil profits arose as a result of some sharp price increases following last year's Florida hurricanes combined with the impact of lower than expected production volumes of orange oil in Brazil. As a result, orange oil prices strengthened during the financial year.

Following several very challenging years, 2004/5 has proved to be a very good year for R.C. Treatt. Although turnover only increased by 3.7% to £25.1m (2004: £24.2m), profits rose by 77% partly assisted by one-off gains from orange and grapefruit oil. This profit growth was achieved across a wide range of value added products. At the same time the turnover and contribution from our aroma chemical business has also shown some modest growth despite the continuing pressure on prices in the first six months of the year. In the second half the company benefited from a general trend for increased prices across a broad spectrum of raw materials as a result of the higher cost of petroleum and a reduction in the supply of certain materials caused by farmers in some parts of the world switching to more profitable crops. An important factor in the improved performance of R.C. Treatt was the impact of this being the first full financial year for the new J.D. Edwards Enterprise Resource Planning (ERP) system. The ERP system has had a significant effect on the profitability of R.C. Treatt by streamlining systems, improving stock management procedures and enhancing the company's ability to manage many thousands of items.

Treatt USA again performed well with profits up by 41% reaching another all-time high, and turnover increasing by 2% to $13.8 million. The profitability of Treatt USA grew sharply largely as a result of the high, one-off, margins attributable to orange and grapefruit oil which, as expected, were offset by a 43% increase in payroll, overhead and depreciation expenses. These expenses, which totalled $3.9m (£2.1m), were budgeted as part of Treatt USA's growth strategy in order to build the infrastructure to support Treatt USA's current and future growth potential. In July 2005 Treatt USA implemented the full ERP system on schedule thus completing the total integration of the Group's manufacturing systems. Sales of our innovative Treattarome™ ('From The Named Food') products continued to perform well with year on year growth of 18%. Following the substantial organic growth of the last two years, the Board believe that Treatt USA is now a well established business with a high quality customer base.

USA Property

During the year the opportunity arose to acquire the neighbouring site to Treatt USA's main Lakeland premises and the Board moved quickly to acquire a further six and a half acre site. Further details are provided in the Operating Review.

Prospects

Despite the relatively depressed state of the flavour and fragrance industry we expect Group sales to increase over the coming year although we do expect operating margins to tighten significantly in some areas and we anticipate that Europe will continue to prove the most difficult region, whilst we remain optimistic about the prospects for growth in North America. We will also continue to look for further opportunities to increase the Group's activity and profitability in the Far East.

Over the coming year the Group will continue to benefit from the new ERP system through a process of continuous improvement aimed at providing the best possible service to our customers and maximising the company's operational efficiency. Treatt USA will continue to expand its range of innovative products and take advantage of local taste trends.

Overall, we expect that essential oil prices will remain steady, with orange oil remaining firm whilst grapefruit oil prices are not expected to fall from current levels in the near future following the impact of the 2005 hurricane season in Florida which was, as expected, one of the worst on record.

As a leading independent manufacturer of natural ingredients for the flavour and fragrance industry, with a presence both in Europe and the United States, Treatt Plc remains in a strong position to grow its business on both sides of the Atlantic.

People

As ever, our employees in England and the United States have contributed greatly to the success of the Group over the last year and the Board would like to place on record its sincere gratitude to our colleagues for their tremendous dedication and hard work over the last twelve months.

During the year Robin Mears retired as Operations Director having worked for the Group for sixteen years and we would like to place on record our thanks to Robin for the important contribution he made during that time. In particular, we are grateful to Robin for the work he undertook to ensure a successful implementation of the ERP system. It is also with sadness that we bid farewell to Geoffrey Bovill, who retired from the Board on 30 September 2005, having served as a Director for 57 years. Geoffrey has played a significant role over this time and his wise counsel will be greatly missed.

EDWARD DAWNAY
Chairman
9 December 2005

Operating Review

"The ERP system has been central to a significant enhancement in operational performance at R.C. Treatt"

2005 was a year of operational improvement throughout the Treatt Group. In particular the UK subsidiary, R.C. Treatt, has obtained significant benefits from the Enterprise Resource Planning (ERP) system.

The Group's investment in ERP of £1.2 million is being depreciated over seven years and has now started to provide significant added value to the business. Initially, there were some considerable efficiency savings in Information Technology, Finance and Shipping and this has been followed by operational enhancements through greater order visibility from order intake to customer shipment. This has enabled R.C. Treatt to shorten lead times to customers still further and for senior management to be able to control and improve the business through a wide range of real time key performance indicators.

Following on from the successful R.C. Treatt implementation, Treatt USA went live with the full ERP system on 1 July 2005 in order to increase the globalisation of Treatt's service to its customers. The new system has settled in well and provides Treatt USA with an excellent infrastructure which will make it easier to process the expected increase in volumes over the coming years.

As reported in the Chairman's Statement, during the year an opportunity arose to acquire the neighbouring site to Treatt USA's current premises. Consequently, the company acquired an additional 6.5 acre property most of which has an existing concrete base, together with 9,000 sq. ft. of warehousing and 2,500 sq. ft. of office space. The total consideration was $570,000 (£308,000) and now increases the Group's total manufacturing facility in the US to 76,000 sq. ft. This capital expenditure was funded from Treatt USA's own working capital.

Treatt continues to buy from and sell to almost one hundred countries around the world and, thereby, provide a truly global service to many of its multinational customers. Treatt has developed, through the ERP system, an infrastructure with the ability to comply with the many complex legislative requirements necessary for exporting and importing goods throughout the world, enabling it to provide information to customers efficiently as required.

Increasingly, legislative and regulatory pressures have placed Treatt's Quality Control laboratories at the forefront of the industry's analytical systems and techniques, and they are therefore able to provide the added value service which customers now require. However, we are concerned at the increasing legislative burdens being placed upon our industry and will continue to play our part in scrutinising forthcoming regulations and persuading governmental bodies to modify their proposals where appropriate. Treatt continues to play an active role in trade organisations throughout the industry with the Group's Managing Director currently holding the position of President of the International Federation of Essential Oils and Aroma Trades (IFEAT).

Trading

After the decreases in early 2004 we have seen the price of orange oil, an orange juice by-product, increase again over the last twelve months, from less than $1/kg to around $2.25-$2.50/kg. This increase, together with the absence of last year's losses, has had a significant impact on the financial results for the year. In addition, the four hurricanes which swept through Florida between August and October 2004 caused a great deal of damage to Florida's grapefruit crop, reducing grapefruit volumes to the lowest since 1936. Consequently, grapefruit oil prices rose sharply which has been reflected in our selling prices.

R.C. Treatt

Sales increased by 4% whilst volumes rose by 2% with sales to the top ten customers again representing just over one third of turnover. Overall, the customer base remains widely spread both in terms of size and location, thereby providing a well balanced risk profile. Gross margins for the year increased sharply due to the one-off stock gains referred to earlier. This was further supported by generally rising essential oil and raw material prices following the significant rise in petroleum prices.

Treatt USA

2005 was a year of consolidation with US Dollar sales increasing by 2% during the year, having increased by 41% the year before. Treattarome™ products continued to provide a strong engine for growth. Again margins were substantially higher due to the impact of orange oil and grapefruit oil.

Operating Review continued

Investment for the Future

R.C. Treatt

As expected, the level of capital expenditure has now returned to historically more normal levels with the focus of investment being on enhancements to our laboratory capabilities, implementing a bar coding system and maximising the efficient use of space at our Bury St. Edmunds site. The bar coding system will be fully integrated with the ERP system and will further enhance the company's operational efficiencies and customer service. Implementation on a phased basis is scheduled to commence in 2006. The Company keeps under constant review the facilities and logistical set up at its plant in England and will make appropriate investments as and when required. The Company will also continue to invest where required in order to increase capacity, improve efficiency or take advantage of market opportunities. Constant changes to legislation both in the UK and EU are also likely to result in further capital expenditure requirements.

Treatt USA

In addition to the acquisition of the new site adjacent to our existing site, Treatt USA will continue to develop and maximise the efficiency of its existing premises. The new premises will require further investment as it is developed to meet the needs of the business. Although this latest expansion reduces the likelihood of imminent development of the company's existing five acre green field adjacent to the existing plant, the Board will keep this under regular review.

Research and Development

Both Treatt USA and R.C. Treatt continue to develop and enhance their research and development activities, through the employment of skilled personnel and investment in technology. In particular, over the last year Treatt USA has expanded its R&D function in order to maximise the growth opportunities in North America. The Group also carries out a significant amount of global research into new and changing raw materials from around the world and continues to develop close partnerships with companies in producing countries in order to develop new sources of raw materials on a financially sustainable basis.

Markets

Despite an increase in turnover in Europe, this market area has generally proved to be the most difficult in which to achieve growth. This is largely due to the level of industry consolidation which has taken place over the last decade. Similarly, turnover in the UK fell by 6%, although this still remains the largest individual territory. The company also benefited from strong sales in the Far East.

Products

Turnover of orange oil based products fell by 13% largely due to comparison with the previous year when significant de-stocking was taking place. As a result, orange oil now represents approximately 17% of Group turnover.

Treatt USA's growth continues to be spread across a wide product range with significant growth in both value added citrus products and the Treattarome™ range of natural distillates.

Personnel

In order to assist us in meeting fluctuations in demand and ensure greater flexibility, we have agreed changes in our contracts of employment with operations personnel in the UK. As a result of the recent growth and development at Treatt USA the Human Resources function has been formalised and the company has undertaken a programme of management and supervisor training and role evaluations in order to create career paths within the organisation. Standard terms and conditions of employment operate for all staff, which do not discriminate against any individual or group of people.

Financial Review

"EBITDA increased by 36% and dividends up 8%"

Performance Analysis

Profit and Loss account

Group turnover increased by 2.2% during the year to £32.52 million (2004: £31.81 million). In constant currency, sales at our USA subsidiary, Treatt USA, increased in US Dollars by 2%, whilst R.C. Treatt's sales rose by 3.7%. Earnings before interest, tax, depreciation and amortisation for the year grew by 36.1% to £4.51 million (2004: £3.31 million) and Group profit before tax, before exceptional items, rose by 49.8% to £3.46 million (2004: £2.31 million).

The total dividend for the year has been increased by 8.0% to 9.5 pence per share, resulting in dividend cover of 2.5 times earnings.

The increase in profitability came from both R.C. Treatt and Treatt USA who both benefited from the increase in prices for both orange and grapefruit oil based products. This was further supported by continued strong growth in the Treattarome™ product range in the US whilst sales of aroma chemicals by R.C. Treatt held up well despite stiff international competition.

Gross margins of 32.5% were achieved this year (2004: 26.6%) largely due to the increased margins which arose on orange and grapefruit oil products. Over the year there was a very small strengthening of the US Dollar/Sterling exchange rate although there was a 13% range of $1.73 to $1.95 during the year. Assisted by the ERP system, aroma chemical margins were maintained through improved control of the purchasing and selling of thousands of chemicals.

The Group's operating costs increased by 16.6% to £7.0 million (2004: £6.0 million). This increase was expected as Treatt USA had reached a level of activity which required a stepped increase in its overhead costs in order to support the growth which had taken place and to ensure it was well placed to manage the expected growth of the next few years. As a result total staff numbers across the Group increased to 173 employees, having grown by 5.5% on the previous year. This increase in headcount was predominately a consequence of the growth at Treatt USA. (See Operating Review for further explanation).

The Group's net interest payable fell by 27% to £90,000 (2004: £123,000) having fallen by 41% the year before as a consequence of the elimination of any short term debt. This leaves an outstanding balance of £2.3 million relating to the 20 year Industrial Development Loan which was used to finance the purchase of the Lakeland facilities for Treatt USA.

Earnings per share before exceptional items increased by 48.1% to 23.7 pence per share (2004: 16.0 pence). The earnings per share after exceptional items increased by 42.8%. Both measures have been shown in order to provide a consistent measure of performance over time and excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) since they do not rank for dividend.

2005 was the second year of the Group's new programme of offering share saving schemes on an annual basis for staff in the UK and USA. This was the first year in which Treatt USA staff were able to exercise their options, whilst the UK schemes provide for three-year savings plans. As part of this programme, options were granted over a further 42,000 shares during the year. Following its establishment in 2004, the EBT acquired a further 200,000 shares during the year in order to satisfy future option schemes without causing any shareholder dilution.

Cashflow

The cash position for the year was strong with a net outflow of £0.5m in spite of an increase in stock investment of £3m and capital expenditure of £0.9m. Cash inflow from operating activities was £2.6 million (2004: £5.0 million) with the reduction being attributable to significant stock increases. This investment in stock followed the reduction in 2004 when orange oil prices fell sharply and was more in line with the levels seen in 2003.

Capital expenditure for the year increased to £0.9m (2004: £0.6m) due to the acquisition of the second site in Lakeland, Florida, details of which are provided in the Operating Review.

Balance Sheet

Over the year Group shareholders' funds have grown to £18,538,000 (2004: £17,325,000), with net assets per share increasing to £1.80 (2004: £1.68). This represents an increase of 19% over the last five years. Net current assets represent 64% of shareholders' funds and the Group's land and buildings are all held at historical cost. It should be noted, however, that net assets have been reduced by £625,000 as a result of the purchase of shares by the EBT due to the accounting requirements of UITF Abstract 38. This impact will be reversed when these shares are used to satisfy employee share saving schemes.

Financial Review continued

Group Tax Charge

The Group's current year tax charge of £1,107,000 represents an effective tax rate of 32% (2004: 29%). The overall tax charge of £1,082,000 has increased faster than the increase in profits as more of the Group's profit is being subject to USA state and federal taxes at a combined marginal rate of approximately 38%. The US tax charges have also increased disproportionately due to the expiry of certain capital tax relief in relation to the Lakeland property.

Treasury Policies

The Group operates a conservative set of treasury policies to ensure that 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 as explained below.

The nature of Treatt's activities is such that the Group could be affected by movements in certain exchange rates, principally between Sterling and the US Dollar. This risk manifests itself in a number of ways.

Firstly, the value of the foreign currency net assets of Treatt USA can fluctuate with Sterling. Currently these are not hedged, as the risks are not considered to justify 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 three currencies in addition to Sterling, with the US Dollar being by far the most significant. Even if a sale is made in Sterling, its price may be set by reference to its US Dollar denominated commodity price and therefore have an impact on the Sterling gross margin.

Raw materials are also mainly purchased in US Dollars and therefore a US Dollar bank account is operated, through which Dollar denominated sales and purchases flow. 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.

As well as affecting the cash value of sales, US Dollar exchange movements can also have a significant effect on the replacement cost of stocks, which affects future profitability and competitiveness.

The Group therefore has a policy of maintaining the majority of cash balances, including the main Group overdraft facilities, in US Dollars as this is the most cost effective means of providing a natural hedge against movements in the US Dollar/Sterling exchange rate. Currency accounts are also run for the other main currencies to which R.C. Treatt is exposed. This policy will protect the Group against the worst of any short term swings in currencies.

International Financial Reporting Standards

As a company listed on the London Stock Exchange, Treatt is required to implement International Financial Reporting Standards (IFRS) with effect from accounting periods beginning on or after 1 January 2005. Therefore the next set of full financial statements for the year ended 30 September 2006 will be the first time the Group's results will be published using IFRS. Preliminary work has been completed to assess the full impact of IFRS on the Group's balance sheet and profit and loss account, the result of which is that the Board believe that the most significant effect will flow from *IAS19: Employee Benefits* which will require the surplus or deficit in the defined benefit pension scheme operated by R.C. Treatt to be brought on to the balance sheet using similar calculations as prescribed by FRS17 (see note 21). The deficit of the scheme as at 30 September 2005 was £2.3 million (net of deferred tax).

Company Information and Advisers

Directors	Edward William Dawnay (Chairman and Non-executive Director) Hugo William Bovill (Managing Director) Anita Jane Haines (Human Resources Director) Richard Andrew Hope (Finance Director) Robin Mears (Director, retired 31 January 2005) Douglas David Appleby (Non-executive Director) William Geoffrey Bovill (Non-executive Director, retired 30 September 2005) Peter Alan Thorburn (Non-executive Director)
Secretary	Richard Andrew Hope
Registered Office	Northern Way, Bury St Edmunds, Suffolk IP32 6NL **Tel** + 44 (0) 1284 702500 **E.Mail** co.sec@treatt.com **Fax** + 44 (0) 1284 714880 **Website** http://www.treatt.com
Registration Number	1568937
Audit Committee	Edward William Dawnay (Chairman) William Geoffrey Bovill (Retired 30 September 2005) Peter Alan Thorburn Douglas David Appleby (From 1 October 2005)
Remuneration Committee	Peter Alan Thorburn (Chairman) Edward William Dawnay William Geoffrey Bovill (Retired 30 September 2005) Douglas David Appleby (From 1 October 2005)
Nomination Committee	Edward William Dawnay (Chairman from 1 October 2005) William Geoffrey Bovill (Chairman, retired 30 September 2005) Douglas David Appleby Hugo William Bovill Peter Alan Thorburn
Stockbrokers	Investec Investment Banking 2 Gresham Street, London EC2V 7QP
Auditors	Baker Tilly 87 Guildhall Street, Bury St Edmunds, Suffolk IP33 1PU
Solicitors	Macfarlanes 10 Norwich Street, London EC4A 1BD
Bankers	HSBC Bank plc 140 Leadenhall Street, London EC3V 4PS Barclays Bank plc P.O. Box 885, Mortlock House, Histon, Cambridge CB4 9DE
Registrar and Transfer Office	CAPITA REGISTRARS The Registry, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Share Price	The Company's share price is listed in the Financial Times and The Daily Telegraph and is also available on http://www.ft.com. Annual and interim reports are available on the Company's Website (http://www.treatt.com).

Five Year Trading Record

	Years ended 30 September				
	2001 £'000	2002 £'000	2003 £'000	2004 £'000	**2005 £'000**
PROFIT AND LOSS ACCOUNT					
Turnover	27,664	30,740	31,683	31,809	**32,521**
Profit before exceptional items	2,832	2,771	2,088	2,307	**3,456**
Exceptional items	–	(739)	(139)	61	**–**
Profit on ordinary activities before taxation	2,832	2,032	1,949	2,368	**3,456**
Tax on profit on ordinary activities	(875)	(554)	(545)	(669)	**(1,082)**
Profit on ordinary activities after taxation, attributable to shareholders	1,957	1,478	1,404	1,699	**2,374**
Dividends	(818)	(864)	(865)	(893)	**(937)**
Profit retained for the financial year	1,139	614	539	806	**1,437**
BALANCE SHEET					
Fixed assets	7,663	9,523	9,911	9,536	**9,374**
Current assets	16,984	16,803	16,730	15,171	**17,410**
Current liabilities	(4,791)	(6,260)	(6,420)	(4,592)	**(5,616)**
Other liabilities and provisions	(3,499)	(3,135)	(2,993)	(2,790)	**(2,630)**
Shareholders' funds	16,357	16,931	17,228	17,325	**18,538**
CASH FLOW					
Cash inflow from operating activities	3,821	968	2,263	4,952	**2,630**
Interest paid	(38)	(167)	(208)	(123)	**(90)**
Dividends paid	(782)	(820)	(860)	(861)	**(895)**
Corporation tax paid	(821)	(943)	(355)	(312)	**(812)**
Additions to fixed assets	(2,382)	(3,137)	(1,364)	(646)	**(862)**
Acquisition of own shares by Share Trust	–	–	–	(278)	**(347)**
Shares issued	36	195	4	–	**–**
Other cash flows	2	168	141	203	**(47)**
(Decrease)/increase in net cash	(164)	(3,736)	(379)	2,935	**(423)**
Net borrowings	(423)	(4,159)	(4,538)	(1,603)	**(2,026)**
RATIOS					
Gearing	2.6%	24.6%	26.3%	9.3%	**10.9%**
Earnings per share before exceptional items	19.4p	19.7p	14.6p	16.0p	**23.7p**
Dividend per share	8.1p	8.4p	8.4p	8.8p	**9.5p**
Dividend cover (times)	2.39	1.71	1.62	1.90	**2.53**
Net assets per share	161.9p	164.6p	167.4p	168.0p	**180.1p**

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 2005.

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 £3,456,000.

The Directors recommend a final dividend of 6.4p (2004: 6.1p) per ordinary share.

This, when taken with the interim dividend of 3.1p (2004: 2.7p) per share paid on 3 October 2005, gives a total dividend of 9.5p (2004: 8.8p) per share for the year ended 30 September 2005.

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 £5,692,000 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.

Directors

The Directors of the Company are shown on page 9.

In accordance with the Company's Articles of Association and as reported in the Corporate Governance Statement on page 15, in recognition of Provision A.7.1 of the Combined Code E.W. Dawnay and D.D. Appleby retire by rotation and, being eligible, offer themselves for re-election. The Nomination Committee confirms that the individuals' performance continues to be effective and to demonstrate commitment to the role, including commitment of time for Board and Committee meetings and any other duties. As previously announced R. Mears retired on 31 January 2005 and, after 57 years as a Non-executive Director, W.G. Bovill retired on 30 September 2005.

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.

E.W. Dawnay

Edward Dawnay was appointed a Non-executive Director of the Company in June 1994. He is Chairman of Dunedin Enterprise Investment Trust Plc and 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.

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 H.R. Director of the Company in October 2002.

R.A. Hope

Richard Hope was appointed Finance Director and Company Secretary of Treatt Plc in May 2003. He qualified as a Chartered Accountant in 1990 at PricewaterhouseCoopers, and was Head of Finance at Hampshire Cosmetics Limited from 1996 until 2003.

Report of the Directors continued

Directors' Interests in Shares

The Directors who held office at 30 September 2005 had the following interests in the shares of the Company:

	10p ordinary shares fully paid				Options to acquire 10p ordinary shares	
	2005	2004			**2005**	2004
Hugo William Bovill	**493,504**	493,504	(a)	**20,000**		
			(b)	**2,452**	**22,452**	21,413
Anita Jane Haines	**–**	–	(b)		**2,452**	11,413
Richard Andrew Hope	**–**	–	(b)		**2,452**	1,413
Douglas David Appleby	**128,595**	128,595			**–**	–
William Geoffrey Bovill	**72,985**	72,985			**–**	–
Edward William Dawnay	**100**	100			**–**	–
Peter Alan Thorburn	**1,000**	–			**–**	–
Joint Holdings	**1,224,533**	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 (2004: 1,099,533). W.G. Bovill had a beneficial interest in 225,000 shares (2004: 225,000) and a reversionary life interest in 250,000 shares (2004: 250,000). Additional information on the interests of H.W. Bovill and W.G. Bovill is provided below 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 Save As You Earn Schemes 2004 & 2005

There have been no changes between 1 October 2005 and 25 November 2005, 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 25 November 2005 (the latest practicable reporting date prior to publication of this document).

	Number	%
Fortress Finance Investment Inc.	1,000,000	9.72
G.R. Bovill and A.J. Bovill as Trustees of the W.G. Bovill 1985 Settlement (G.R. Bovill's Childrens' Fund)	749,534	7.28
H.W. Bovill and O.M. Bovill as Trustees of the W.G. Bovill 1985 Settlement (H.W. Bovill's Childrens' Fund)	749,533	7.28
Discretionary Unit Trust Fund Managers	526,000	5.11
G.R. Bovill	423,649	4.12
Rights and Issues Investment Trust Plc	367,500	3.57

Bovill Family Shareholdings
Based on an analysis of the shareholders' register at 30 September 2005 W.G. Bovill, H.W. Bovill and G.R. Bovill, along with their dependants were interested in 2,964,205 (2004: 2,964,205) ordinary shares representing 28.80% (2004: 28.80%) 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. The Company has granted rolling indemnities to the Directors, limited in amount, in relation to certain losses and liabilities which they may incur in the course of acting as Directors of the Company or its subsidiaries.

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 Group trade creditors' balance at the year end represents 36 days credit based on the whole year's purchases. The Holding Company had no trade creditors at the year end.

Research and Development
The Group continues to invest in research and development as, in the opinion of the Directors, this is essential for the maintenance of the Group's market share and future growth.

Going Concern
Given the comments in the Chairman's Statement and based on the plans for 2006, 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 of £6,002 (2004: £2,852) of which £3,338 were to local causes and £2,664 to national and international causes.

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 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.

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.

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 16). 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 27 February 2006 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 9 will give the Directors authority ("the Section 80 authority") to allot ordinary shares up to an aggregate nominal value of £220,700 (representing approximately 21.4 percent 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 10, 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 percent 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 26 May 2007, whichever is the earlier.

Report of the Directors continued

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 11) to purchase up to 1,029,000 issued ordinary shares, representing approximately 10 percent of the present issued ordinary share capital of the Company, at a maximum price per share, exclusive of expenses, of 5 percent 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 26 May 2007.

This report was approved by the Board
on 9 December 2005

R.A. Hope
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 2005 the Group has complied with the provisions set out in Section 1 of the Combined Code, except that two Executive Directors have service contracts which provide 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.

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

During the year the Board consisted of a Chairman, E.W. Dawnay, three Non-executive Directors and four Executive Directors, of which H.W. Bovill is the Managing Director. During the year R. Mears and W.G. Bovill retired from the Board. 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. The Board is satisfied that the Chairman's other commitments do not detract from the extent or the quality of the time which he is able to devote to the Company.

The Nomination Committee is responsible for the annual evaluation of the Board, its committees and its Directors. The Board is satisfied with the evidence it provided about the balance and the effectiveness of the Board and its committees and the effectiveness and commitment of each Director.

Biographies of the Board members appear on page 11.

The Board meets at least five 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. These include 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 principal 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, 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.

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 are considered. The recommendations of the Nomination Committee are ultimately made to the full Board which considers them before any appointment is made. The Remuneration Committee considers any remuneration package before it is offered to a potential appointee.

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.

Corporate Governance Statement continued

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 15. 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.

The members of the Board and its committees, together with their attendances are shown below.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held in year	7	2	1	8
Hugo William Bovill Managing Director	7	N/A	1	N/A
Anita Jane Haines Human Resources Director	7	N/A	N/A	N/A
Richard Andrew Hope Finance Director	7	N/A	N/A	N/A
Douglas David Appleby	7	N/A	1	N/A
William Geoffrey Bovill	6	1	1 Chairman	8
Edward William Dawnay	7 Chairman	2 Chairman	1	8
Peter Alan Thorburn	7	2	1	4* Chairman

* Although not physically present for four meetings due to his US location, Peter Thorburn participated in the minuted decisions via telephone communication. The Board is satisfied that he demonstrates total commitment to his duties both within and beyond the formal framework of Board and committee meetings.

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 but 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 UK 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.

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 ('the Act'). This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the company on 27 February 2006 at which the financial statements will be laid before members. The Act requires the auditors to report to the company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. This report has therefore been divided into separate sections for unaudited and audited information.

UNAUDITED INFORMATION

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.

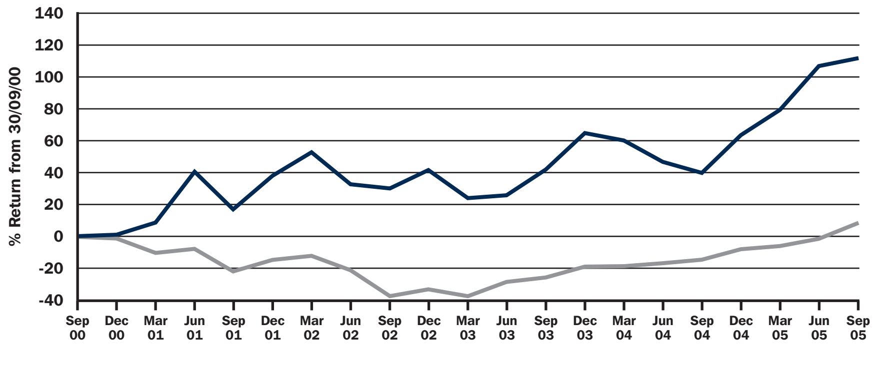
Executive Directors participate in an annual bonus scheme which is linked to the level (if any) by which profit before tax exceeds a minimum level of profit before tax. The Remuneration Committee retains the right to make discretionary adjustments to these bonuses.

• Benefits

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

Performance Graph

The following graph shows the company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Index also measured by shareholder return which has been selected by the Board as being the most appropriate measure against which to benchmark its performance.



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 percent 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 or individual money purchase personal pension plan
- benefits in payment increased at the rate of 3 percent 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 business
- the geographical spread of its business
- its growth, expansion and change profile

Service Contracts

Each Executive Director has a service contract that may continue in force until their normal retirement date or agreed retirement date if earlier. These contracts do not contain provisions for a pre-determined compensation that exceeds salary and benefits in kind for the notice period.

	Date of contract	Notice period
H.W. Bovill	10 October 1997	2 years
A.J. Haines	24 December 2002	2 years
R.A. Hope	12 May 2003	6 months

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 (who retired from the Board on 30 September 2005) 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.

AUDITED INFORMATION

Directors' Emoluments

	Salary and Fees £'000	Bonus Payments £'000	Taxable Benefits £'000	**2005 Total £'000**	2004 Total £'000
Executive Directors					
H.W. Bovill	135	64	18	**217**	149
A.J. Haines	75	25	11	**111**	79
R.A. Hope	90	20	10	**120**	102
R. Mears (Retired 31 January 2005)	32	–	8	**40**	116
Non-executive Directors					
E.W. Dawnay (Chairman)	25	–	–	**25**	22
D.D. Appleby	15	–	3	**18**	18
W.G. Bovill (Retired 30 September 2005)	15	–	5	**20**	19
P.A. Thorburn	22	–	–	**22**	20
	409	109	55	**573**	525

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. The exercise of options is not dependent upon performance criteria. 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 2004	Exercised During the Year	**At 30 September 2005**
H.W. Bovill	Between September 2007 and March 2008	160p	1,413	–	**1,413**
	Between September 2008 and March 2009	218.8p	–	–	**1,039**
	Between June 2004 and June 2008	209p	20,000	–	**20,000**
			21,413	–	**22,452**

Directors' Remuneration Report continued

Share Option Schemes (continued)	Exercise Dates	Exercise Price	At 1 October 2004	Exercised During the Year	**At 30 September 2005**
A.J. Haines	Between June 2004 and June 2011	209p	6,550	6,550	**–**
	Between June 2004 and June 2008	209p	3,450	3,450	**–**
	Between September 2007 and March 2008	160p	1,413	–	**1,413**
	Between September 2008 and March 2009	218.8p	–	–	**1,039**
			11,413	10,000	**2,452**
R.A. Hope	Between September 2007 and March 2008	160p	1,413	–	**1,413**
	Between September 2008 and March 2009	218.8p	–	–	**1,039**
			1,413	–	**2,452**
R. Mears (Retired 31 January 2005)	Between June 2004 and June 2008	209p	20,000	20,000	**–**
			20,000	20,000	**–**

The aggregate amount of gains made by the Directors on the exercise of share options in the year were £11,100 (2004: £Nil).

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 2005 was £2.76 and the range during the financial year was £1.835 to £2.85.

Directors' Pension Policy

H.W. Bovill and A.J. Haines are members of the R.C. Treatt & Co. Limited Pension & Assurance Scheme. Both 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
- life assurance cover of four times basic annual salary
- spouse's pension on death

Pensionable salary is the member's basic salary, excluding all bonuses. From 1 October 2004, pensionable salary increases each year are restricted to the lower of the actual increase or the increase in the rate of inflation as measured by the RPI.

The pension entitlement of these Directors is as follows:

	Increase in Accrued Pension During Year (Excluding Inflation)		Transfer Value in Respect of Increase (Excluding Inflation)		Accumulated Total Pension at	
	2005	2004	**2005**	2004	**2005**	2004
	£	£	**£**	£	**£**	£
H.W. Bovill	**2,415**	9,547	**13,545**	48,385	**61,454**	57,510
A.J. Haines	**1,422**	2,735	**10,858**	18,843	**24,711**	22,686

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 21.

R.A. Hope received a contribution of £7,875 (2004: £7,200) towards a money purchase personal pension plan administered by Norwich Union Plc.

This report was approved by the Board
on 9 December 2005

R.A. Hope
Secretary

Independent Auditors' Report to the Shareholders of Treatt plc

We have audited the financial statements on pages 22 to 40. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report under the headings Directors' emoluments, share option schemes and Directors' pensions ("the auditable part").

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

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the 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 and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards.

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Reviews, the Corporate Governance Statement, 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 and the auditable part of the Directors' Remuneration Report. 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the Group at 30 September 2005 and of the Group's profit for the year then ended; and
- the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985.

BAKER TILLY
Registered Auditor
Chartered Accountants
87 Guildhall Street
Bury St Edmunds IP33 1PU

9 December 2005

Group Profit and Loss Account

For the year ended 30 September 2005

	Notes	2005 £'000	2004 £'000
Turnover - continuing operations	2	**32,521**	31,809
Cost of sales		**(21,952)**	(23,354)
Gross profit		**10,569**	8,455
Distribution costs		**(2,125)**	(1,669)
Administration costs			
Exceptional items	5	**–**	(70)
Other administration expenses		**(4,898)**	(4,356)
		(4,898)	(4,426)
Operating Profit	3	**3,546**	2,360
Exceptional profit on sale of fixed assets	5	**–**	131
Profit on ordinary activities before interest		**3,546**	2,491
Interest receivable	6	**176**	75
Interest payable	6	**(266)**	(198)
Profit on ordinary activities before taxation		**3,456**	2,368
Tax on profit on ordinary activities	7	**(1,082)**	(669)
Profit on ordinary activities after taxation		**2,374**	1,699
Dividends	8	**(937)**	(893)
Retained profit for the year	17	**1,437**	806
Earnings per share			
Basic			
- after exceptional items	9	**23.7p**	16.6p
- before exceptional items	9	**23.7p**	16.0p
Diluted	9	**23.6p**	16.6p

Notes 1 - 24 form part of these financial statements

Group Statement of Total Recognised Gains and Losses

For the year ended 30 September 2005

	2005 £'000	2004 £'000
Profit for the financial year	**2,374**	1,699
Currency translation differences on foreign currency net investments	**123**	(431)
Total recognised gains and losses	**2,497**	1,268

Reconciliation of Movements in Group Shareholders' Funds

For the year ended 30 September 2005

	2005 £'000	2004 £'000
Profit for the financial year	**2,374**	1,699
Dividends	**(937)**	(893)
Acquisition of own shares by share trust	**(347)**	(278)
Currency translation differences on foreign currency net investments	**123**	(431)
Net addition to shareholders' funds	**1,213**	97
Opening shareholders' funds	**17,325**	17,228
Closing shareholders' funds	**18,538**	17,325

Notes 1 - 24 form part of these financial statements

Group Balance Sheet

As at 30 September 2005

	Notes	**2005**		2004	
		£'000	**£'000**	£'000	£'000
FIXED ASSETS					
Tangible assets	10		**9,374**		9,536
CURRENT ASSETS					
Stocks		**11,395**		8,355	
Debtors	12	**5,718**		6,007	
Cash at bank		**297**		809	
		17,410		15,171	
CREDITORS:					
Amounts falling due within one year	13	**(5,616)**		(4,592)	
Net Current Assets			**11,794**		10,579
Total assets less current liabilities			**21,168**		20,115
CREDITORS:					
Amounts falling due after more than one year	14		**(2,179)**		(2,271)
PROVISIONS FOR LIABILITIES AND CHARGES	15		**(451)**		(519)
Net Assets			**18,538**		17,325
CAPITAL AND RESERVES					
Called up share capital	16		**1,029**		1,029
Share premium account	17		**2,143**		2,143
Own shares in share trust	17		**(625)**		(278)
Profit and loss account	17		**15,991**		14,431
SHAREHOLDERS' FUNDS					
Equity interests			**18,538**		17,325

Notes 1 - 24 form part of these financial statements

Approved by the Board on 9 December 2005

E.W. Dawnay }
H.W. Bovill } Directors
R.A. Hope }

Company Balance Sheet

As at 30 September 2005

	Notes	**2005**		2004	
		£'000	**£'000**	£'000	£'000
FIXED ASSETS					
Investments	11		**4,141**		4,141
CURRENT ASSETS					
Debtors	12	**994**		1,285	
Cash at bank		**–**		14	
		994		1,299	
CREDITORS:					
Amounts falling due within one year	13	**(949)**		(907)	
Net Current Assets			**45**		392
Net Assets			**4,186**		4,533
CAPITAL AND RESERVES					
Called up share capital	16		**1,029**		1,029
Share premium account	17		**2,143**		2,143
Own shares in share trust	17		**(625)**		(278)
Profit and loss account	17		**1,639**		1,639
SHAREHOLDERS' FUNDS					
Equity interests			**4,186**		4,533

Notes 1 - 24 form part of these financial statements

Approved by the Board on 9 December 2005

E.W. Dawnay }
H.W. Bovill } Directors
R.A. Hope }

Group Cash Flow Statement

For the year ended 30 September 2005

	Notes	**2005** **£'000**	2004 £'000
Cash inflow from operating activities	18	**2,630**	4,952
Returns on investments and servicing of finance	20	**(90)**	(123)
Taxation		**(812)**	(312)
Capital expenditure and financial investment	20	**(862)**	(646)
Equity dividends paid		**(895)**	(861)
Cash (outflow)/inflow before financing		**(29)**	3,010
Financing			
- Net acquisition of own shares by Share Trust		**(347)**	(278)
- Decrease in debt	19	**(144)**	(142)
(Decrease)/increase in cash in the year	19	**(520)**	2,590

Reconciliation of net cash flow to (increase)/decrease in debt (see Note 19)

(Decrease)/increase in cash in the year	**(520)**	2,590
Cash outflow from change in net debt	**144**	142
(Increase)/decrease in net debt resulting from cash flows	**(376)**	2,732
Exchange difference	**(47)**	203
(Increase)/decrease in net debt in the year	**(423)**	2,935
Net debt at 1 October 2004	**(1,603)**	(4,538)
Net debt at 30 September 2005	**(2,026)**	(1,603)

Notes 1 - 24 form part of these financial statements

Notes to the Financial Statements

For the year ended 30 September 2005

1. ACCOUNTING POLICIES

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

In preparing these financial statements the Group has taken advantage of the transitional arrangements available under Financial Reporting Standard 17 'Retirement Benefits'.

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 £949,000 (2004: £893,000) 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.

Where a company has been accounted for using the principles of acquisition accounting, fair values are attributed to the Group's share of the net assets acquired. Where the cost of acquisition exceeds the values attributable to such net assets the difference is recognised as goodwill.

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 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 and long leasehold land and buildings in the UK, 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
• Manufacturing system	7 years
• Laboratory equipment	5 years
• Motor vehicles	5 years
• Fixtures and fittings	10 years
• Plant and machinery	10 years
• Buildings (in the USA)	50 years

Impairment of fixed assets
It is the Group's practice to maintain freehold and long leasehold buildings in a continual state of sound repair. Accordingly, the Directors consider that the lives of these assets and their residual values, based on prices prevailing at the time of their acquisition, are such that depreciation would not be material on the UK buildings. Provision will be made should any impairment in the value of these properties occur.

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

Notes to the Financial Statements continued

For the year ended 30 September 2005

1. ACCOUNTING POLICIES (continued)

Stocks
Stocks, which primarily 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 UK 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.

Research and development costs
Research and development expenditure is charged to the profit and loss account as incurred.

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

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

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

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 $1.77 (2004: $1.81) 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 at an average rate are taken to reserves. All other exchange differences are taken to the profit and loss account.

Share options
Shares held by the Employee Benefit Trust for the purpose of fulfilling obligations in respect of various employee share plans are deducted from the equity in the consolidated balance sheet in accordance with UITF Abstract 38.

2. SEGMENTAL INFORMATION

Geographical Segments	**2005**	2004
	£'000	£'000
Turnover by destination		
United Kingdom	**6,314**	6,725
Rest of Europe	**9,331**	8,674
The Americas	**8,816**	8,756
Rest of the World	**8,060**	7,654
	32,521	31,809

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 interests 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.

3. OPERATING PROFIT is stated after charging/(crediting):

	2005	2004
	£'000	£'000
Depreciation	**963**	821
Loss/(profit) on disposal of tangible fixed assets	**135**	(3)
Research and development costs	**186**	181
Operating lease rentals		
- motor vehicles	**56**	53
Auditors' remuneration		
- audit fees	**37**	31
- tax fees	**8**	16
- other services – U.K.	**3**	11
- other services – overseas	**9**	13
Net exchange loss/(gain) on trading activities	**42**	(99)
Rent receivable	**(43)**	(65)

4. EMPLOYEES

(1) Number of employees
During the year the average number of staff employed by the Group, including Directors, was as follows:

	2005	2004
	Number	Number
Technical and production	**81**	81
Administration and sales	**92**	83
	173	164

(2) Employment costs
The followings costs were incurred in respect of the above:

	£'000	£'000
Wages and salaries	**4,970**	4,581
Social security costs	**593**	413
Other pension costs	**597**	576
	6,160	5,570

Notes to the Financial Statements continued

For the year ended 30 September 2005

4. EMPLOYEES (continued)

(3) Directors
In respect of the Directors of Treatt Plc:

	£'000	£'000
Emoluments	**574**	525
Money purchase pension contributions	**8**	7
	582	532

	Number	Number
The number of Directors to whom retirement benefits are accruing under:		
money purchase schemes	**1**	1
defined benefit schemes	**2**	3

Directors emoluments include the following:

	Highest Paid Director	
	£'000	£'000
Emoluments	**217**	153
Accrued pension	**61**	58

The aggregate amount of gains made by the Directors on the exercise of share options in the year were £11,100 (2004: £Nil).

5. EXCEPTIONAL ITEMS

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

	2005	2004
	£'000	£'000
Reorganisation costs	**–**	70
Profit on the sale of fixed assets	**–**	(131)

6. INTEREST		**2005**	2004
		£'000	£'000
(1) Interest receivable	- bank	**176**	75
(2) Interest payable	- bank overdrafts	**(158)**	(85)
	- loan	**(108)**	(113)
		(266)	(198)

7. TAXATION

	2005 £'000	2004 £'000
(a) Analysis of tax charge for the year		
Current year taxation		
UK Corporation tax	**784**	395
Overseas tax	**375**	109
	1,159	504
Deferred taxation	**(52)**	176
	1,107	680
Prior years		
UK Corporation tax	**(8)**	(10)
Overseas tax	**(1)**	18
Deferred tax	**(16)**	(19)
Tax on profit on ordinary activities	**1,082**	669

(b) Factors affecting tax charge for the year

The tax assessed for the year is different from that calculated at 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% (2004: 30%)	**1,047**	710
Effects of:		
Expenses not deductible for tax purposes	**(4)**	(3)
Differences between capital allowances and depreciation for year	**49**	(148)
Allowable expenses charged to reserves	**–**	(70)
Sundry timing differences	**(8)**	(5)
Difference in tax rates on overseas earnings	**75**	20
Current tax charge for the year	**1,159**	504

8. DIVIDENDS

	2005 £'000	2004 £'000
Interim declared of 3.1p per share (2004: 2.7p per share)	**310**	278
Final proposed of 6.4p per share (2004: 6.1p per share)	**639**	615
Over accrual from previous year	**(12)**	–
	937	893

9. 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 10,024,533 (2004: 10,248,749) and earnings of:

- £2,374,000 (2004: £1,699,000), being the profit on ordinary activities after taxation and exceptional items.

- £2,374,000 (2004: £1,643,000) being the profit on ordinary activities, after taxation excluding the net impact of exceptional items (2004: £61,000) and tax thereon (2004: £5,000).

The weighted average number of shares excludes shares held by the Treatt Employee Benefit Trust.

(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 10,050,258 (2004: 10,259,601); and the same earnings as above.

Notes to the Financial Statements continued

For the year ended 30 September 2005

10. TANGIBLE FIXED ASSETS

	Land and Buildings £'000	Plant and Equipment £'000	**Total £'000**
Cost			
1 October 2004	5,501	8,476	13,977
Exchange adjustment	60	45	105
Additions	327	535	862
Disposals	(22)	(444)	(466)
30 September 2005	**5,866**	**8,612**	**14,478**
Depreciation			
1 October 2004	120	4,321	4,441
Exchange adjustment	5	26	31
Charge for the year	57	906	963
Disposals	(8)	(323)	(331)
30 September 2005	**174**	**4,930**	**5,104**
Net book value			
30 September 2005	**5,692**	**3,682**	**9,374**
30 September 2004	5,381	4,155	9,536

Analysis of land and buildings

	2005 £'000	2004 £'000
Net book value		
Freehold	**4,957**	4,646
Long leasehold	**735**	735
	5,692	5,381

Capital commitments

	2005 £'000	2004 £'000
Contracted but not provided for	**2**	4

11. FIXED ASSET INVESTMENTS

	2005 £'000	2004 £'000
Company		
Subsidiary undertakings:		
R.C. Treatt & Co. Limited - at cost 50,000 ordinary shares of £1 each, fully paid	**2,299**	2,299
Treatt USA Inc. - at cost 2,975,000 common stock of US$1 each fully paid	**1,842**	1,842
	4,141	4,141

Subsidiary	Country	Holding	Principal activity
R.C. Treatt & Co. Limited	England	100%	Supply of flavour and fragrance ingredients
Treatt USA Inc.	USA	100%	Supply of flavour and fragrance ingredients

12. DEBTORS

	Group		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Trade debtors	**5,284**	5,470	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**994**	1,285
Other debtors	**99**	270	**–**	–
Prepayments	**335**	267	**–**	–
	5,718	6,007	**994**	1,285

Included within prepayments is £37,841 (2004: £39,594) representing contributions paid in advance to R.C. Treatt & Co. Limited's defined benefit pension scheme.

13. CREDITORS: amounts falling due within one year

	Group		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Loan	**144**	141	**–**	–
Trade creditors	**2,172**	2,221	**–**	–
Corporation tax	**589**	251	**–**	–
Other taxes and social security costs	**105**	97	**–**	–
Accruals	**1,657**	975	**–**	–
Proposed dividends	**949**	907	**949**	907
	5,616	4,592	**949**	907

14. CREDITORS: amounts falling due after more than one year

	Group	
	2005	2004
	£'000	£'000
Loan	**2,179**	2,271

Loan
The Industrial Development Loan is repayable by fixed quarterly instalments over 20 years ending on 1 July 2021. The rate of interest payable has been fixed at 4.05% for ten years ending on 1 January 2012.

The loan is repayable as follows:

	2005	2004
	£'000	£'000
- in one year or less	**144**	141
- in more than one year but not more than two years	**144**	141
- in more than two years but not more than five years	**432**	423
- in more than five years	**1,603**	1,707
	2,323	2,412

Notes to the Financial Statements continued

For the year ended 30 September 2005

15. DEFERRED TAX

Group	2005 £'000	2004 £'000
At 1 October 2004	**519**	362
Transfer (to)/from profit and loss account	**(68)**	—
Balance at 30 September 2005	**451**	519
Accelerated capital allowances	**518**	582
Other timing differences	**(67)**	(63)
	451	519

16. SHARE CAPITAL

Company and Group	2005 Number	2004 Number
Authorised		
Ordinary shares of 10p each	**12,500,000**	12,500,000
	£'000	£'000
Called up, allotted and fully paid		
10,292,089 (2004: 10,292,089) ordinary shares of 10p each	**1,029**	1,029

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
R.C. Treatt Employee Save As You Earn Share Scheme 2004	55,811	160p	Between September 2007 and March 2008
R.C. Treatt Employee Save As You Earn Share Scheme 2005*	35,317	218.8p	Between September 2008 and March 2009
Treatt Executive Share Option Scheme No I	46,329	209p	Between June 2004 and June 2011
Treatt Executive Share Option Scheme No II	34,671	209p	Between June 2004 and June 2008
Treatt USA Employee Stock Purchase Plan 2005*	6,753	231p	July 2006

* Granted during the year.

During the year the following share options were:

Exercised:
Treatt Executive Share Option Scheme No I – 16,500
Treatt Executive Share Option Scheme No II – 23,450
Treatt USA Employee Stock Purchase Plan 2004 – 7,642

Lapsed:
R.C. Treatt Employee Save As You Earn Share Scheme 2004 – 1,059
Treatt USA Employee Stock Purchase Plan 2005 – 166

16. SHARE CAPITAL (continued)

Employee Benefit Trust

The shares held in the Treatt Employee Benefit Trust ('the Trust') are all held to meet options to be exercised by employees. The number of shares held by the Trust together with the net acquisition cost are shown in note 17. Dividends on these shares have been waived except for 0.001p per share.

The market value of the shares held by the Trust at 30 September 2005 was £829,000 (2004: £278,000).

17. RESERVES

	Own Shares in Share Trust		Share premium	Profit and loss account
	No ('000s)	£'000*	£'000	£'000
Group				
1 October 2004	148	(278)	2,143	14,431
Exchange differences	–	–	–	123
Retained profit for the year	–	–	–	1,437
Shares acquired in the year	200	(444)	–	–
Shares disposed of in the year	(48)	97	–	–
30 September 2005	**300**	**(625)**	**2,143**	**15,991**
Company				
1 October 2004	148	(278)	2,143	1,639
Shares acquired in the year	200	(444)	–	–
Shares disposed of in the year	(48)	97	–	–
30 September 2005	**300**	**(625)**	**2,143**	**1,639**

* Under UITF Abstract 38, shares held by an Employee Benefit Trust are shown as a reduction in reserves.

18. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2005	2004
	£'000	£'000
Operating profit	**3,546**	2,360
Depreciation charge	**963**	821
Loss/(profit) on disposals	**135**	(3)
(Increase)/decrease in stocks	**(3,040)**	2,632
Decrease/(increase) in debtors	**288**	(568)
Increase in creditors	**642**	10
Currency translation differences on foreign currency net investments	**96**	(300)
Net cash inflow from operating activities	**2,630**	4,952

19. ANALYSIS OF DEBT

	2004	Cash Flow	Exchange Difference	**2005**
	£'000	£'000	£'000	**£'000**
Cash at bank	809	(520)	8	**297**
Debt due within 1 year	(141)	–	(3)	**(144)**
Debt due after more than 1 year	(2,271)	144	(52)	**(2,179)**
Total debt	(1,603)	**(376)**	**(47)**	**(2,026)**

Notes to the Financial Statements continued

For the year ended 30 September 2005

20. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2005 £'000	2004 £'000
Returns on investments and servicing of finance		
Interest received	**176**	75
Interest paid	**(266)**	(198)
Net cash outflow for returns on investments and servicing of finance	**(90)**	(123)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(862)**	(925)
Sale of tangible fixed assets	**–**	279
Net cash outflow for capital expenditure and financial investment	**(862)**	(646)

21. 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 are now eligible to join a Stakeholder defined contribution scheme.

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

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

	2005 £	2004 £
Defined benefit scheme	**464**	437
Defined contribution schemes	**106**	139
	570	576

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in section (1) are those required by that standard. FRS 17, Retirement Benefits, was issued in November 2000 but 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 (1), are set out in section (2).

(1) SSAP 24 Retirement Benefits
The latest valuation of the scheme was made at 1 January 2003 by Mr N.P. Hacking, Fellow of the Institute 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	
Pre-retirement	8.0%
Post-retirement	5.0%
Future increases in salaries	2.5%
Rate of dividend growth implied by asset valuation method	4.5%
Market value of assets	£5,046,000
Level of funding (actuarial value of assets as a percentage of accrued service liabilities)	72%

The Company's contribution rate has been re-expressed as 15% of total Pensionable Earnings plus £150,000 per year increasing in line with price inflation, to take effect from 1 January each year.

21. PENSION SCHEME (continued)

(2) FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 1 January 2003 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 2005. 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		
	2005	**2004**	**2003**	**2002**	**2001**
Discount rate	5.2%	5.7%	5.5%	6.0%	6.0%
Inflation rate	2.65%	2.75%	2.4%	2.5%	2.5%
Increase to deferred benefits during deferment	2.65%	2.75%	2.4%	2.5%	2.5%
Increases to pensions in payment	2.65%	2.75%	2.4%	2.5%	2.5%
Salary increases	2.65%	2.75%	2.4%	4.0%	4.0%

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

	Expected long term return	Value at 2005	Expected long term return	Value at 2004	Expected long term return	Value at 2003	Expected long term return	Value at 2002	Expected long term return	Value at at 2001
		£'000		**£'000**		**£'000**		**£'000**		**£'000**
Equities	8.0%	6,178	8.0%	4,971	9.0%	4,390	10.0%	3,515	8.5%	4,323
Bonds	5.2%	1,346	5.7%	1,243	5.5%	1,061	5.5%	1,081	6.0%	685
Other	5.2%	457	5.7%	311	5.5%	275	5.5%	265	6.0%	403
Total market value of assets		7,981		6,525		5,726		4,861		5,411
Present value of scheme liabilities		(11,220)		(9,469)		(8,725)		(9,108)		(6,867)
Deficit in the scheme		(3,239)		(2,944)		(2,999)		(4,247)		(1,456)
Related deferred tax		972		883		900		1,274		437
Pension liability		(2,267)		(2,061)		(2,099)		(2,973)		(1,019)
Group net assets										
Net assets excluding pension liability		18,538		17,325		17,228		16,931		16,357
Pension liability		(2,267)		(2,061)		(2,099)		(2,973)		(1,019)
Net assets including pension liability		16,271		15,264		15,129		13,958		15,338
Group reserves										
Profit and loss reserve excluding pension liability		15,991		14,431		14,056		13,763		13,384
Pension liability		(2,267)		(2,061)		(2,099)		(2,973)		(1,019)
Profit and loss reserve including pension liability		13,724		12,370		11,957		10,790		12,365

Notes to the Financial Statements continued

For the year ended 30 September 2005

21. PENSION SCHEME (continued)

If FRS 17 had been fully effective on 30 September 2005 then the following would have been:

	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Amount credited/(charged) to operating profit				
Current Service Cost (excluding employee contributions)	**(443)**	(423)	(567)	(573)
Past Service Cost	**–**	(56)	–	(10)
Settlement and Curtailments	**–**	–	1,578	–
Total operating (charge)/income	**(443)**	(479)	1,011	(583)
Amount (charged)/credited to other finance income				
Expected return on assets	**486**	474	456	442
Interest on scheme liabilities	**(539)**	(484)	(567)	(423)
Net (charge)/income	**(53)**	(10)	(111)	19
Amount recognised in statement of total recognised gains and losses				
Actual less expected return on assets	**964**	202	236	(1,212)
Experience (losses)/gains on liabilities	**(138)**	(18)	(318)	152
Effect of change in assumptions on liabilities	**(1,083)**	(77)	–	(1,615)
Total (loss)/gain recognised in statement of total recognised gains and losses	**(257)**	107	(82)	(2,675)
Movement in deficit during the year				
Deficit in scheme at start of year	**(2,944)**	(2,999)	(4,247)	(1,456)
Current service cost (excluding employee contributions)	**(443)**	(423)	(567)	(573)
Cash contribution (excluding employee contributions)	**458**	437	430	448
Past service costs	**–**	(56)	–	(10)
Settlements and curtailments	**–**	–	1,578	–
Other finance (charge)/income	**(53)**	(10)	(111)	19
Actuarial (loss)/gain	**(257)**	107	(82)	(2,675)
Deficit in scheme at end of year	**(3,239)**	(2,944)	(2,999)	(4,247)
History of experience gains and losses				
Difference between expected and actual returns on scheme assets:				
Amount	**964**	202	236	(1,212)
% of assets at end of year	**12%**	3%	4%	-25%
Experience (losses)/gains on scheme liabilities:				
Amount	**(138)**	(18)	(318)	152
% of liabilities at end of year	**-1%**	-0%	-4%	2%
Total actuarial (loss)/gain:				
Amount	**(257)**	107	(82)	(2,675)
% of liabilities at end of year	**-2%**	1%	-1%	-29%

22. COMMITMENTS UNDER OPERATING LEASES

As at 30 September 2005, the Group had annual commitments under non-cancellable operating leases for plant and equipment as set out below:

	2005 £'000	2004 £'000
Operating leases which expire:		
Within one year	**19**	46
In two to five years	**20**	38
	39	84

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$4,110,000 (£2,323,215) (2004: US$4,365,000 (£2,412,135)).

(2) The Company has secured certain bank borrowings of its UK subsidiary undertaking, R.C. Treatt & Co. Limited. At the year end the liabilities covered by this guarantee amounted to £4,211,940 (2004: £1,107,250).

24. FINANCIAL INSTRUMENTS

(1) Maturity profile of financial liabilities
Details of the maturity profile of the US Dollar Industrial Development Loan are disclosed in note 14.

(2) Interest rate profile

Financial Assets	**Floating rate financial assets**	
	2005 £'000	2004 £'000
US Dollars	**–**	345
Sterling	**4,602**	4,008
Other currencies	**272**	205
	4,874	4,558

Interest on floating rate bank deposits is based on the inter bank rate.

Financial Liabilities	**Floating rate financial liabilities**		**Fixed rate financial liabilities**		**Total**	Total
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
US Dollars	**4,583**	3,890	**2,323**	2,412	**6,906**	6,302

Fixed rate financial liabilities comprise the Industrial Development Loan of US$4,110,000 (see note 14) (2004: $4,365,000).

Interest on bank overdrafts is charged at between 1% and 1.5% above bank base rates.

Notes to the Financial Statements continued

For the year ended 30 September 2005

24. FINANCIAL INSTRUMENTS (continued)

(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.

(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 unrecognised or deferred gains or losses on forward foreign currency trading contracts.

(5) Currency exposure
The Group's currency exposure, i.e. those exposures arising from transactions where the net currency gains and losses will be recognised in the profit and loss account, is as follows:

Net foreign currency monetary assets

	US Dollar £'000	Other £'000	Total £'000
At 30 September 2005	(3,780)	615	(3,165)
At 30 September 2004	(1,964)	313	(1,651)

(6) Borrowing facilities
At 30 September 2005, the Group had undrawn, committed borrowing facilities of £4.070m (2004: £4.560m) expiring in 2006. Total facilities of £8.327m (2004: £7.710m) expire in one year or less.

Notice of Annual General Meeting

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 27 February 2006, at 11.30 am for the transaction of the following business:

Ordinary Business

1. To receive and adopt the accounts for the year ended 30 September 2005, together with the Report of the Directors, and the Independent Auditor's Report on those accounts and the auditable part of the Directors' Remuneration Report.

2. To approve the Directors' Remuneration Report.

3. To declare a final dividend of 6.4p per share on the ordinary shares of the Company for the year ended 30 September 2005.

4. To re-elect E.W. Dawnay as a Director of the Company.

5. To re-elect D.D. Appleby as a Director of the Company.

6. To re-appoint Baker Tilly as Auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting.

7. To authorise the Directors to determine the remuneration of the Auditors of the Company.

8. Any other business.

Special Business

To consider and, if thought fit, to pass the following resolutions, of which Resolution 9 will be proposed as an Ordinary Resolution and Resolutions 10 and 11 will be proposed as Special Resolutions.

9. 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 26 May 2007; and

   (ii) this authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount of £220,700 (representing approximately 21.4 percent 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.

10. THAT:

(a) Conditionally upon the passing of Resolution 9 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 9 above as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that:

   (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

Notice of Annual General Meeting continued

(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 percent 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 26 May 2007;

(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.

11. 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:

(a) the maximum number of ordinary shares authorised to be purchased is 1,029,000 (representing approximately 10 percent of the present issued share capital of the Company);

(b) the minimum price (excluding stamp duty, dealing or other costs) which may be paid for an ordinary share so purchased is 10p;

(c) the maximum price which may be paid for an ordinary share so purchased is an amount equal to 5 percent 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;

(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2007, unless such authority is renewed, varied or revoked prior to such time; and

(e) 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

R.A. Hope
Secretary

21 December 2005

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 25 February 2006 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 25 February 2006. Changes to entries in the Register of Members after 11.30 am on 25 February 2006 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.

Nutmeg Production
in Grenada, Sri Lanka and Indonesia

Treatt sources its raw materials from all corners of the world. Regular visits are made to suppliers, to review facilities, production methods and to ensure continuity of supply as well as ensuring rules governing international labour regulations are observed.

Treatt visited the key nutmeg growing regions of western Indonesia, Sri Lanka and Grenada just months before the Tsunami of December 2004 and subsequently made charitable donations directly and also through trade organisations in support of the relief efforts. All of these origins were badly affected by natural disasters in the same calendar year with Grenada being badly damaged by hurricane Ivan.

As experienced stockists of an extensive range of flavour and fragrance ingredients Treatt are able to mitigate the effect of natural disasters on raw material supplies in order to support our global customer base.

TREATT
PLC

Northern Way,
Bury St Edmunds,
Suffolk, IP32 6NL UK
Tel: 01284 702500
Fax: 01284 703809/752888

www.treatt.com