Houghton plc

Annual report and accounts

For the year ended 31 December 2003

Registered Number 63827

Houghton plc

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for the year ended 31 December 2003

Contents

Houghton plc

Directors and Advisors for the year ended 31 December 2003

Directors
P T G Miller (Chairman and Managing Director)
W F MacDonald Jnr (USA)
T L Williams
M A Bishop

Company secretary
H Blackwell

Auditors
PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

Registered office
Beacon Road
Trafford Park
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M17 1AF

Houghton plc

Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2003.

Principal activities
The principal activities of the Group during the year were the manufacture and marketing of a wide range of industrial chemicals and lubricants, metal working products, hydraulic fluids and cleaners. The Group also supports customers in managing the use of these products by means of individually structured contracts, including undertaking lubrication engineering and the supply of lubrication equipment.

Review of business and future developments
The Board is pleased to report a significant improvement in trading in 2003.

Despite the continuing contraction of our traditional markets we have grown our business significantly both in sales revenues and associated profitability.

Much of this growth has been generated through the Group's Fluidcare operation leading to an increase in sales of more than 8% over the previous year. Pre-tax profits for the year were £983,000 compared to a loss of £148,000 in 2002.

All our direct subsidiaries are now contributing to the Group's overall profitability including the Swedish operation which although it recorded a small loss for the full year was actually trading profitably at the year end and continues to do so.

The operational review carried out by the Group in 2002 has borne fruit as anticipated with costs under control and the project has moreover evolved into a continuous process of review and improvement.

On the 12 March, 2004 the Group concluded a refinancing agreement comprising a syndicated term loan and revolving facility with a banking group led by the Royal Bank of Scotland. This covers Houghton International Inc.'s UK and European operations and at the same time a similar syndicated facility led by Citizens Bank was concluded in the USA completing the process of refinancing the Group's global debt.

With this new facility in place and our return to profitability we can look forward to the future with confidence.

Results and dividends
The directors do not propose a dividend for the year. The profit for the year, after tax, is £797,000 (2002: loss £207,000) which will be transferred to reserves.

Directors and their interests
The directors who held office at the end of the year and for all of the year are given below:

P T G Miller	(Chairman and Managing Director)
W F MacDonald Jnr	(USA)
T L Williams	
M A Bishop	

Directors and their interests (continued)

The interests of the directors in the shares of the company are as follows:

	Ordinary shares of £1 each	
	2003	2002
	Number	Number
W F MacDonald Jnr (as Nominee for Houghton Europe NV)	**300**	300

No other director had any interest in the share capital of the company.

The directors have no personal interest in any contract or arrangement entered into by the company.

Charitable and political contributions
The Group has made donations during the year for charitable purposes in the UK totalling £2,293 (2002: £1,298). No donations for political purposes were made during the year.

Disabled employees
The Group operates a policy of giving disabled people full and fair consideration for all job vacancies for which they present themselves as suitable applicants having due regard for their particular aptitudes and abilities. Whenever feasible the Group endeavours to retain any member of staff who develops a disability during his employment.

Training and career development opportunities are made available to all employees.

Employee participation
A policy is maintained for providing information to employees aimed at achieving a common awareness of the financial and economic factors affecting the Group and its operations and is accomplished through regular informal meetings. Employee involvement is actively encouraged at all levels.

Policy and practice on payment of creditors
It is the company's policy to agree terms and conditions for its business transactions with its suppliers. The company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions.

Trade creditor days of the company at 31 December 2003 were 39 days (2002: 44 days), calculated in accordance with the requirements set down in the Companies Act 1985. This represents the ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the year and the amounts due, at the end of the year, to trade creditors within one year.

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003, that applicable accounting standards have been followed and that it is appropriate to prepare the accounts on a going concern basis.

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

Auditors
A resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the Board

H Blackwell

H Blackwell
Secretary
22 July 2004

Houghton plc

Independent auditors' report to the members of Houghton plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the statement of total recognised gains and losses, statement of accounting policies, and the related notes.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including our opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

Houghton plc

Consolidated profit and loss account for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Turnover	1	**27,331**	25,174
Cost of sales		**(18,045)**	(16,955)
Gross profit		**9,286**	8,219
Distribution costs (including selling and technology costs)		**(5,096)**	(5,411)
Administrative expenses		**(3,047)**	(2,673)
Operating profit	4	**1,143**	135
Profit on disposal of property		**22**	-
Profit on ordinary activities before interest		**1,165**	135
Net interest payable	5	**(182)**	(283)
Profit/(loss) on ordinary activities before taxation		**983**	(148)
Tax on profit/(loss) on ordinary activities	6	**(186)**	(59)
Profit/(loss) for the year	17	**797**	(207)

The results for 2003 are wholly for continuing operations.

There is no material difference between the profit for the year (loss for the prior year) and the historical cost equivalent.

The accounting polices and notes on pages 9 to 26 form an integral part of these accounts.

Houghton plc

Balance sheets as at 31 December 2003

		Group		Company	
	Note	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000
Fixed assets					
Intangible assets	7	**3**	12	-	-
Tangible assets	8	**6,646**	6,897	**6,346**	6,497
Investments:					
Subsidiaries	9	-	-	**331**	331
Other	10	**6**	6	**6**	6
		6,655	6,915	**6,683**	6,834
Current assets					
Stocks and work in progress	11	**3,138**	2,770	**2,839**	2,464
Debtors	12	**6,100**	5,929	**5,497**	5,392
Bank and cash balances		**397**	143	**4**	8
		9,635	8,842	**8,340**	7,864
Creditors: amounts falling due within one year	13	**(7,078)**	(6,741)	**(7,104)**	(6,574)
Net current assets		**2,557**	2,101	**1,236**	1,290
Total assets less current liabilities		**9,212**	9,016	**7,919**	8,124
Creditors: amounts falling due after more than one year	14	**(942)**	(1,599)	**(645)**	(1,340)
Provisions for liabilities and charges	15	**(973)**	(993)	**(991)**	(1,014)
		7,297	6,424	**6,283**	5,770
Capital and reserves					
Called up share capital	16	**1,850**	1,850	**1,850**	1,850
Profit and loss account	17	**5,447**	4,574	**4,433**	3,920
Equity shareholders' funds	18	**7,297**	6,424	**6,283**	5,770

The financial statements on pages 6 to 26 were approved by the Board of directors on 22 July 2004 and were signed on its behalf by:

M A Bishop
Director

Houghton plc

Statement of total recognised gains and losses

	2003 **£'000**	2002 £'000
Profit/(loss) for the financial year	**797**	(207)
Currency translation differences	**76**	12
Total profits/(losses) recognised since last annual report	**873**	(195)

Accounting policies

The financial statements are prepared in accordance with the Companies Act 1985, applicable accounting standards, and under the historical cost convention.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and each of its subsidiaries for the year ended 31 December 2003. As permitted by s230 of the Companies Act 1985, the parent company's profit and loss account is not included in these financial statements.

Basis of preparation
On the 12 March 2004, Houghton Europe NV, the company's immediate parent company, concluded a refinancing agreement comprising a syndicated term loan and revolving facility with a banking group led by the Royal Bank of Scotland. This covers Houghton International Inc.'s (HII) UK and European operations and at the same time a similar syndicated facility led by Citizens Bank was concluded in the USA completing the process of refinancing Houghton International Inc.'s global debt.

As a result of the refinancing agreement the shares of the company and its subsidiaries have been pledged as security to the lenders, however, the directors have no reason to believe that the terms of these new loan agreements will be breached by the Houghton Europe NV sub-group and for these reasons, the directors consider it appropriate to prepare these accounts on the going concern basis.

Intangible fixed assets
Intangible assets comprise a payment made by Houghton Norge AS to a third party on 1 May 1999 in order to trade with their customer base. The related asset is being amortised over a period of five years.

Tangible fixed assets
Freehold land is not depreciated. The cost of other fixed assets is written off over their expected useful lives as follows:

Freehold buildings	2% on cost or valuation
Plant, machinery, fixtures and fittings	15% on written down value
Motor vehicles	25% on cost
Computer equipment	20% on cost
Fluid management contract plant	over the life of the contract

Investments
Investments held as fixed assets are stated at cost less provision for any impairment. Current account balances due to and from subsidiaries are now included within current debtors and creditors.

Stocks
Stocks are valued at the lower of cost or net realisable value on a first in first out basis after making due allowance for any obsolete or slow moving items. Cost comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads.

Deferred taxation
Provision is made for deferred tax assets and liabilities, using the liability method, on all material timing differences. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax balances are not discounted.

Foreign currency
Transactions in foreign currencies are translated into sterling at the rates of exchange prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities in the balance sheet are translated into sterling at the rates of exchange ruling at the end of the year. Resulting exchange gains and losses are taken to the profit and loss account.

Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies and from the translation of the results of those companies are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise, and are included within operating profit.

Leases
Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Pension costs
The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current expected future pensionable payroll.

Cash flow statement
The company is a wholly owned subsidiary of Houghton International Inc. and is included in the consolidated financial statements of Houghton International Inc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

Related party transactions
In accordance with the exemption allowed by paragraph 3(c) of FRS8, no disclosure is made of transactions with other member companies of the Houghton International Inc. group and other related parties of the group.

Notes to the financial statements for the year ended 31 December 2003

1 Turnover

Turnover comprises the invoice value of goods and services supplied exclusive of value added tax and may be analysed as follows:

Geographical analysis of turnover by destination	2003 £'000	2002 £'000
United Kingdom	21,685	20,139
Europe	4,898	4,623
Rest of the World	748	412
	27,331	25,174

2 Directors information

	2003 £'000	2002 £'000
Emoluments (excluding pension contributions)	358	308
Company contributions to money purchase arrangements	34	30

	Number	Number
Number of directors who are members of a defined benefit pension scheme	3	3
Number of directors who receive contributions to money purchase arrangements	3	3

	£'000	£'000
Highest paid directors' emoluments:		
Aggregate of emoluments (excluding pension contributions)	147	129
Company contributions to money purchase arrangements	15	13

The amount of accrued pension of the highest paid director at 31 December 2003 is £50,983 (2002: £40,640).

3 Staff information

	2003 Number	2002 Number
Production and other direct labour	**176**	182
Selling, distribution and technology	**97**	122
Administration	**38**	31
	311	335

	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	**7,374**	7,584
Social security costs	**685**	653
Pension costs (note 20)	**391**	410
	8,450	8,647

4 Operating profit

	2003 £'000	2002 £'000
Operating profit is after (crediting)/charging:		
Depreciation and amortisation:		
Amortisation of intangible assets	**9**	8
Owned assets	**467**	541
Leased assets	**19**	22
Rentals under operating leases:		
Hire of plant and machinery	**457**	466
Hire of other	**70**	68
Profit on disposal of tangible assets	**(2)**	(32)
Charge for bad and doubtful debts	**54**	115
Auditors' remuneration for:		
Audit services	**79**	64
Non-audit services	**41**	9
Exceptional costs:		
Relocation and redundancy costs	**84**	175
Site closure costs and impairment of fixed assets	**-**	7
Profit on disposal of property	**(22)**	-

5 Net interest payable

	2003 £'000	2002 £'000
Interest payable:		
Bank loans and overdrafts	**117**	154
Group loans	**69**	131
	186	285
Interest receivable	**(4)**	(2)
	182	283

6 Tax on ordinary activities

Analysis of charge for year	2003 £'000	2002 £'000
Current tax		
UK corporation tax on profits for the year	-	-
Adjustments in respect of prior periods	**(76)**	(48)
	(76)	(48)
Foreign Tax		
Corporation taxes	**75**	46
Adjustments in respect of prior periods	**(3)**	6
Total current tax	**(4)**	4
Deferred taxation		
Origination and reversal of timing differences (note 15) – current year	**250**	(39)
Origination and reversal of timing differences (note 15) – prior year	**(60)**	94
Total deferred tax	**190**	55
Representing:		
United Kingdom	**187**	76
Foreign tax	**3**	(21)
Total deferred tax	**190**	55
Tax on profit/(loss) on ordinary activities	**186**	59

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

6 Tax on ordinary activities (continued)

	2003 £'000	2002 £'000
Profit/(loss) on ordinary activities before tax	**983**	(148)
Profit/(loss) on ordinary activities multiplied by standard rate in the UK	**296**	(44)
Effects of:		
Expenses not chargeable to tax	**68**	61
Accelerated capital allowances and other timing differences	**(250)**	39
Adjustment in respect of foreign tax rates	**(39)**	(10)
Adjustment to tax charge in respect of previous periods	**(79)**	(42)
Current tax (credit)/charge for the year	**(4)**	4

7 Intangible fixed assets

Group	**Customer lists £'000**
Cost	
At 1 January 2003 and 31 December 2003	**40**
Amortisation	
At 1 January 2003	28
Charge for the year	9
At 31 December 2003	**37**
Net book value	
At 31 December 2003	**3**
At 31 December 2002	12

Intangible assets comprise a payment made by Houghton Norge AS to a third party on 1 May 1999 in order to trade with their customer base. The related asset is being amortised over a period of five years.

8 Tangible fixed assets

Group	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2003	6,278	6,186	12,464
Additions	7	434	441
Disposals	(267)	(182)	(449)
Exchange adjustments	30	40	70
At 31 December 2003	**6,048**	**6,478**	**12,526**
Accumulated depreciation			
At 1 January 2003	**885**	**4,682**	**5,567**
Charge for the year	107	379	486
Disposals	(41)	(169)	(210)
Exchange adjustments	4	33	37
At 31 December 2003	**955**	**4,925**	**5,880**
Net book value			
At 31 December 2003	**5,093**	**1,553**	**6,646**
At 31 December 2002	5,393	1,504	6,897

Included within plant and equipment are motor vehicles with a net book value of £60,000 (2002: £35,000) held under finance leases.

Included within land and buildings is freehold land of £1,050,000 (2002: £1,050,000) which is not depreciated.

8 Tangible fixed assets (continued)

Company	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2003	5,912	5,750	11,662
Additions	7	325	332
Disposals	(60)	(102)	(162)
At 31 December 2003	**5,859**	**5,973**	**11,832**
Accumulated depreciation			
At 1 January 2003	832	4,333	5,165
Charge for the year	98	328	426
Disposals	(10)	(95)	(105)
At 31 December 2003	**920**	**4,566**	**5,486**
Net book value			
At 31 December 2003	**4,939**	**1,407**	**6,346**
At 31 December 2002	5,080	1,417	6,497

Included within land and buildings is freehold land of £987,000 (2002: £987,000) which is not depreciated.

9 Investments held as fixed assets – subsidiaries

Company	Shares £'000
Cost:	
At 1 January 2003	625
Loan to subsidiary capitalised during year	100
At 31 December 2003	**725**
Provision for impairment:	
At 1 January 2003	294
Additional provisions made in the year	100
At 31 December 2003	**394**
Net investment:	
At 31 December 2003	**331**
At 31 December 2002	331

The principal subsidiaries at 31 December 2003 are:

	Year end	Proportion held Ordinary shares	Country of Incorporation	Status
Houghton Danmark A/S*	31 December	100%	Denmark	Trading
Houghton Sverige AB*	31 December	100%	Sweden	Trading
Houghton Oils & Chemicals (Ireland) Limited*	31 December	100%	Ireland	Trading
Houghton Oils & Chemicals (Northern Ireland) Limited*	31 December	100%	Northern Ireland	Non trading
Houghton Norge AS	31 December	100%	Norway	Trading

All trading companies are engaged in the main activities as disclosed in the directors' report.

* owned directly by Houghton plc.

10 Investments – other

	Group	Company
	£'000	**£'000**
Cost:		
At 1 January and 31 December 2003	6	6

The directors are of the opinion that the market value of this investment is not less than cost.

11 Stocks and work in progress

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**1,056**	852	**1,056**	852
Work in progress	**55**	53	**49**	42
Finished goods	**2,027**	1,865	**1,734**	1,570
	3,138	2,770	**2,839**	2,464

There is no significant difference between the replacement cost and the values shown for all stock categories.

12 Debtors

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year				
Trade debtors	**5,145**	4,917	**4,477**	4,252
Amounts due from subsidiary undertakings	**-**	-	**150**	145
Amounts due from fellow group undertakings	**407**	273	**381**	271
Other debtors	**106**	83	**36**	61
Prepayments and accrued income	**364**	595	**327**	565
Corporation tax recoverable	**78**	61	**126**	98
	6,100	5,929	**5,497**	5,392

13 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Bank loans and overdrafts	**1,787**	1,339	**1,765**	1,151
Loan notes	**15**	61	**15**	61
Obligations under finance leases	**15**	13	**-**	-
Trade creditors	**2,439**	2,349	**2,330**	2,246
Amounts due to subsidiary undertakings	**-**	-	**481**	453
Amounts due to fellow group undertakings	**1,621**	1,507	**1,531**	1,333
Other taxation and social security	**642**	738	**572**	687
Other creditors	**59**	31	**39**	31
Accruals	**500**	703	**371**	612
	7,078	6,741	**7,104**	6,574

Bank loans and overdrafts comprise an overdraft with HSBC plc and a loan owing to Wachovia Bank. As a condition of its financing arrangements, HII pledged as collateral to its lenders, share certificates of certain subsidiary borrowers, including those of Houghton plc.

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Obligations under finance leases	**21**	-	**-**	-
Group loans	**921**	1,599	**645**	1,340
	942	1,599	**645**	1,340

The group loan is from the Houghton Europe NV and is granted for a one year period with a two month notice period on either party. Houghton Europe NV have indicated that they will not exercise their option for at least a 15 month period from the date of signing these financial statements. Interest is charged at the rate of interest charged by the Wachovia Bank plus 0.5%.

On 12 March 2004, the bank loans and overdrafts shown in notes 13 and 14 were refinanced by way of a loan from the immediate parent company, Houghton Europe NV. As a condition of these financing arrangements, the share certificates of Houghton plc have been pledged as security.

15 Provisions for liabilities and charges

Group	Deferred taxation £'000	Pension provision £'000	Total £'000
At 1 January 2003	456	537	993
Profit and loss account	190	(210)	(20)
At 31 December 2003	**646**	**327**	**973**

Company	Deferred taxation £'000	Pension provision £'000	Total £'000
At 1 January 2003	477	537	1,014
Profit and loss account	187	(210)	(23)
At 31 December 2003	**664**	**327**	**991**

For details of the pension provision see note 20.

The amounts of deferred taxation provided and unprovided in the accounts are as follows:

Group	**2003**		2002	
	Provided £'000	**Unprovided £'000**	**Provided £'000**	**Unprovided £'000**
Accelerated capital allowances	**569**	-	485	-
Other timing differences	**(192)**	-	(273)	-
Losses	**(17)**	-	(42)	-
Held over gain	**286**	-	286	-
	646	-	456	-

Company	**2003**		2002	
	Provided £'000	**Unprovided £'000**	**Provided £'000**	**Unprovided £'000**
Accelerated capital allowances	**569**	-	485	-
Other timing differences	**(174)**	-	(252)	-
Losses	**(17)**	-	(42)	-
Held over gain	**286**	-	286	-
	664	-	477	-

16 Called up share capital

	Group and Company	
	2003	2002
	£'000	£'000
Authorised		
2,000,000 Ordinary shares of £1 each	**2,000**	2,000
Called up, allotted and fully paid		
1,850,000 Ordinary shares of £1 each	**1,850**	1,850

17 Reserves

Profit and loss account	**Group £'000**	**Company £'000**
At 1 January 2003	**4,574**	**3,920**
Currency translation differences	**76**	**-**
Profit for the year	**797**	**513**
At 31 December 2003	**5,447**	**4,433**

The directors have taken advantage of the exemptions available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the company alone. The profit for the year of the parent company was £512,528.

18 Reconciliation of movements in shareholders' funds

	Group		**Company**	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Profit/(loss) for the financial year	**797**	(207)	**513**	(419)
Currency translation differences	**76**	12	**-**	-
Net addition/(reduction) to shareholders' funds	**873**	(195)	**513**	(419)
Opening shareholders' funds	**6,424**	6,619	**5,770**	6,189
Closing shareholders' funds	**7,297**	6,424	**6,283**	5,770

19 Operating lease commitments

Group	Land and buildings		Other	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Operating lease commitments for next year:				
Leases expiring:				
Within one year	**-**	-	**26**	44
Within two to five years	**-**	-	**352**	343
After five years	**70**	68	**78**	60
	70	68	**456**	447

Company	Land and buildings		Other	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Operating lease commitments for next year:				
Leases expiring:				
Within one year	**-**	-	**20**	44
Within two to five years	**-**	-	**331**	312
After five years	**12**	12	**78**	60
	12	12	**429**	416

20 Pension scheme

The company operates a pension scheme in the United Kingdom providing benefits based on final pensionable salary. The scheme is funded with the assets being held by the Trustees separately from the assets of the Company. Pension costs are assessed by an independent qualified actuary, and are charged to the profit and loss account so as to spread those costs over employees' working lives with the company.

The most recent valuation was as at 30 September 2001 and the Projected Unit Method was used. The main assumptions used to determine the pension costs are rates of investment return of 6.5% per annum, pensionable salary increases of 4.25% per annum and pension increases of 2.5% per annum (or such higher rates as apply under the rules). At the valuation date, the market value of the assets of the scheme was £21,546,277 and these assets represented 96% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

During 2003 the participating employers contributed £560,959 (2002: £465,478), which was based on a contribution rate of 12.5% of pensionable salaries up to and including May 2003 and 18% of pensionable salaries from June 2003. The underlying costs of accruing benefits was calculated as 7.8% of pensionable salaries.

20 Pension Scheme (continued)

The pension charge for the company for the financial year ending 31 December 2003 was £351,217 (2002: £372,379). There is a provision for pension costs of £327,349 (2002: £537,091) in the company's balance sheet as at 31 December 2003, arising from the cumulative difference between the contributions paid to the scheme and corresponding pension charges.

The Group contributes to various defined contribution and state schemes in respect of its overseas subsidiaries. However, in the opinion of the directors, these are not significant and details can be found in respect of these schemes from the local subsidiaries.

(b) FRS 17 Retirement benefits

A full actuarial valuation of the Scheme was carried out by independent actuaries as at 30 September 2001 and updated to 31 December 2003 for FRS 17 purposes. The participating employers' contributions made to the Scheme during 2003 were £560,959, as detailed in (a) above. Future contributions are continuing at the rate of 18% of pensionable salaries.

The transitional arrangements of the new accounting standard FRS 17 require disclosure of assets and liabilities as at 31 December 2003 and at 31 December 2002 calculated in accordance with the requirements of FRS 17. The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:-

	2003	2002	2001
	%pa	%pa	%pa
Rate of increase of salaries	**3.75**	3.75	4.0
Rate of increase in post-1997 pensions in payment (RPI up to 5% per annum)	**2.5**	2.5	2.5
Discount rate	**5.5**	5.5	6.0
Inflation assumption	**2.5**	2.5	2.5

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

Long term rate of return expected as at:	**31 December 2003**	**31 December 2002**	**31 December 2001**
	% pa	**% pa**	**% pa**
Equities/property	**7.75**	7.75	8.25
Bonds	**4.5**	4.5	5.0
Cash	**4.0**	4.0	-

Market Value as at:	**31 December 2003**	**31 December 2002**	**31 December 2001**
	£'000	**£'000**	**£'000**
Equities/property	**12,667**	11,072	16,088
Bonds	**9,059**	7,810	6,895
Cash	**146**	646	-

20 Pension Scheme (continued)

The following amounts at 31 December 2001, 31 December 2002, and 31 December 2003 were measured in accordance with the requirements of FRS17:

	31 December 2003 £'000	31 December 2002 £'000	31 December 2001 £'000
Total market value of assets	**21,871**	19,528	22,983
Present value of scheme liabilities	**(27,949)**	(26,820)	(24,386)
Deficit in the scheme	**(6,078)**	(7,292)	(1,403)
Deferred tax	**1,823**	2,188	421
Net deficit	**(4,255)**	(5,104)	(982)

The impact on the balance sheet at 31 December 2003 would be as follows:

Group	**2003 £'000**	2002 £'000
Net assets		
Net assets excluding pension deficit	**7,297**	6,424
Pension provision (SSAP24)	**327**	537
Deficit in the scheme	**(6,078)**	(7,292)
Deferred tax	**1,823**	2,188
Net assets	**3,369**	1,857

Group	**2003 £'000**	2002 £'000
Reserves		
Profit and loss reserve excluding pension deficit	**5,447**	4,574
Pension provision (SSAP 24)	**327**	537
Pension deficit	**(6,078)**	(7,292)
Deferred tax asset arising on pension deficit	**1,823**	2,188
Profit and loss reserve including pension deficit	**1,519**	7

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20 Pension Scheme (continued)

The following amounts would have been recognised in the performance statements in the year to 31 December 2003 and 31 December 2002 under the requirements of FRS17:

Analysis of the amount charged to operating profit	**2003 £'000**	**2002 £'000**
Current service cost	(358)	(331)
Past service cost	-	-
Total operating charge	(358)	(331)

Analysis of the amount credited to other finance income	**2003 £'000**	**2002 £'000**
Expected return on pension scheme assets	1,227	1,658
Interest on pension scheme liabilities	(1,463)	(1,448)
Net return	(236)	210

Statement of total recognised gains and losses (STRGL)	**2003 £'000**	**2002 £'000**
Actual return less expected return on pension scheme assets	1,376	(4,732)
Experience gains and losses arising on the scheme liabilities	(129)	15
Changes in assumptions underlying the present value of the scheme liabilities	-	(1,516)
Actual gain/(loss) recognised in STRGL	1,247	(6,233)

Movement in deficit during the year	**2003 £'000**	**2002 £'000**
Deficit in scheme at beginning of the year	(7,292)	(1,403)
Movement in year:		
Current service cost	(358)	(331)
Contributions	561	465
Past service cost	-	-
Other finance income	(236)	210
Actuarial gain/(loss)	1,247	(6,233)
Deficit in scheme at the end of the year	(6,078)	(7,292)

The actuarial valuation at 31 December 2003 showed a decrease in the deficit from £7,292,000 to £6,078,000.

20 Pension Scheme (continued)

Details of experience gains and losses for the year to 31 December 2003	**2003**	**2002**
Difference between the expected and actual return on scheme assets:		
Amount (£'000s)	1,376	(4,732)
Percentage of scheme assets	6%	(24%)
Experience gains and losses on scheme liabilities:		
Amount (£'000s)	(129)	15
Percentage of the present value of the scheme liabilities	0%	0%
Total amount recognised in the statement of total recognised gains and losses:		
Amount (£'000s)	1,247	(6,233)
Percentage of the present value of the scheme liabilities	4%	(23%)

21 Ultimate parent company and controlling party

The immediate parent company is Houghton Europe NV, which is incorporated in Holland.

The ultimate parent company is Houghton International Inc., which is incorporated in the United States of America. Copies of the financial statements are available to the public from:

Houghton International Inc.
PO Box 930
Madison and Van Buren Avenues
Valley Forge
PA 19482-0930
USA

The share ownership of Houghton International Inc., indicates there is no overall controlling party.