CHAPELTHORPE

plc

Report & Accounts 2003

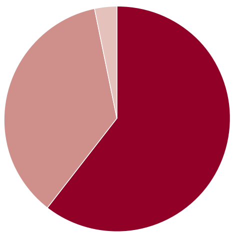
# Corporate statement

Chapelthorpe plc is a leading manufacturer of industrial products which are supplied to carefully chosen niche markets worldwide. The business is organised into three divisions, namely Fibres, Specialist Coatings and Umbrella Frames. The Fibres division supplies polypropylene fibre to the automotive, floorcoverings, technical textiles, geotextiles and home furnishings markets. The Specialist Coatings division supplies vinyl coated paper and plastisols to the wallcoverings industry. The Umbrella Frames division is the largest supplier of frames to the sun and sports umbrella markets.

Management is committed to enhancing shareholder value through the long-term organic development of the Group and by optimising the opportunities afforded by the key positions it has developed in its international markets.

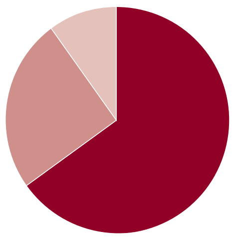
- Underlying operating profits improved by 36% despite difficult trading conditions
- Increase of 52% from 1.11p to 1.69p in underlying EPS
- Final dividend proposed of 0.5p, double 2002 level, making 0.75p in total (2002: 0.5p)
- Debt reduced by £10.4m to £28.2m
- All businesses profitable and cash generative in the year

Geographical Analysis of Turnover



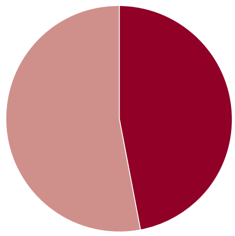
- £73.7m Europe
- £44.2m North America
- £3.9m Rest of World

Sector Analysis of Turnover



- £79.2m Fibres
- £30.6m Specialist Coatings
- £12.0m Umbrella Frames

Shareholder Profile
(at 31 March 2003)



- 47% Institutional Investors
- 53% Private Investors

# Contents

# Chairman's statement

"Our businesses have produced improved results. Our market positions have strengthened and we have been able to invest modestly, whilst reducing our financial risk overall."

## Summary

- Satisfactory financial performance despite difficult market conditions
- All businesses are profitable and cash generative
- Borrowings and gearing both down significantly
- Doubled final dividend proposed of 0.5p per share

In the last 12 months Chapelthorpe has achieved major improvements in operating profits, cash generation, and operating efficiency. Consequently, borrowings and gearing are well down on 2002 levels as I anticipated they would be in my statement to you at the time of our interim results. Our businesses have produced improved results and our market positions have strengthened. This has been achieved in difficult market conditions and with a high level of volatility being experienced in the price of our raw materials.

**Results in brief**

As anticipated, difficult global economic conditions and declining markets for some of our products have resulted in Group turnover reducing for the second consecutive year. Turnover fell by 4% to £121.8m (2002: £127.0m) – if the effects of foreign currency rates are eliminated this reduction was 2%.

Underlying operating profit (operating profit before exceptional items and goodwill), by contrast, rose by 36% to £8.2m (2002: £6.0m), reflecting the significant advances we have made with our cost reduction and production efficiency programmes. Pre-tax profit, before exceptional items of £2.6m, rose by £2.5m to £4.9m (2002: £2.4m), whilst underlying earnings per share amounted to 1.69p (2002: 1.11p). Exceptional items in the year are described in Notes 7 and 8 to the accounts on page 32. Profit before tax improved from a loss of £0.4m to a profit of £2.3m.

**Strategy**

Our strategy is to develop and maintain businesses with leading market positions in stable and secure sub-sectors. In the present economic climate they now require relatively low levels of capital investment in the near term and should yield good cash returns over the medium-term. This financial year has seen Chapelthorpe display the positive benefits of the above strategy. Our market positions have strengthened and we have been able to invest modestly, whilst reducing our financial risk overall.

# Chairman's statement

We would like to see our financial risk reduce still further and have targeted a year end borrowing level below £20m by the end of 2005. Good financial management is critically important to achieve our targets, particularly so whilst growth is hard to achieve. We believe that our cash generating qualities can both bring us down to this debt level and, at the same time, provide shareholders with a progressive dividend return. This policy began in 2003 and we anticipate it will continue for the foreseeable future.

## Dividends

In light of the above, the Board is proposing a doubling of the final dividend payment from 0.25p to 0.5p. Taken together with the interim dividend payment of 0.25p, dividend payments for the year will total 0.75p, an increase of 50% on last year's total. The cost of the final dividend now proposed is £1,020,000 and total dividends are covered 1.7 times by pre-exceptional earnings. The final dividend is payable on 12 August 2003 to shareholders on the register on 20 June 2003. Shareholders will once again have the opportunity to reinvest the whole of their cash dividends in the purchase of additional shares in the Company, in the open market, at competitive dealing rates, pursuant to the Dividend Reinvestment Plan.

## Board changes

As I indicated in my interim statement, Andy Weatherstone joined the Board as Group Finance Director on 1 January 2003. Since that date Andy has settled well into his role in the executive team and has already made a significant contribution both to our financial performance and strategy.

## Personnel

The last 12 months have seen a tremendous effort made by all employees throughout the Group to achieve such a positive result for shareholders. I would like to thank them on your behalf for putting in that effort and exercising great skill in difficult market conditions.

## Outlook

I believe shareholders can draw confidence from the performance during the last year when, in difficult economic circumstances, we have delivered a significantly improved financial result and reduced our financial risk. All of our businesses are benefiting from the tighter control of working capital and cost reduction programmes and continue to be both profitable and cash generative.

A substantial rise in the price of oil towards the end of 2002 brought about an increase in raw material prices which adversely affected the end of our financial year and this has continued into the early part of this financial year. Although still at an historically high level, raw material prices are now falling and if they continue to fall, it will be a welcome development for our trading outlook.

Even if there is no general trading improvement across any of our markets, the measures we have taken to improve our position should allow us to demonstrate further progress and deliver enhanced shareholder returns.

**John Standen**
Chairman
10 June 2003

# Review of operations

"In the past 12 months we achieved much of what we set out to do, given that cash generation and reduction of borrowings were our main priorities in what were always going to be extremely difficult market conditions."

**Fibres**

Turnover in this division fell marginally to £79.2m (2002: £80.5m) but underlying operating profit rebounded to £3.1m from a depressed £1.6m in 2002. All the division's operations were profitable and cash generative in the year.

### North America

Our management team in the US was further strengthened during the year with the appointment of a new finance director. The new team has made considerable progress in all areas of the business, resulting in much improved operational and financial results. The production problems of 2002 are now well and truly behind us, and production workflow improvements have ensured our delivery performance was much improved, with a sharp reduction in wastage. Management is focused on delivering further improvements in these areas in 2003.

The market background remains difficult, with consumer confidence in North America being eroded month by month, but despite this we enjoyed a much better trading performance in the period under review. The long-term trends remain positive. Our leading market position in the supply of polypropylene fibres to the US automotive industry remains intact enabling us to continue with our long-term product development programme. This offers the potential to increase the polypropylene fibre content of automobiles still further, with seat backs and cargo nets providing perfect examples of such opportunities.

Sales of automobiles in the US remained high last year, from which we benefited considerably, but in line with general forecasts which are widely predicting a downturn in US automotive sales this year, we have taken a cautious view for 2003.

### Europe

The Sterling rate against the Euro moved a little in our favour over the period under review, providing some much needed relief for our UK business. Against this, the strength of the oil price, particularly in the last quarter of our trading period, worked against us, resulting in the polymer price rising to a seven year high. In a business such as ours it is very difficult,

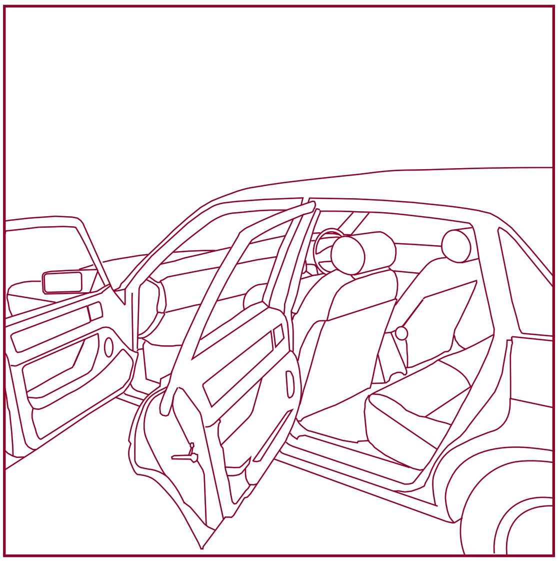
## Fibres

**This division is involved in the manufacture of coloured polypropylene fibres and filament yarns which are supplied to the automotive, floorcoverings, technical products, geotextiles and home furnishings markets worldwide.**

The division is the largest coloured polypropylene staple fibre producer in Europe and is also the leading supplier to the US automotive industry.

Polypropylene fibres are used by the automotive industry in the manufacture of:

- Rear parcel shelves
- Kick panels
- Sound deadening materials
- Speaker covers
- Lower door panels
- Boot panels



if not impossible, to fully pass these raw material price increases on to our customers in the short-term, so the very recent falls in the oil price are welcome.

There have been a number of developments throughout Europe in the technical textiles sector, which although relatively small, is the fastest growing of our product sectors. This area requires very fine fibres and our ability to produce this grade of fibre for applications in the filtration and medical industries, along with our flexibility to produce in bulk for the geotextile and building products industries, should enable us to capitalise on further niche applications.

In addition, the European market for floorcoverings and carpets appears to have stabilised, albeit at a relatively low level when compared with volumes just a few years ago. While this news is welcome, there is no sign yet of any general recovery in what is still an important sector for us. However, new markets have been opened up, particularly in Australasia, and while still relatively small in volume terms, give us some encouragement going forward.

### Specialist Coatings

Turnover in this division fell by 13.7% to £30.6m (2002: £35.4m) but underlying operating profit rose by 5.8% to £3.0m (2002: £2.9m). All the division's operations were profitable and cash generative in the year.

### Europe

Once again the wallcoverings market throughout Europe has remained depressed with the decline in retail sales of wallcoverings, particularly in the UK, continuing unabated. From an already severely depressed level, the wallcoverings market declined a further 8% year on year, and there are no immediate signs of a recovery in demand. Export sales into Europe and the Far East were also affected by the dull market conditions although for once the Sterling/Euro rate moved slightly in our favour and helped offset the harsh market conditions. Inevitably, against this very difficult market background, particularly in the UK, profits and margins

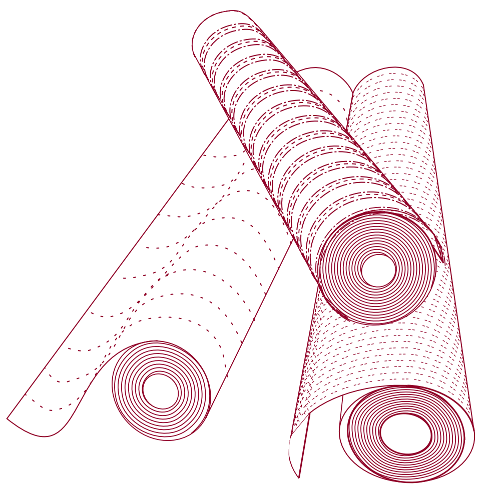
## Specialist Coatings

**This division is primarily involved in the manufacture of coated base paper and plastisol, for the wallcoverings industry worldwide.**

Our business is the sole independent supplier in Europe and North America.

The Specialist Coatings division supplies product direct to:

- Wallpaper manufacturers
- Designers
- Printers



# Review of operations

did slip although the decline was mitigated to a degree by the beneficial results of our ongoing cost reduction programme.

Rationalisation within the industry has also given us the opportunity to improve market share and, as a direct result of our commitment to service and quality, we obtained sole supplier status with a major UK wallcoverings manufacturer. This arrangement represents a major step forward for the UK business, and the full benefit of this is expected to impact in the current year.

Our investment in Russia, where we have supplied excess machine capacity for production of vinyl base and plastisol, under license, in Moscow, is now up and running. The arrangement made a small contribution to divisional profits in the year under review, and consequently we are happy with the progress achieved from what was a standing start just over 12 months ago. A useful foothold has been successfully established in what remains the world's largest market for wallcoverings and we anticipate a growing contribution from this low risk venture.

### North America

We have continued to service our US customers from our plant in Canada following our rationalisation programme which was completed last year. This has remained very successful for us as the US market for residential wallcoverings, very much as anticipated, continued to decline. In fact, the rate of decline probably increased year on year. However, the cost benefits associated with our single site Canadian production facility have enabled us to report an improvement in profitability and gross margin.

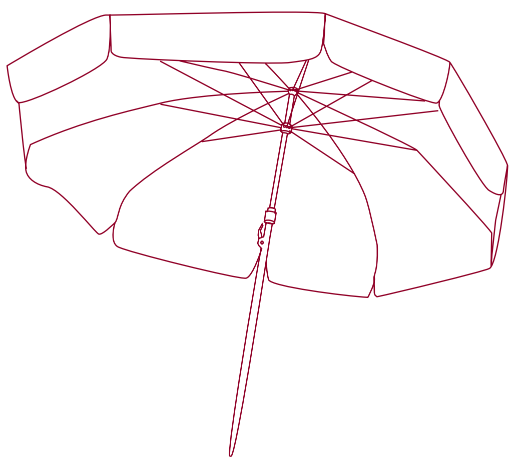
There is no sign of a general recovery in the residential wallcoverings market but we believe there are opportunities for our products in the wide-width commercial (hotel and office) markets which have until now remained out of our reach. We have recently instigated a sampling programme on our wide-width coating machine which has now been commissioned in Canada and we view this development with cautious optimism. The commercial market offers many possibilities for us, but any breakthrough that we achieve will not make an impact until the latter part of the current year.

## Umbrella Frames

**This division is involved in the manufacture of specialist frames for sun, sports and promotional umbrellas.**

Over 80% of production is exported and this operation is the largest supplier of frames in Europe.

The division has a continuous development programme, producing frames which are innovative, reliable and technically advanced.



**Umbrella Frames**

Turnover in this division rose by 8.2% to £12.0m from £11.1m in 2002, and underlying operating profit rose by 32.9% to £2.0m compared with £1.5m in 2002. The business was profitable and cash generative in the year.

The smallest of our three divisions, in sales terms, performed in line with expectations for the year ended 31 March 2003. Following a very disappointing performance in 2002 when sales quite unexpectedly fell by 16%, the business was stabilised very quickly and the slight recovery in sales that we reported in the first two months of the year was maintained throughout the period and fed through to profits and cash. Our ongoing cost reduction programme was also instrumental in enabling us to achieve a much better financial performance year on year.

Although sales recovered from the depressed levels of 2002, they were still some 9% below the levels seen in 2001, and there remains much work to be done to improve our sales performance worldwide. A significant element of our turnover in recent years has been to the financial services sector, where we are the major supplier of frames to the promotional, golf and sports umbrella markets. Sales to this sector remained flat throughout the period under review and, with world stock markets remaining depressed, there is still no sign of a recovery. However, gross margins overall have improved as a result of higher volumes and the strengthening of the Euro.

The success of our product development programme is evidenced by the market reception afforded to our new range of products, from which we have gained some encouragement for medium-term prospects.

**Outlook**

In the past 12 months we achieved much of what we set out to do, given that cash generation and reduction of borrowings were our main priorities in what were always going to be extremely difficult market conditions. Consumer confidence worldwide is still fragile and there is no sign whatsoever of recovery in any of our markets. All our businesses have the capacity to respond to any improvement in market conditions, without the need for significant capital expenditure. The actions we have taken in the last year, together with the benefit of our leading market positions, should allow us to maintain our recent financial performance and reduce borrowings still further.

**Brian Leckie**
Chief Executive
10 June 2003

# Financial review

## "Net debt reduced by £10.4m from £38.6m to £28.2m; achieved despite paying out £2.0m in exceptional costs. As a consequence gearing fell significantly to 58.9%."

This review summarises the issues that have had a significant impact on the financial performance of the Group and should be read in conjunction with the Chairman's Statement and Review of Operations set out on pages 2 to 7.

**Operating results**

Underlying operating profits improved from £6.0m to £8.2m, an increase of 35.9%.

Operating margins across all of our businesses improved in the year as a result of increased productivity and targeting higher value added sales opportunities. This was against a background of difficult trading conditions and volatile raw material prices. In particular our margins benefited from the resolution of the production issues in our US fibres operation and from a full year's benefit of our North American wallcoverings operations being consolidated in Canada.

Group sales fell by £5.2m (4.1%) to £121.8m (2002: £127.0m) of which £2.9m was due to the movement in foreign exchange rates. Modest volume improvements in the fibres division and improved sales activity in umbrella frames were offset by the continuing decline in wallcoverings markets. The year reflected the Group's continuing high level of global business with overseas sales, including exports, amounting to 72.3% (2002: 71.2%) of sales.

**Exceptional items**

During the year the Group incurred exceptional costs, full details of which are set out in Notes 7 and 8. Further provisions of £1.1m have been made in respect of vacant leasehold properties surplus to the Group's requirements. Severance and redundancy costs of £0.4m have also been incurred during the year.

In addition, non-operating exceptional costs of £1.1m have been incurred in relation to contractual commitments in respect of properties previously sold by the Group.

**Interest**

Interest charged for the year fell by £0.35m to £2.45m resulting from the reduction in debt. Interest cover, before exceptional items and goodwill, improved to 3.3 times (2002: 2.1 times).

**Taxation**

The underlying effective tax rate for the year, excluding adjustments made in respect of prior years, based on profits before exceptional items and goodwill is 32.4%. This is in excess of the UK standard rate largely due to a significant proportion of taxable profits being earned in higher tax rate countries.

**Earnings and dividends**

Underlying earnings per share increased by 52.3% from 1.11p to 1.69p. Basic earnings per share were 0.08p (2002: loss 0.11p). As a result of improved trading performance and significant reduction in debt the Board is recommending a total dividend for the year of 0.75p, an increase of 50% over last year. Based on pre-exceptional profits the dividend is covered 1.7 times.

**Cash flow**

Net debt reduced by £10.4m from £38.6m to £28.2m; achieved despite paying out £2.0m in exceptional costs. As a consequence gearing fell significantly to 58.9% (2002: 75.1%).

Operating cash flow before exceptionals amounted to £16.5m and was approximately double the level of underlying operating profits of £8.2m. A major driver in the improvement to operating cash flow was the tight control over working capital throughout the Group. Levels of working capital were reduced by £3.3m in the year and further improvements are targeted for 2004.

The Group benefited from a US tax refund of £1.6m, resulting in a net tax receipt in the year of £0.6m.

Given the significant investment made in the past, the Group has been able to restrict capital expenditure to £1.8m (2002: £2.3m) representing just 0.4 times depreciation (2002: 0.4 times). We expect capital expenditure to continue at levels well below depreciation for the foreseeable future.

### Pensions

Our principal UK pension scheme is a defined benefit scheme and the latest actuarial valuation at 5 April 2002 showed the scheme to have £44.4m of assets which was sufficient to cover 105% of accrued benefits.

Under FRS17 a snapshot of the value of the scheme's assets and liabilities at 31 March 2003 showed the scheme having a market value of £40.7m representing 90% of accrued benefits. The scheme's investments are weighted two thirds in favour of bonds over equities and this has mitigated the scheme's exposure to the sharp fall in equity prices over the last year.

### Accounting standards

No new accounting standards were required to be adopted during the year.

### Management of financial risk

Treasury and financial risk policies are set by the Board. The day to day treasury management of the Group is controlled centrally. The treasury function is not run as a profit centre and speculation in financial instruments is not undertaken.

The main risks arising from the Group's operations are interest rate risk, liquidity risk and foreign currency risk.

The Group funds itself through a mixture of retained profits and borrowings and its objective is to maintain a balance between continuity of funding through the use of borrowings with a range of maturities and flexibility by maintaining undrawn committed facilities, principally overdrafts. At 31 March 2003 undrawn committed facilities amounted to £16.6m. Subsequent to the year end our principal bank overdraft facilities have been renegotiated and have been committed to May 2004. In addition we have restructured our repayments on the term loan facilities and amended covenant levels.

The Group's policy on interest rate risk is to minimise interest cost but at the same time reduce the exposure to interest rate fluctuations. This is achieved partly through using fixed rate borrowings and partly using interest rate swaps. At 31 March 2003, 65% was at a range of fixed rates after taking account of interest rate swaps.

The Group has 67% of its assets overseas and in order to mitigate its exposure to exchange rate movements on these assets, the Group seeks to maximise borrowings in the local currencies, principally the US dollar and Euro. In addition it is the Group's policy to actively manage its exposure to trading transactions in foreign currencies by entering into forward currency contracts, taking out more cover at times when rates are judged to be favourable, within overall limits. Currently the Group has hedged over 70% of foreign currency sales expected in 2004.

**Andy Weatherstone**
Finance Director
10 June 2003

# Directors

**John Standen***
Non-executive Chairman, aged 54

John Standen was appointed to the Board on 1 June 2002 and became Chairman on 26 July 2002. His other public company roles are as Chairman of Reg Vardy plc and as senior Non-executive Director of Financial Objects plc. He is a Trustee and Chairman of the Audit Committee of Leonard Cheshire. He spent his career in corporate finance and was Chief Executive of BZW Corporate Finance before retiring from Barclays in 1998.

**Brian Leckie†**
Chief Executive, aged 56

Brian Leckie joined the Group in 1990 after gaining extensive experience with Coats Viyella plc. He was appointed a Director in 1996 when he was responsible for the Fibres division and was appointed to his present position in 1997.

**Andy Weatherstone**
Finance Director, aged 39

Andy Weatherstone was appointed to the Board on 1 January 2003. He qualified as a Chartered Accountant with KPMG and was formerly Group Finance Director of Bostrom plc.

**Allan Thompson**
Executive Director, aged 54

Allan Thompson is a Chartered Management Accountant. He joined the Group in 1995 after gaining extensive experience in the carpet and printing industries and as a Managing Director within Waddington PLC. He was appointed to the Board in 1997 and is responsible for the European Fibres businesses.

**Alan Reeve***
Non-executive Director, aged 65

Alan Reeve was appointed to the Board in 1997. Formerly he was an Executive Director of Waddington PLC.

* Member of Nomination, Remuneration and Audit Committees

† Member of Nomination Committee

The Directors present their Annual Report together with the accounts of the Company for the year ended 31 March 2003.

## Profits and dividends

The profit after taxation for the year ended 31 March 2003 was £209,000 (2002: loss of £174,000). Preference and ordinary dividends totalling £1,558,000 (2002: £1,018,000) have been or are proposed to be paid. The deficit for the year amounted to £1,349,000 (2002: £1,192,000).

The proposed final ordinary dividend, if approved, will be payable on 12 August 2003 to shareholders on the register of members at 20 June 2003. As in previous years, the Chapelthorpe Trust has agreed to waive its rights to dividends. It is again intended to offer shareholders the opportunity to receive ordinary shares instead of cash in respect of the final dividend pursuant to the Dividend Reinvestment Plan previously established.

## Principal activities

The Group concentrates its activities on the manufacture of coloured polypropylene fibre, the production of vinyl-base and the manufacture of PVC plastisol for the wallcoverings industry, and the manufacture of umbrella frames. A Review of Operations of the Group is included on pages 4 to 7.

## Directors

The Board of Directors is listed on page 10. These Directors have served throughout the year, with the exception of Mr J Standen who was appointed to the Board on 1 June 2002 and Mr A P Weatherstone who was appointed to the Board on 1 January 2003. Mr Standen does not have a service contract. Mr Weatherstone has a service contract which requires one year's notice.

In accordance with the Articles of Association of the Company, Mr Weatherstone will retire from office at the Annual General Meeting and, being eligible, offer himself for election.

Mr B Leckie will retire by rotation and, being eligible, offer himself for re-election. Mr Leckie has a service contract which requires two years' notice.

Mr C R Godwin retired on 26 July 2002 and Mr J D Riley retired on 31 December 2002.

## Directors' interests

The interests of the Directors who held office at 31 March 2003, and of their families, in the ordinary shares of the Company, are disclosed in the Board Report on Remuneration.

## Share capital

Note 18 on page 37 provides information concerning share capital for the year ended 31 March 2003.

At 10 June 2003 the Company had been notified that the following were interested in 3% or more of the ordinary share capital:

| | Number of shares | % |
|---|---|---|
| Schroder Investment Management Limited | 25,195,744 | 12.35 |
| Framlington Investment Management Limited | 22,500,000 | 11.03 |
| Ian Knighton | 8,589,664 | 4.21 |
| Second Advance Value Realisation Company Limited | 8,400,000 | 4.12 |
| Electra Active Management PLC | 6,179,864 | 3.03 |

## Directors' authorities to allot

The Notice of Annual General Meeting on pages 50 and 51 includes two Resolutions relating to the Company's share capital. They are similar to Resolutions passed at previous shareholders' meetings.

Under Section 80 of the Companies Act 1985 (the "Act") the Directors are not allowed to allot shares unless they are authorised to do so by shareholders. Resolution Number 8 gives the Directors authority, until the earlier of the date of the next Annual General Meeting and 25 October 2004, to allot shares under Section 80 of the Act. If the Resolution is passed, the amount of the authorised ordinary share capital remaining unissued and available for issue generally would be £2,697,000, representing approximately 26% of the present issued and allotted ordinary share capital. The Directors consider that this level of authority to allot shares, which equates broadly to that granted by shareholders in previous years, should be maintained in order to preserve maximum flexibility for the future. Whilst there are no present commitments, the Directors continue to review opportunities and may, if they consider it to be in the best interests of shareholders, seek to issue further shares in connection with any expansion. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders.

# Directors' report

## Directors' authorities to allot (continued)

Section 89 of the Act gives all shareholders the right to participate on a pro-rata basis in all issues of equity shares for cash unless they agree that this right should be excluded. The effect of Resolution Number 9 is to give the Directors authority until the earlier of the date of the next Annual General Meeting and 25 October 2004, first to make a rights issue without having to comply with the detailed requirements of Sections 89 and 90 of the Act and, secondly, to allot equity shares for cash otherwise than by an issue pro-rata to existing shareholders, up to an aggregate nominal value of £510,000, representing 5% of the present issued and allotted ordinary share capital.

The Directors consider that it is appropriate for these authorities to be granted and recommend shareholders to vote in favour of these Resolutions as they unanimously intend to do in respect of their own beneficial shareholdings.

## Authority to purchase own shares

By virtue of Resolution Number 10, the Directors are seeking authority to enable the Company to make market purchases of up to a maximum of 30,600,000 of its own ordinary shares, representing less than 15% of the existing issued ordinary share capital. This is a renewal of the authority granted at the Annual General Meeting of the Company held on 26 July 2002. Before exercising such authority, the Directors would ensure that the Company complied with all relevant United Kingdom Listing Authority rules and Association of British Insurers' guidelines. No purchases would be made unless the effect would be to increase the earnings per share of the remaining shareholders and unless the Directors consider the purchases to be in the best interests of shareholders generally. Any shares which are purchased under the authority will be cancelled or, subject to the proposed new Government regulations and to the UK Listing Authority Rules, held as "treasury shares". The proposed new regulations are The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 and will, in certain circumstances, enable companies to hold shares as treasury shares as an alternative to cancellation after a share buy back. Companies can use these treasury shares to, amongst other uses, meet obligations under employee share plans if this offers tax or other advantages over alternative means of meeting these obligations. The UK Listing Authority is undertaking a consultation process about any changes that should be made to the Stock Exchange Rules, and any use of treasury shares by the Company in connection with Resolution Number 10 would be subject to the outcome of that consultation process.

The maximum price per share for any purchase would not be in excess of 5% above the average of the market values for an ordinary share of the Company derived from the London Stock Exchange Daily Official List for each of the five business days immediately preceding the day on which the ordinary shares are purchased. The minimum price payable would be 5 pence, being the nominal value of each ordinary share. The authority would be valid until the conclusion of the next Annual General Meeting of the Company, or the date being 12 months after the passing of the Resolution if earlier.

## Fixed assets

Details of the changes in the tangible fixed assets of the Group are shown in Note 10 to the accounts on page 33.

## Research and development costs

The Group has a research and development programme for both new products and markets and the improvement of existing products.

## Charitable and political contributions

Donations to UK charitable organisations amounted to £3,700 (2002: £3,000). There were no political contributions (2002: £Nil).

## Supplier payment policy

The policy of the Group is to agree the terms of payment with suppliers when negotiating the conditions of supply of goods and services. Suppliers are made aware of the terms of payment and are paid in accordance with terms agreed between the two parties. The policy developed is specific to the Group's businesses and, consequently, adoption of an external code of payment of suppliers is considered unnecessary. The Group has complied with this policy during the year. Group trade creditor days at the year end were 70 days (2002: 65 days). The Company does not have any trade creditors at the year end.

## Employees

The Group has always recognised the importance of communicating and fostering good industrial relations. The divisional structure of the Group ensures a standard and uniform approach to the dissemination of essential information on matters of concern to employees.

The Group encourages the involvement and commitment of employees in its performance through its share option schemes. Employees' financial rewards reflect each individual's contribution and development. It is the policy of the Group to give full and fair consideration to the employment of disabled persons, whether registered or not, and their training and career development, bearing in mind the constraints of their disabilities, and to make every effort to retain and assist employees who become disabled in the course of their employment.

## Employees (continued)

The employment policies of the Group are designed to attract, retain and motivate the highest quality personnel, recognising that this can only be achieved through offering equal opportunities. Recruitment and promotion are, therefore, solely dependent upon the suitability of an applicant for the job.

The Group recognises its responsibility to ensure that all reasonable precautions are taken to provide and maintain safe working conditions for all employees and visitors.

## Auditors

Following the conversion of the Company's auditors PricewaterhouseCoopers to a Limited Liability Partnership ("LLP") from 1 January 2003, PricewaterhouseCoopers resigned on 31 January 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting, together with a resolution to authorise the Directors to fix the remuneration of the auditors.

## Company status

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

By order of the Board,

**A P Weatherstone**
Finance Director and Secretary
10 June 2003

# Corporate governance

The Company is committed to high standards of corporate governance throughout the Group. It is required to comply with the Principles of Good Governance and Code of Best Practice (the "Combined Code"), which are incorporated into the United Kingdom Listing Authority Listing Rules.

There are 14 Principles in the Combined Code, covering the Board, Directors' Remuneration, Relations with Shareholders and Accountability and Audit. The paragraphs below, together with the Board Report on Remuneration on pages 16 to 20, disclose how these Principles are applied within the Company. The only requirements of the Combined Code with which the Company has not complied during the year ended 31 March 2003 were Directors' notice periods (B.1.7), and number of Non-executive Directors comprising the Audit Committee (D.3.1).

## The Board

The Board of Directors comprises three Executive and two Non-executive Directors. At this time the Board believes its current size and composition is sufficient and each Director has considerable knowledge and experience from both within and outside the Group's spheres of business. The Non-executive Directors are independent of management. In accordance with the Articles of Association of the Company, all Directors are subject to election by the shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years.

Mr A B Reeve is the senior independent Non-executive Director.

The Board has a schedule of reserved powers including corporate strategy, financial results, budgeting, dividend payments and Board appointments. The full Board meets on a regular basis and in 2002/03 met ten times. The Board is supplied with financial and other information in a timely manner. The form and content of this information is constantly reviewed.

Responsibility for implementing the Group's strategy is delegated to the Executive Committee, which meets monthly, and comprises the Executive Directors and a senior Group executive. The Board discharges a number of its other duties through its Audit, Remuneration and Nomination Committees, each of which has clear terms of reference, and is referred to elsewhere within this report on corporate governance.

There is an agreed procedure whereby any of the Directors may take independent professional advice in the furtherance of their duties, at the Company's expense. All Directors also have access to the advice and services of the Company Secretary.

### The Nomination Committee

The Nomination Committee was established in 1994. It comprises the Non-executive Directors and the Chief Executive and is chaired by Mr J Standen. It is responsible for nominating candidates, for the approval of the Board, to fill vacancies on the Board of Directors.

## Relations with shareholders

The Company complied with all the provisions of this section of the Combined Code throughout the year.

The Company has regular dialogue with institutional shareholders on a range of subjects, including Directors' remuneration, where it believes this to be in the interests of shareholders generally.

## Accountability and audit

### Directors' responsibilities

The Directors are required by company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Accountability and audit (continued)

### Going concern

After making enquiries, the Directors consider the Company and the Group to have adequate resources to continue operations for the foreseeable future and have therefore continued to adopt a going concern basis in the preparation of the accounts.

### The Audit Committee

The Audit Committee was established in 1994. It comprises the Group's Non-executive Directors, under the chairmanship of Mr A B Reeve. The Committee meets as and when required, and at least three times per year. The Chief Executive, Finance Director and Internal Control Manager may be invited to attend meetings of the Committee. The Company's auditors report to the Committee and have direct access to the chairman of the Committee without the presence of the Executive Directors.

The minutes of the Committee are reported by the chairman of the Committee to the full Board and are formally recorded.

The Committee may examine any matters relating to the financial affairs of the Group and to the Group's internal controls and external audit. The Committee reviews the Report and Accounts and announcements, internal control procedures, accounting policies, compliance with accounting standards, the appointment and fees of the Company's auditors and such other related functions as the Board may require.

### Internal control

The Board of Directors has responsibility for the system of internal control. Such a system can provide reasonable, but not absolute, assurance against material misstatement or loss. The Directors, in part through the Audit Committee, have reviewed the effectiveness of the Group's internal controls.

The Board confirms that it has operated the procedures necessary to identify, evaluate and manage the significant risks to the achievement of the Group's strategic objectives and has thereby complied with the requirements of the Combined Code in respect of internal control matters throughout the year ended 31 March 2003 and up to the date of approval of this Report and Accounts.

The processes used by the Board to review the effectiveness of the system of internal control include:

- the Board's own formal twice-yearly review of risks and controls;
- formal quarterly reviews of risks and controls by subsidiaries;
- discussion of risk areas with subsidiary management during the process of reviewing and approving annual budgets;
- the review of internal and external audit plans; and
- the review of significant issues arising from internal and external audits.

The chairman of the Audit Committee has personally reviewed progress with Combined Code compliance through a programme of meetings with all of the Group's subsidiaries in the year ended 31 March 2003.

### Financial reporting and monitoring of operations

Members of the Board have responsibility for monitoring the conduct and the operations of businesses within the Group.

There is a comprehensive system of financial reporting to the Board based on an annual budget, which is agreed by the Board and supported by a detailed analysis of the related risks. Actual results for the Group as a whole and the individual businesses are reviewed monthly against the budget together with key ratio analyses. Subsidiary and Group profit and cash flow forecasts are revised and reviewed on a monthly basis.

### Policies and procedures

The Group's detailed procedures manual documents the Group's operational and financial principles, the minimum standards for effective control and the financial and accounting policies to be applied. The procedures manual is applied by all subsidiaries and any significant departures therefrom are considered by the Audit Committee.

The manual also details the Group's clearly defined and formalised requirements for control and approval of expenditure involving capital or revenue.

In order to supplement the existing financial control mechanisms, the Group utilises a formal self-assessment procedure for measuring financial risk. Operating units also complete self-certification reports confirming compliance with established financial control procedures and the Group's procedures manual.

### Internal audit

The Internal Control Manager operates to a work programme agreed with the Audit Committee, in liaison with the external auditors. The programme includes monitoring of the Group's system of internal control and compliance with the procedures manual. Results of the work are reported directly to the Audit Committee.

The Internal Control Manager consolidates and prioritises for the Board the updated financial and non-financial risk analyses received from subsidiary management on a regular basis.

# Board report on remuneration

### The Remuneration Committee

The Remuneration Committee, established in 1994, comprises the Group's Non-executive Directors. Accordingly, the members of the Committee during the year were Mr C R Godwin (until 26 July 2002), Mr J Standen (from 1 June 2002) and Mr A B Reeve. Prior to 26 July 2002 it was chaired by Mr C R Godwin and since that date by Mr J Standen.

The terms of reference of the Committee require and empower it to determine the total remuneration package of each of the Executive Directors and also, after discussion with the Chief Executive, to agree with him the total remuneration package of each of the senior executives in the Group.

During the year the Committee sought advice upon limited remuneration matters from Monks Partnership, a business of PricewaterhouseCoopers LLP.

The constitution and operation of the Committee complied throughout the year with Section 1B of the Combined Code incorporated into the United Kingdom Listing Authority Listing Rules.

The disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 to be audited are those denoted by "*".

### Policy

The Committee's policy and objective are to contribute to the management of the Company in the best interests of shareholders by encouraging senior executives to identify themselves with the business and to share in its growth in value.

The remuneration of the Non-executive Directors is set by the Board on which matter the Non-executives play no part.

### Service contracts

Mr B Leckie, the Chief Executive, has a contract dated 27 May 1999. It can be terminated by the Company giving two years' notice or by Mr Leckie giving six months' notice. His contract provides for a predetermined or liquidated sum by way of damages (broadly speaking, the remuneration which would have been payable during his contractual notice period less a suitable discount) if it is terminated following a successful bid for the Company.

Mr A L Thompson has a contract dated 27 May 1999. It can be terminated by the Company giving two years' notice or by Mr Thompson giving six months' notice. It does not give any right to a predetermined or liquidated sum by way of damages.

Mr Leckie and Mr Thompson were appointed to the Board in 1996 and 1997 respectively, when the Committee took the view that two year notice periods for such senior positions were reasonable, having regard to prevailing practice at that time. The Committee is aware of the requirements of the Combined Code for executive directors' contracts and conforms with best practice for any new appointment. The contract agreed with Mr A P Weatherstone, upon his appointment as Finance Director in January 2003, provides for a one year notice period to be given by the Company, but may be terminated by Mr Weatherstone giving six months' notice. This contract, dated 27 November 2002, does not give any right to a predetermined or liquidated sum by way of damages.

The Non-executive Directors do not have service contracts.

### Directors' emoluments

Particulars of Directors' total emoluments are disclosed later within this Board Report on Remuneration. Basic salaries are established by reference to the competitive market place and are reviewed annually on 1 April or when a change in responsibilities occurs.

### Annual performance bonus in cash

Executive Directors participate in an annual cash bonus scheme, providing a percentage of basic salary related to growth in profit before tax when measured against the prior year, with a cap of 50% of basic salary, for achieving growth in excess of 25%.

### Benefits in kind

The main elements, which are common within the industry, are the provision of a motor car for business and private use and medical insurance. The benefits are valued in accordance with Inland Revenue rules.

### Transactions with the Company

At no time during the year had any Director a material interest in any contract which was of significance to the Company's business.

## Pensions

Executive Directors are members of the Chapelthorpe plc Pension Fund, which is a defined benefit scheme with a maximum pension of two thirds of final pensionable salary payable not earlier than age 62 and subject to satisfying service requirements. Basic salary only is taken into account in calculating final pensionable salary under the rules of the scheme. However, each Executive Director is subject to the Inland Revenue earnings cap.

The Company set up the Chapelthorpe plc Funded Unapproved Retirement Benefit Scheme ("FURBS") for the benefit of Mr B Leckie and Mr A L Thompson. The FURBS seeks to provide each of its members with the contractual entitlement to the pension to which they would have been entitled but for the Inland Revenue earnings cap. A pension bonus is paid to cover the members' income tax liabilities in respect of the Company's contributions to the FURBS.

Mr J D Riley received the pension bonus of £15,000 per annum in recognition of the pension benefits foregone as a result of the Inland Revenue earnings cap.

## Options and awards

Share incentives are in the form of Chapelthorpe's share option schemes, details of which are set out below. The Remuneration Committee is responsible for the operation of these schemes and grants options (or where appropriate awards rights) based upon each executive's remuneration, performance and contribution to the Group. The Committee considers that these schemes provide a strong link between reward and performance, with an emphasis on producing sustained improvements in the underlying performance of Chapelthorpe plc and in aligning the executive's performance and reward with the interests of shareholders.

Details of Directors', and all, outstanding options and awards are shown later within this Board Report on Remuneration, and in Note 18 on page 37, respectively.

Options granted under the Chapelthorpe plc Executive Share Option Scheme 1994 and the Chapelthorpe plc 1996 Parallel Executive Share Option Scheme are exercisable in the event that the percentage increase in normalised earnings per share, over a relevant three year period exceeds the percentage increase in the Retail Prices Index over the same period plus 6% and 12%, respectively.

Under the Chapelthorpe plc 1998 Performance Related Share Plan, specific performance conditions are set, the attainment of which will determine whether, and to what extent, the award will vest. In respect of awards made prior to 1 April 2001, the performance criteria are based on the Company's Total Shareholder Return ("TSR") over a three year period (the "Performance Period") beginning at the commencement of the financial year in which the award is made.

Such awards will not vest unless:

i) there has been an increase in normalised earnings per share (being earnings per share before non-operating exceptional items) of the Company during the Performance Period equal to or greater than the increase in the Retail Prices Index over the same period; and
ii) the Company's TSR in the Performance Period relative to the average of that of a group of other comparable companies listed on the London Stock Exchange (the "Comparator Group"), having similarities to the Company in terms of market sector or market capitalisation or turnover at the beginning of the Performance Period as determined by the Remuneration Committee, is ranked at least at the median of the Comparator Group.

TSR is the annual compound return received on a share measured by reference to the increase in the price of a share over the Performance Period and the gross value of dividends and other benefits received on the share and reinvested on the day that share was declared ex-dividend. An award will vest in full if the Company is ranked in the top quartile of the Comparator Group; 30% of an award will vest if the Company is ranked at the median and pro-rata between these two points.

Certain awards made under the 1998 Performance Related Share Plan matured on 31 March 2003. The Remuneration Committee has determined that the performance conditions have not been met and that the awards will not vest. These were the final awards under the Chapelthorpe plc 1998 Performance Related Share Plan to be assessed by reference to the TSR criteria.

Following the receipt of independent advice, and recognising the difficulty in maintaining a fair Comparator Group listing, given the significant reduction in comparable listed companies, the Committee decided that an earnings per share basis was more appropriate in aligning the interests of shareholders with the recipients of the awards.

Consequently, in respect of awards made under the 1998 Performance Related Share Plan during 2001 and 2002, the Remuneration Committee has determined that the awards will vest after the Performance Period:

i) as to 30% if the normalised earnings per share in the final year of the Performance Period exceed 4.5 pence;
ii) as to 100% if the normalised earnings per share in the final year of the Performance Period exceed 6.5 pence;
iii) for normalised earnings per share in the final year of the Performance Period between 4.5 pence and 6.5 pence the apportionment is on a straight line basis.

# Board report on remuneration

**Options and awards (continued)**

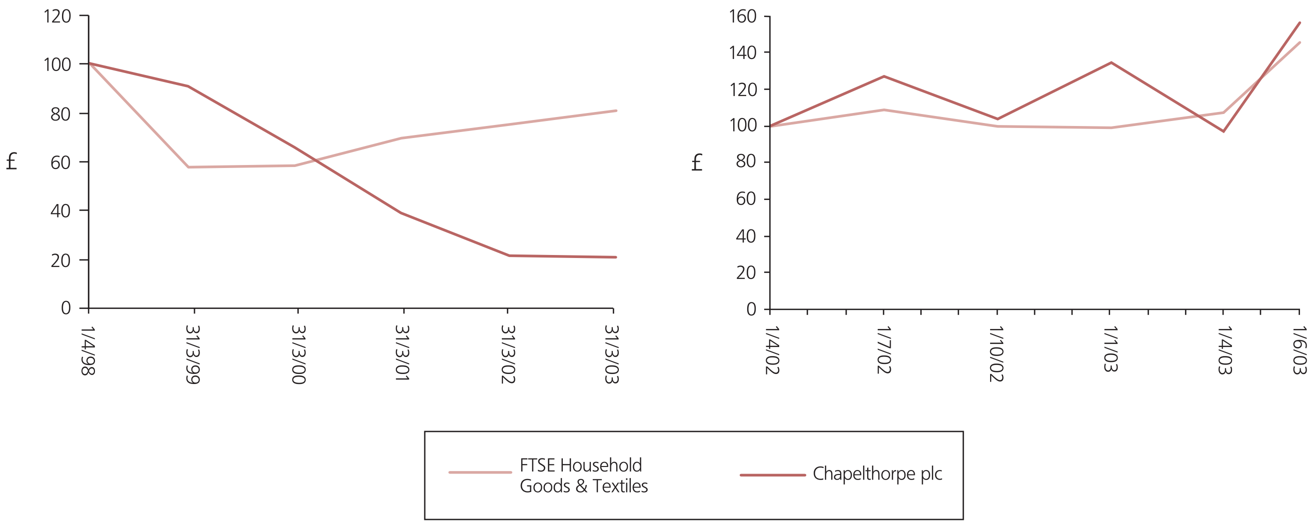
The future earnings per share targets are at the discretion of the Remuneration Committee. Under the normalised earnings per share calculation, the loss per share for the year ended 31 March 2002 was (0.11) pence per share and for the year ended 31 March 2003 was earnings of 0.62 pence per share.

Given the inherent nature of those schemes, the exercise of options granted under the Chapelthorpe plc Savings Related Share Option Scheme 1994 and the award of shares under the Chapelthorpe plc Invested Bonus Share Plan 1997, are not conditional on any performance criteria.

In 1996 the Company established the Chapelthorpe plc 1996 Employee Benefit Trust (the "Trust"). Since then, the trustees of the Trust have been put in funds by the Company to enable them to buy, in the market, ordinary shares in the Company. These shares have been used to make awards under the Invested Bonus Share Plan 1997 and the 1998 Performance Related Share Plan. At the year end the market value of all ordinary shares held by the Trust was £245,000.

**Performance graph**

Change in value of a hypothetical £100 holding in Chapelthorpe plc ordinary shares:




The graphs illustrate the performance of Chapelthorpe plc ordinary shares measured by total shareholder return (share price growth plus dividends paid) against a broad equity market index over the past five years and over the period since 1 April 2002.

The FTSE Household Goods & Textiles Index was considered by the Remuneration Committee to be the most relevant index in this context as it represents the sector within which Chapelthorpe plc is quoted.

**Directors' share interests**

The Register of Directors' Interests is available for inspection by the public.

The interests (which are all beneficial) of the Directors who held office at 31 March 2003, and of their families, in the ordinary shares of the Company were:

Holdings

| | **10 June 2003** | **31 March 2003** | 1 April 2002 (or date of appointment if later) |
|---|---|---|---|
| J Standen | **300,000** | **300,000** | – |
| B Leckie | **1,559,477** | **1,559,477** | 1,451,143 |
| A L Thompson | **237,959** | **237,959** | 207,981 |
| A B Reeve | **115,650** | **115,650** | 107,170 |
| A P Weatherstone | **175,000** | **175,000** | – |

No Directors had holdings of preference shares of the Company at any time during the year.

## Directors' share interests (continued)

### Options and awards*

| | 1 April 2002 | Lapsed in year | Vested in year | Granted/ awarded in year | **31 March 2003 (or date of retirement)** | Lapsed since 31 March 2003 (or date of retirement) | **10 June 2003** | Category (see Note 18 to the Accounts) |
|---|---|---|---|---|---|---|---|---|
| B Leckie | | | | | | | | |
| | 36,100 | | | | **36,100** | | **36,100** | B |
| | 61,700 | | | | **61,700** | | **61,700** | K |
| | 292,300 | 292,300 | | | | | | |
| | 82,700 | | 41,350 | | **41,350** | | **41,350** | S |
| | 336,149 | | | | **336,149** | 336,149 | | O |
| | 54,818 | | | | **54,818** | | **54,818** | J |
| | 544,026 | | | | **544,026** | | **544,026** | P |
| | | | | 903,291 | **903,291** | | **903,291** | Q |
| A L Thompson | | | | | | | | |
| | 31,700 | | | | **31,700** | | **31,700** | B |
| | 35,500 | | | | **35,500** | | **35,500** | K |
| | 18,818 | | | | **18,818** | | **18,818** | H |
| | 22,135 | | | | **22,135** | 22,135 | | I |
| | 179,843 | 179,843 | | | | | | |
| | 50,883 | | 25,442 | | **25,441** | | **25,441** | S |
| | 206,819 | | | | **206,819** | 206,819 | | O |
| | 15,545 | | | | **15,545** | 15,545 | | J |
| | 334,721 | | | | **334,721** | | **334,721** | P |
| | | | | 553,355 | **553,355** | | **553,355** | Q |
| J D Riley | | | | | | | | |
| | 15,000 | | | | **15,000** | | **15,000** | A |
| | 20,900 | | | | **20,900** | | **20,900** | B |
| | 40,000 | | | | **40,000** | | **40,000** | L |
| | 10,151 | | | | **10,151**# | | | |
| | 7,446 | | | | **7,446**# | | | R |
| | 26,754 | | 13,377 | | **13,377**# | | | S |
| | 159,420 | 159,420 | | | | | | |
| | 183,333 | | | | **183,333** | 183,333 | | O |
| | 54,818 | | | | **54,818** | 54,818 | | J |
| | 296,710 | | | | **296,710** | 296,710 | | P |
| | | | | 488,967 | **488,967** | 488,967 | | Q |

No other Director, who held office during the year ended 31 March 2003, had any interest in options over, or awards of, ordinary shares of the Company.

The market price per ordinary share of the Company at 31 March 2003 was 6.25 pence (2002: 6.75 pence). The market price during the year ended 31 March 2003 varied between 6.25 pence and 11.00 pence.

No Directors exercised any options at any time during the year (2002: Nil).

Under the rules of the relevant schemes, Mr Riley can exercise his outstanding share options until 31 December 2003, subject to certain performance criteria being met.

### Invested Bonus Share Plan 1997

Under the rules of the Invested Bonus Share Plan 1997, where Directors and employees can invest a proportion of their cash bonus in shares of the Company, Mr Leckie's award of 82,700 shares vested as to 50% (being 41,350 shares, valued at £2,791), as a result of fulfilling the initial service period condition of three years. Similarly, Mr Thompson's award of 50,883 shares vested as to 50% (being 25,442 shares, valued at £1,717).

In addition, Mr Riley's award of 26,754 shares vested as to 50% (being 13,377 shares, valued at £903) prior to his date of retirement, as a result of fulfilling the initial service period condition of three years. Due to his retirement, 30,974 shares (as denoted # above) vested in full (valued at £2,363).

# Board report on remuneration

**Directors' emoluments***

The emoluments of the Directors who served during the year are shown below.

| | Basic salary and fees £000 | Taxable benefits £000 | Cash bonus £000 | Compensation on leaving office £000 | Pension bonus £000 | **Total 2003 £000** | Total 2002 £000 |
|---|---|---|---|---|---|---|---|
| J Standen (appointed 1 June 2002) | 37 | – | – | – | – | **37** | – |
| B Leckie | 213 | 26 | 106 | – | 98 | **443** | 320 |
| A L Thompson | 131 | 14 | 65 | – | 10 | **220** | 162 |
| A B Reeve | 30 | – | – | – | – | **30** | 25 |
| A P Weatherstone (appointed 1 January 2003) | 31 | 3 | 16 | – | – | **50** | – |
| C R Godwin (retired 26 July 2002) | 17 | – | – | – | – | **17** | 56 |
| J D Riley (retired 31 December 2002) | 87 | 10 | – | 257 | 15 | **369** | 145 |
| M Swingler (retired 27 July 2001) | – | – | – | – | – | **–** | 7 |
| Aggregate total emoluments | 546 | 53 | 187 | 257 | 123 | **1,166** | 715 |
| Emoluments of highest paid Director | | | | | | **443** | 320 |

As compensation on leaving office Mr J D Riley received a payment of £166,000 and his pension benefits were enhanced at a cost to the Company of £91,000.

**Directors' pensions***

The benefits available to Executive Directors as members of the Chapelthorpe plc Pension Fund were:

| | B Leckie £000 | A L Thompson £000 | A P Weatherstone £000 | J D Riley £000 |
|---|---|---|---|---|
| Accrued pension at 31 March 2003 (or date of retirement) | 28 | 54 | – | 25 |
| Accrued pension at 31 March 2002 | 26 | 52 | – | 23 |
| Increase in accrued pension (excluding inflation) | 2 | 1 | – | 2 |
| Transfer value of increase in accrued pension (less member contribution) | 17 | 2 | – | 20 |
| Transfer value of accrued pension at 31 March 2003 (or date of retirement) | 267 | 402 | 2 | 269 |
| Transfer value of accrued pension at 31 March 2002 | 268 | 470 | – | 256 |
| (Decrease) increase in transfer value of accrued pension (less member contribution) | (7) | (74) | – | 8 |

Transfer values are based on advice received from independent, qualified actuaries.

The value of contributions paid or provided by the Company in respect of the year ended 31 March 2003, to the Chapelthorpe plc Funded Unapproved Retirement Benefit Scheme, was £162,000 (2002: £158,000) in respect of Mr B Leckie and £19,000 (2002: £32,000) in respect of Mr A L Thompson.

No pension contributions are made on behalf of the Non-executive Directors.

On behalf of the Board,

**J Standen**
Chairman, Remuneration Committee
10 June 2003

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated balance sheet, the Parent Company balance sheet, the consolidated cash flow statement, the statement of total recognised gains and losses, the movement in shareholders' funds and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Board Report on Remuneration ("the auditable part").

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Board Report on Remuneration 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 and the auditable part of the Board Report on Remuneration in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the 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 whether the financial statements and the auditable part of the Board Report on Remuneration 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 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, the unaudited part of the Board Report on Remuneration, the Chairman's Statement, the Review of Operations, the Financial Review and the Corporate Governance Statement.

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

## 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 and the auditable part of the Board Report on Remuneration. 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 Board Report on Remuneration 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 March 2003 and the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Board Report on Remuneration required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
10 June 2003

# Consolidated profit and loss account

year ended 31 March 2003

| | Notes | Operating activities 2003 £000 | Exceptional items 2003 £000 | 2003 £000 | 2002 £000 |
|---|---|---|---|---|---|
| Turnover – continuing operations | 2 | **121,803** | **–** | **121,803** | 127,048 |
| Cost of sales | | **96,412** | **–** | **96,412** | 103,623 |
| Gross profit | | **25,391** | **–** | **25,391** | 23,425 |
| Net operating expenses | 3 | **17,999** | **1,501** | **19,500** | 21,060 |
| Operating profit – continuing operations | | | | | |
| Operating profit before under noted items | | **8,160** | **–** | **8,160** | 6,006 |
| Exceptional items | | **–** | **(1,501)** | **(1,501)** | (2,819) |
| Amortisation of goodwill | | **(768)** | **–** | **(768)** | (822) |
| Total operating profit | 2, 7 | **7,392** | **(1,501)** | **5,891** | 2,365 |
| Exceptional items relating to prior period disposals | 8 | **–** | **(1,136)** | **(1,136)** | – |
| Net interest payable | 4 | **2,454** | **–** | **2,454** | 2,805 |
| Profit (loss) on ordinary activities before taxation | | | | | |
| Profit before taxation and exceptional items | | **4,938** | **–** | **4,938** | 2,379 |
| Exceptional items | | **–** | **(2,637)** | **(2,637)** | (2,819) |
| Profit (loss) on ordinary activities before taxation | | **4,938** | **(2,637)** | **2,301** | (440) |
| Taxation on profit (loss) on ordinary activities | 5 | | | **2,092** | (266) |
| Profit (loss) for the financial year | | | | **209** | (174) |
| Dividends (including non-equity) | 6 | | | **1,558** | 1,018 |
| (Deficit) transferred from reserves | 20 | | | **(1,349)** | (1,192) |

| | Notes | 2003 | 2002 |
|---|---|---|---|
| Earnings (loss) per ordinary share (pence) | | | |
| Basic and diluted | 19 | **0.08** | (0.11) |
| Underlying | 19 | **1.69** | 1.11 |

# Consolidated balance sheet

31 March 2003

| | Notes | **2003 £000** | 2002 £000 |
|---|---|---|---|
| Fixed assets | | | |
| Intangible assets | 9 | **13,069** | 13,231 |
| Tangible assets | 10 | **55,873** | 62,026 |
| | | **68,942** | 75,257 |
| Current assets | | | |
| Stocks | 11 | **12,855** | 14,372 |
| Debtors | 12 | **30,624** | 31,941 |
| Cash at bank and in hand | | **4,214** | 9,006 |
| | | **47,693** | 55,319 |
| Creditors | | | |
| Amounts falling due within one year | 13 | **40,481** | 40,162 |
| Net current assets | | **7,212** | 15,157 |
| Total assets less current liabilities | | **76,154** | 90,414 |
| Creditors | | | |
| Amounts falling due after more than one year | 13 | **18,984** | 30,338 |
| Provisions for liabilities and charges | 15 | **9,293** | 8,672 |
| Net assets | | **47,877** | 51,404 |
| Capital and reserves | | | |
| Called up share capital (including non-equity interests) | 18 | **11,002** | 11,002 |
| Share premium account | | **1,251** | 1,251 |
| Capital redemption reserve | | **487** | 487 |
| Profit and loss account | 20 | **35,137** | 38,664 |
| Total shareholders' funds (including non-equity interests) | | **47,877** | 51,404 |

Approved by the Directors on 10 June 2003

**J Standen**
Chairman

**B Leckie**
Director

# Parent company balance sheet

31 March 2003

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 10 | **657** | 681 |
| Investments | 24 | **102,021** | 100,340 |
| | | **102,678** | 101,021 |
| **Current assets** | | | |
| Debtors | 12 | **10,578** | 10,308 |
| Cash at bank and in hand | | **89** | 4,049 |
| | | **10,667** | 14,357 |
| **Creditors** | | | |
| Amounts falling due within one year | 13 | **27,018** | 22,575 |
| **Net current (liabilities)** | | **(16,351)** | (8,218) |
| **Total assets less current liabilities** | | **86,327** | 92,803 |
| **Creditors** | | | |
| Amounts falling due after more than one year | 13 | **11,283** | 19,506 |
| **Net assets** | | **75,044** | 73,297 |
| **Capital and reserves** | | | |
| Called up share capital (including non-equity interests) | 18 | **11,002** | 11,002 |
| Share premium account | | **1,251** | 1,251 |
| Capital redemption reserve | | **487** | 487 |
| Capital reserve | | **9,204** | 9,204 |
| Merger reserve | | **41,723** | 41,723 |
| Profit and loss account | 20 | **11,377** | 9,630 |
| **Total shareholders' funds (including non-equity interests)** | | **75,044** | 73,297 |

Approved by the Directors on 10 June 2003

**J Standen**
Chairman

**B Leckie**
Director

# Consolidated cash flow statement

year ended 31 March 2003

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| Net cash inflow from operating activities | 21 | **15,549** | 9,552 |
| Returns on investments and servicing of finance | | | |
| Interest received | | **118** | 172 |
| Interest paid | | **(2,388)** | (2,909) |
| Interest element of finance lease rental payments | | **(9)** | (1) |
| Dividends paid on non-equity shares | | **(46)** | (46) |
| Net cash (outflow) from returns on investments and servicing of finance | | **(2,325)** | (2,784) |
| Taxation | | **603** | 335 |
| Capital expenditure | | | |
| Purchases of tangible fixed assets | | **(1,817)** | (2,273) |
| Sales of tangible fixed assets | | **16** | 847 |
| | | **(1,801)** | (1,426) |
| Acquisitions and disposals | | | |
| Costs relating to prior period disposals of businesses/properties | | **(1,040)** | – |
| Purchases of businesses | | **–** | (161) |
| | | **(1,040)** | (161) |
| Equity dividends paid | | **(1,002)** | (2,502) |
| Net cash inflow before financing | | **9,984** | 3,014 |
| Financing | | | |
| Loans advanced | | **–** | 9,790 |
| Repayment of amounts borrowed | | **(10,079)** | (4,897) |
| Capital element of finance lease rental payments | | **(60)** | (9) |
| Net cash (outflow) inflow from financing | 23 | **(10,139)** | 4,884 |
| (Decrease) increase in cash | 22 | **(155)** | 7,898 |

# Total recognised gains and losses
year ended 31 March 2003

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Profit (loss) for the financial year | **209** | (174) |
| Exchange translation adjustments on foreign currency net investments | **(2,178)** | (409) |
| Total recognised (losses) for the year | **(1,969)** | (583) |

# Movement in shareholders' funds
year ended 31 March 2003

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Profit (loss) for the financial year | **209** | (174) |
| Dividends | **(1,558)** | (1,018) |
| | **(1,349)** | (1,192) |
| Exchange translation adjustments on foreign currency net investments | **(2,178)** | (409) |
| (Decrease) in shareholders' funds | **(3,527)** | (1,601) |
| Shareholders' funds at 1 April 2002 | **51,404** | 53,005 |
| Shareholders' funds at 31 March 2003 | **47,877** | 51,404 |
| Attributable to: | | |
| Equity interests | **47,077** | 50,604 |
| Non-equity interests: | | |
| First cumulative preference shares of 50 pence | **50** | 50 |
| Second cumulative preference shares of £1 | **750** | 750 |
| | **800** | 800 |
| | **47,877** | 51,404 |

## 1. Statement of accounting policies

### Basis of consolidation

The consolidated accounts incorporate the accounts of the Parent Company and its subsidiaries prepared in accordance with applicable Accounting Standards using the historical cost convention. The acquisition method of accounting has been adopted. Under this method the results of subsidiaries acquired are included in the accounts from the effective date of acquisition; the results of subsidiaries disposed of are included up to the effective date of disposal.

### Goodwill

Goodwill arising on consolidation, being the excess of cost of acquisition over the fair value of net assets of subsidiaries at the date of acquisition, is amortised through the profit and loss account over its estimated useful life of 20 years, in accordance with Financial Reporting Standard 10. Goodwill arising prior to 1998/99 was charged directly to reserves and is included in the calculation of profit or loss on disposal.

Goodwill arising on consolidation which has arisen on the purchase of an overseas operation, is carried as a currency asset and retranslated at the balance sheet date. Differences arising on retranslation are taken to reserves.

### Impairments

The carrying values of tangible and intangible fixed assets on the balance sheet are reviewed, where appropriate, in order to consider whether any provision for impairment is necessary. Impairment provisions are calculated by comparing the higher of net realisable value and value in use of the asset, using forecast cash flows discounted at the Group's pre-tax weighted average cost of capital, with its carrying value.

### Foreign currencies

Trading results of overseas subsidiaries are translated into Sterling at the average rates of exchange for the accounting period. Differences arising on the translation from average to closing rate of the results of overseas subsidiaries are taken to reserves. Differences arising from the retranslation of net assets of overseas subsidiaries at the beginning of the year and matched foreign currency borrowings are dealt with through reserves. Assets and liabilities denominated in foreign currency are translated into Sterling at the rates of exchange ruling at the year end. Gains and losses from trading operations are included in operating profit.

### Turnover

Turnover is based on invoice values to external customers for goods and services, excluding value added tax and overseas sales taxes, and is recognised at the point of despatch or when the service is provided.

### Stocks

Stocks and work in progress are valued at the lower of cost or estimated net realisable value, and cost where appropriate includes a measured proportion of overhead expenses, which are directly related to production, and which are absorbed on the basis of normal levels of activity. Provision is made, taking into account age and potential obsolescence, in order to reduce gross stock valuations to their estimated recoverable amounts.

### Research and development

Research and development expenditure is charged against profits in the year in which it is incurred.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and provision for any impairment.

Depreciation on tangible fixed assets is provided on a straight line basis over the estimated lives of assets as follows:

| | |
|---|---|
| Freehold buildings | 50 years |
| Plant and equipment | 3 to 15 years |
| Motor vehicles | 2 to 4 years |
| Leasehold land and buildings | Over life of lease |

### Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

### Leased assets

Assets subject to finance leases, being those where the associated risks and rewards of ownership have substantially transferred to the Group, are shown as fixed assets and depreciated over the asset life. The corresponding liability for the capital element is shown as a finance lease, and the interest element is charged against profits over the primary lease period. Rental costs relating to all other leases are charged against profits as incurred.

# Notes to the accounts

## 1. Statement of accounting policies (continued)

### Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax is not provided on unremitted earnings of subsidiaries where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### Pensions

The Group operates a funded defined benefit and four defined contribution pension schemes. In addition the Group's Austrian subsidiary is required to provide for leaving indemnities, which represent a defined benefit on retirement.

Contributions in respect of defined contribution schemes are charged to the profit and loss account in the year in which they arise.

The expected costs of providing pensions arising from the defined benefit scheme, and other post-retirement schemes, as calculated every three years by professionally qualified actuaries, are charged to the profit and loss account so as to spread the cost over the service lives of employees, in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

### Employee share ownership plans

The costs of awards made under the Company's employee share ownership plans are amortised over the periods of service to which the awards relate.

Shares in Chapelthorpe plc held by the Chapelthorpe Trust are stated at the lower of cost and net realisable value at the balance sheet date, less the related amortisation charge, and are recorded within debtors.

The Company has taken advantage of the exemption permitted by UITF 17 (Revised), in relation to Inland Revenue approved SAYE schemes from the need to apply a charge in the profit and loss account based on the difference between the fair value of the shares and the exercise price at the date a SAYE option is granted.

### Debtors

Provision is made for that proportion of those debts whose recoverability is considered doubtful, after taking into account credit insurance recoveries where applicable.

### Derivative instruments

The Group uses forward foreign currency contracts to reduce exposure to fluctuations in foreign exchange rates. The Group also uses interest rate swaps to manage interest rate exposures.

#### Forward foreign currency contracts

The rates under contracts, which relate to a specific financial asset or liability, are used to record the hedged item.

#### Interest rate swaps

Where an interest rate swap converts a variable interest rate to a fixed rate, interest rate differentials are charged/credited to net interest payable as the underlying interest arises. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end.

### Provisions

Provisions are recognised by the Group when there is an obligation arising as a result of a past event and it is probable that the obligation will require a transfer of economic benefits in settlement. Provisions are discounted, where material, to reflect the present value of the expenditure required to settle the obligation. The discount rate used is the pre-tax weighted average cost of capital of the Group.

## 2. Turnover, operating profit and segmental analysis

### Area of activity

| | Turnover | | Pre-exceptional operating profit | | Net operating assets | |
|---|---|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Continuing operations | | | | | | |
| Fibres | **79,183** | 80,499 | **3,066** | 1,585 | **49,193** | 58,763 |
| Specialist Coatings | **30,606** | 35,446 | **3,045** | 2,879 | **12,928** | 13,504 |
| Umbrella Frames | **12,014** | 11,103 | **2,049** | 1,542 | **8,652** | 9,177 |
| | **121,803** | 127,048 | **8,160** | 6,006 | **70,773** | 81,444 |
| Goodwill amortised/capitalised | | | | | | |
| Fibres | | | **(396)** | (397) | **7,119** | 6,909 |
| Specialist Coatings | | | **(372)** | (425) | **5,950** | 6,322 |
| | | | **(768)** | (822) | **13,069** | 13,231 |
| | **121,803** | 127,048 | **7,392** | 5,184 | **83,842** | 94,675 |
| Net operating assets | | | | | **83,842** | 94,675 |
| Unallocated net liabilities | | | | | **(35,965)** | (43,271) |
| Total net assets | | | | | **47,877** | 51,404 |

Unallocated net liabilities comprise taxation, deferred taxation, dividends, cash, borrowings and term deposits.

During the year ended 31 March 2003, £1,501,000 of exceptional costs were charged against operating profit, of which £209,000 related to the Fibres division, £1,228,000 related to the Specialist Coatings division and £64,000 related to the Umbrella Frames division. Additionally in the year ended 31 March 2002, the exceptional costs of £2,819,000 charged against operating profit included £2,019,000 associated with the Fibres division, £682,000 associated with the Specialist Coatings division and £118,000 related to the Umbrella Frames division. Full details of the operating exceptional items are shown in Note 7 to these accounts.

### Geographical area

| | Turnover | | Pre-exceptional operating profit | | Net operating assets | |
|---|---|---|---|---|---|---|
| Region of origin | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Continuing operations | | | | | | |
| Europe | **79,274** | 78,285 | **6,139** | 6,413 | **32,095** | 33,786 |
| North America | **42,529** | 48,763 | **2,021** | (407) | **38,678** | 47,658 |
| | **121,803** | 127,048 | **8,160** | 6,006 | **70,773** | 81,444 |
| Goodwill amortised/capitalised | | | | | | |
| Europe | | | **(696)** | (752) | **12,008** | 11,957 |
| North America | | | **(72)** | (70) | **1,061** | 1,274 |
| | | | **(768)** | (822) | **13,069** | 13,231 |
| | **121,803** | 127,048 | **7,392** | 5,184 | **83,842** | 94,675 |
| Net operating assets | | | | | **83,842** | 94,675 |
| Unallocated net liabilities | | | | | **(35,965)** | (43,271) |
| Total net assets | | | | | **47,877** | 51,404 |

During the year ended 31 March 2003, £1,501,000 of exceptional costs were charged against operating profit, of which £1,389,000 related to the European operations and £112,000 related to the North American operations. Additionally in the year ended 31 March 2002, the exceptional costs of £2,819,000 included £1,225,000 associated with the European operations and £1,594,000 associated with the North American operations.

| Region of destination | **2003 £000** | 2002 £000 |
|---|---|---|
| Turnover – continuing operations | | |
| Europe | **73,670** | 74,186 |
| North America | **44,151** | 49,933 |
| Africa and Middle East | **573** | 766 |
| Australasia and Far East | **3,409** | 2,163 |
| | **121,803** | 127,048 |

# Notes to the accounts

## 2. Turnover, operating profit and segmental analysis (continued)

Operating profit is after charging (crediting) the following items:

| | **2003 £000** | 2002 £000 |
|---|---|---|
| Depreciation – owned assets | **5,026** | 5,910 |
| – leased assets | **51** | 64 |
| Amortisation of goodwill | **768** | 822 |
| Profit on sale of tangible fixed assets | **–** | (98) |
| Operating exceptional items (Note 7) | **1,501** | 2,819 |
| Operating leases – hire of plant and equipment | **425** | 597 |
| – other | **336** | 405 |
| Auditors' remuneration | **159** | 160 |

Non-audit fees charged by PricewaterhouseCoopers LLP, in the United Kingdom, amounted to £113,000, of which £Nil relates to operating exceptional items (2002: £297,000, including £165,000 relating to operating exceptional items).

The audit fee relating to the Parent Company amounted to £35,000 (2002: £34,000).

## 3. Analysis of net operating expenses

| | Operating activities **2003 £000** | Exceptional items **2003 £000** | Total **2003 £000** | Operating activities 2002 £000 | Exceptional items 2002 £000 | Total 2002 £000 |
|---|---|---|---|---|---|---|
| Distribution costs | **9,890** | **–** | **9,890** | 10,954 | 1,971 | 12,925 |
| Administration expenses | **8,186** | **1,501** | **9,687** | 8,019 | 149 | 8,168 |
| Other operating (income) | **(77)** | **–** | **(77)** | (33) | – | (33) |
| Net operating expenses | **17,999** | **1,501** | **19,500** | 18,940 | 2,120 | 21,060 |

## 4. Net interest payable

| | **2003 £000** | 2002 £000 |
|---|---|---|
| Payable: | | |
| Bank loans, overdrafts and short-term facilities | **2,534** | 2,976 |
| Interest on finance leases | **9** | 1 |
| | **2,543** | 2,977 |
| Receivable: | | |
| Bank and other deposits | **27** | 118 |
| Other interest | **62** | 54 |
| | **89** | 172 |
| Net interest payable | **2,454** | 2,805 |

## 5. Taxation on profit (loss) on ordinary activities

### a) Analysis of charge (credit) in the year

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Corporation tax at 30% (2002: 30%) | **862** | 7 |
| Overseas tax | **517** | (974) |
| Taxation underprovided in previous years | **170** | 287 |
| Total current tax (Note 5b) | **1,549** | (680) |
| Deferred taxation – current year | **281** | 414 |
| – relating to prior years | **262** | – |
| | **2,092** | (266) |

Corporation tax and overseas tax have been based on the profit for the year.

Included within tax underprovided in previous years for 2002/03 is a charge of £48,000 relating to overseas operations (2002: charge of £198,000).

The tax effect in the profit and loss account relating to operating exceptional items is a credit of £126,000 (2002: credit of £1,184,000). The tax effect in the profit and loss account relating to non-operating exceptional items is a credit of £60,000 (2002: £Nil).

### b) Factors affecting the tax charge (credit) for the year

The standard rate of current tax for the year, based upon the UK standard rate of corporation tax, is 30% (2002: 30%). The current tax charge (credit) for the year exceeds 30% for the reasons set out below:

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Profit (loss) on ordinary activities before taxation | **2,301** | (440) |
| Tax on profit (loss) on ordinary activities at standard rate | **690** | (132) |
| Factors affecting charge: | | |
| Expenses not deductible for tax purposes (primarily goodwill amortisation) | **262** | 235 |
| Non-taxable movements on restructuring provisions | **324** | (482) |
| Non-taxable costs relating to prior period disposals of businesses/properties | **300** | – |
| Capital allowances for the year in excess of depreciation | **(281)** | (487) |
| Differing rates of tax on overseas earnings | **84** | (167) |
| Adjustments to tax charge in respect of previous years | **170** | 287 |
| Withholding tax relating to overseas dividends | **–** | 66 |
| Current tax charge (credit) (Note 5a) | **1,549** | (680) |

## 6. Dividends

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Ordinary shares (equity shares): | | |
| Interim dividend of 0.25 pence (2002: 0.25 pence) | **510** | 510 |
| Final dividend of 0.5 pence recommended (2002: 0.25 pence) | **1,020** | 510 |
| Dividends waived by the Chapelthorpe Trust | **(18)** | (48) |
| | **1,512** | 972 |
| Preference shares (non-equity shares) | **46** | 46 |
| | **1,558** | 1,018 |

# Notes to the accounts

## 7. Operating exceptional items

During the year, the Group has incurred a number of exceptional costs. These costs represent the following items:

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Bad debts | – | 1,747 |
| UK Specialist Coatings – restructuring costs | 1,080 | (443) |
| Redundancy and severance costs | 421 | 631 |
| Post acquisition reorganisation and excess running costs of staple fibre business | – | 683 |
| Other exceptional costs | – | 201 |
| Costs relating to operating exceptional items | 1,501 | 2,819 |

The restructuring costs attributable to the Specialist Coatings division relate to costs in respect of the vacant leasehold properties.

The redundancy and severance costs of £421,000 relate to compensation on leaving office in connection with the retirement of the Group Finance Director amounting to £257,000 and £164,000 in respect of other severance costs incurred in the year.

The cash flow impact of operating exceptional items in the year was as follows:

| | 2003 £000 | 2002 £000 |
|---|---|---|
| UK Specialist Coatings – restructuring costs | 409 | 855 |
| Redundancy and severance costs | 369 | 687 |
| Other exceptional costs from prior year | 215 | – |
| Post acquisition reorganisation and excess running costs of staple fibre business | – | 1,801 |
| Prior year aborted acquisition bid and potential offer for the Company | – | 197 |
| Net cash outflow relating to operating exceptional items | 993 | 3,540 |

## 8. Non-operating exceptional items

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Contractual commitments in respect of previously disposed of properties | 891 | – |
| Regal Rugs, Inc. environmental costs (see Note 15 on page 36) | 245 | – |
| | 1,136 | – |

The contractual commitments of £891,000 above refer to costs incurred in satisfaction of conditions of sale of a property, disposed of as part of the sale of the Group's carpet businesses a number of years ago.

## 9. Intangible fixed assets

| | Consolidated goodwill £000 |
|---|---|
| Cost | |
| At 1 April 2002 | 18,725 |
| Exchange adjustments | **606** |
| At 31 March 2003 | **19,331** |
| Amortisation | |
| At 1 April 2002 | 2,492 |
| Provided during the year | **768** |
| At 31 March 2003 | **3,260** |
| Impairment provision | |
| At 1 April 2002 and at 31 March 2003 | **3,002** |
| Net book value | |
| At 31 March 2003 | **13,069** |
| At 31 March 2002 | 13,231 |

Goodwill arising on the purchase of businesses after 31 March 1998 is being amortised over an estimated useful life of 20 years.

## 10. Tangible fixed assets

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | Land and buildings £000 | Plant and equipment £000 | Total £000 | Land and buildings £000 | Plant and equipment £000 | Total £000 |
| Cost | | | | | | |
| At 1 April 2002 | 21,376 | 90,727 | 112,103 | 733 | 467 | 1,200 |
| Exchange adjustments | **(302)** | **(3,773)** | **(4,075)** | | | |
| Additions | **291** | **1,619** | **1,910** | **–** | **160** | **160** |
| Disposals | **(104)** | **(1,298)** | **(1,402)** | **–** | **(3)** | **(3)** |
| At 31 March 2003 | **21,261** | **87,275** | **108,536** | **733** | **624** | **1,357** |
| Depreciation | | | | | | |
| At 1 April 2002 | 3,582 | 43,899 | 47,481 | 149 | 370 | 519 |
| Exchange adjustments | **(25)** | **(1,080)** | **(1,105)** | | | |
| Charge for the year | **531** | **4,546** | **5,077** | **49** | **132** | **181** |
| Disposals | **(104)** | **(1,282)** | **(1,386)** | **–** | **–** | **–** |
| At 31 March 2003 | **3,984** | **46,083** | **50,067** | **198** | **502** | **700** |
| Impairment provision | | | | | | |
| At 1 April 2002 and at 31 March 2003 | **–** | **2,596** | **2,596** | **–** | **–** | **–** |
| Net book value | | | | | | |
| At 31 March 2003 | **17,277** | **38,596** | **55,873** | **535** | **122** | **657** |
| At 31 March 2002 | 17,794 | 44,232 | 62,026 | 584 | 97 | 681 |

# Notes to the accounts

## 10. Tangible fixed assets (continued)

The net book value of land and buildings comprises:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Freeholds | **16,742** | 17,210 | **–** | – |
| Short leaseholds | **535** | 584 | **535** | 584 |
| | **17,277** | 17,794 | **535** | 584 |

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Net book value of assets subject to finance leases | **76** | – | **76** | – |
| Capital expenditure commitments | **136** | 35 | **–** | – |

## 11. Stocks

| | Consolidated | |
|---|---|---|
| | **2003 £000** | 2002 £000 |
| Raw materials and consumable stores | **4,997** | 5,157 |
| Work in progress | **685** | 645 |
| Finished products | **7,173** | 8,570 |
| | **12,855** | 14,372 |

## 12. Debtors

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Amounts falling due within one year | | | | |
| Trade debtors | **25,683** | 25,249 | **–** | – |
| Subsidiary companies | | | **7,637** | 6,915 |
| Other debtors | **2,628** | 2,749 | **1,844** | 2,102 |
| Prepayments and accrued income | **781** | 699 | **406** | 364 |
| Taxation recoverable | **971** | 2,745 | **691** | 927 |
| Amounts falling due after more than one year | | | | |
| Other debtors – term deposits | **561** | 499 | **–** | – |
| | **30,624** | 31,941 | **10,578** | 10,308 |

Included in other debtors is £96,000 (2002: £175,000) in respect of shares held by the Chapelthorpe Trust representing 3,920,000 (2002: 3,591,000) ordinary shares of Chapelthorpe plc held for the purposes of the 1998 Performance Related Share Plan and the Invested Bonus Share Plan 1997. This represents 1.9% (2002: 1.8%) of the Group's issued ordinary share capital. At 31 March 2003 these shares had a market value of £245,000 (2002: £242,000).

## 13. Creditors

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Amounts falling due within one year | | | | |
| Bank overdrafts, loans and other borrowings | **13,449** | 17,222 | **5,265** | 4,000 |
| Trade creditors | **16,414** | 14,486 | **–** | – |
| Subsidiary companies | | | **18,485** | 16,227 |
| Corporation tax | **1,790** | 1,121 | **–** | – |
| Other taxes and social security costs | **705** | 643 | **105** | 72 |
| Other creditors | **1,203** | 850 | **665** | 441 |
| Accruals and deferred income | **5,900** | 5,330 | **1,478** | 1,325 |
| Ordinary dividend | **1,020** | 510 | **1,020** | 510 |
| | **40,481** | 40,162 | **27,018** | 22,575 |

## 13. Creditors (continued)

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Amounts falling due after more than one year | | | | |
| Loans falling due: | | | | |
| within 1–2 years | **8,203** | 8,415 | **5,000** | 5,000 |
| within 2–5 years | **10,753** | 21,923 | **6,255** | 14,506 |
| Finance leases falling due: | | | | |
| within 1–2 years | **28** | – | **28** | – |
| | **18,984** | 30,338 | **11,283** | 19,506 |

## 14. Loans

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| UK bank loan repayable on 31 May 2002 | **–** | 500 | **–** | 500 |
| UK bank loan repayable by eleven quarterly instalments of £1,250,000 commencing 30 June 2003 and a final instalment of £250,000 repayable on 31 March 2006 | **14,000** | 21,000 | **14,000** | 21,000 |
| UK Euro denominated bank loan of €3,270,278 repayable by one instalment of £1,000,000 on 31 March 2006 and one instalment of £1,255,000 on 30 June 2006 | **2,255** | 2,006 | **2,255** | 2,006 |
| US Dollar denominated revolving bank loan reducing by $1,000,000 per quarter commencing 30 June 2003 | **8,228** | 11,268 | **–** | – |
| Austrian bank loans repayable by semi-annual instalments of €487,000 on 1 January and 1 July and a final instalment of €472,000 on 1 January 2007 | **2,676** | 2,978 | **–** | – |
| Total | **27,159** | 37,752 | **16,255** | 23,506 |
| Repayment of bank loans: | | | | |
| in one year or less or on demand | **8,203** | 7,414 | **5,000** | 4,000 |
| in more than one year but not more than two years | **8,203** | 8,415 | **5,000** | 5,000 |
| in more than two years but not more than five years | **10,753** | 21,923 | **6,255** | 14,506 |
| Total | **27,159** | 37,752 | **16,255** | 23,506 |

The UK loans carry interest based on LIBOR.

The Group entered into an interest rate swap agreement covering £16,100,000 of the UK loan, falling to £10,500,000 by 30 May 2003 and terminating on 28 November 2003, at a rate of 8.63% per annum. At 31 March 2003, this swap agreement covered £12,250,000 of the loan balance. The Group also entered into an interest rate swap agreement covering €2,300,000 of the UK Euro denominated loan to 28 November 2003 at a rate of 7.64% per annum.

The US loan carries interest based on the dollar deposit rate quoted in the London Interbank Market. This is a medium-term loan facility with maximum borrowings of $13,000,000 at 31 March 2003 falling by $1,000,000 on 31 March, 30 June, 30 September and 31 December of each year. The Group entered into an interest rate swap agreement covering $4,200,000 of the loan to 28 November 2003 at a rate of 8.89% per annum.

Chapelthorpe plc and certain subsidiary companies have given fixed and floating charges over their assets as security for the UK and US loans.

The Austrian loans consist of two loan accounts, one of €1,323,000 which carries interest based on six month EURIBOR and is secured on the freehold property of Asota GmbH and the other of €2,558,000 which carries a fixed rate of interest of 4.9% to January 2007 and is secured over certain plant and machinery and buildings of Asota GmbH.

After the year end, a revised repayment schedule was agreed for the UK bank loan. This is now repayable in four quarterly repayments of £750,000, commencing 30 June 2003, followed by seven quarterly instalments of £1,250,000 and a final instalment of £2,250,000 on 31 March 2006. The UK Euro denominated bank loan of €3,270,278 is now repayable in one instalment of £1,000,000 on 30 June 2006 and one instalment of £1,255,000 on 30 September 2006.

# Notes to the accounts

## 15. Provisions for liabilities and charges

### Movements during the year

| | Consolidated | | | | Parent Company |
|---|---|---|---|---|---|
| | Provisions for restructuring £000 | Provision for environmental liabilities £000 | Deferred taxation £000 | Total £000 | Deferred taxation £000 |
| At 1 April 2002 | 1,351 | 741 | 6,580 | 8,672 | (182) |
| Exchange adjustments | **–** | **(75)** | **(529)** | **(604)** | **–** |
| Charged during the year | **1,060** | **245** | **543** | **1,848** | **155** |
| Utilised | **(409)** | **(214)** | **–** | **(623)** | **–** |
| **At 31 March 2003** | **2,002** | **697** | **6,594** | **9,293** | **(27)** |

At 31 March 2003 the provisions for restructuring related to vacant leasehold property costs arising as a result of the closure of the Specialist Coatings facilities at Bishop Auckland and at Altham.

The provision for environmental liabilities relates to the disposal of Regal Rugs, Inc. and is an estimate of potential ongoing environmental costs.

Deferred taxation provided in the accounts and the amounts not provided are as follows:

| | Potential liability **2003** **£000** | Amount provided **2003** **£000** | Potential liability 2002 £000 | Amount provided 2002 £000 |
|---|---|---|---|---|
| Consolidated | | | | |
| Accelerated tax allowances on plant, equipment and buildings | **8,109** | **8,109** | 8,247 | 8,247 |
| Other timing differences | **(1,090)** | **(1,090)** | (865) | (865) |
| Losses | **(425)** | **(425)** | (802) | (802) |
| | **6,594** | **6,594** | 6,580 | 6,580 |
| Parent Company | | | | |
| Other timing differences | **(27)** | **(27)** | (51) | (51) |
| Losses | **–** | **–** | (131) | (131) |
| | **(27)** | **(27)** | (182) | (182) |

The deferred tax asset of the Parent Company at 31 March 2003 is included within other debtors in Note 12.

## 16. Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | **2003** **£000** | 2002 £000 | **2003** **£000** | 2002 £000 |
| Leases which expire: | | | | |
| within 1 year | **21** | 67 | **72** | 77 |
| within 2 – 5 years | **215** | 38 | **297** | 429 |
| after 5 years | **326** | 392 | **–** | – |
| | **562** | 497 | **369** | 506 |

## 17. Contingent liabilities

At 31 March 2003 Group guarantees to third parties and other contingent liabilities amounted to £141,000 (2002: £125,000).

Chapelthorpe plc and certain subsidiary companies have given fixed and floating charges over their assets as security for the UK and North American bank facilities. In addition, each of the companies is jointly and severally liable for the net indebtedness under these facilities. The net indebtedness at 31 March 2003 amounted to £25,601,000.

Asota GmbH has given fixed and floating charges over certain of its assets as security for its loans, as disclosed in Note 14.

## 18. Called up share capital

| | Authorised | | Allotted and fully paid | |
|---|---|---|---|---|
| | **Number** | **£000** | **Number** | **£000** |
| Equity share capital: | | | | |
| Ordinary shares of 5 pence | 258,000,000 | 12,900 | 204,040,000 | 10,202 |
| Non-equity share capital: | | | | |
| First cumulative preference shares of 50 pence | 100,000 | 50 | 100,000 | 50 |
| Second cumulative preference shares of £1 | 750,000 | 750 | 750,000 | 750 |
| | | 800 | | 800 |
| **At 31 March 2003** | | **13,700** | | **11,002** |
| At 31 March 2002 | | 13,700 | | 11,002 |

The following options and awards were outstanding at 31 March 2003:

| Category | | Date of grant | No. of options/ awards | Exercise price (pence) | Exercise period |
|---|---|---|---|---|---|
| **Options** | | | | | |
| A | 1994 Executive Scheme | 6/6/95 | 15,000 | 64.50 | June 1998 – June 2005 |
| B | | 3/6/96 | 209,500 | 61.00 | June 1999 – June 2006 |
| C | | 21/6/99 | 270,000 | 34.50 | June 2002 – June 2009 |
| D | | 16/9/99 | 74,000 | 40.50 | September 2002 – September 2009 |
| E | | 26/6/00 | 268,000 | 30.75 | June 2003 – June 2010 |
| F | 1994 Savings Related Scheme | 24/6/96 | 40,590 | 49.00 | August 2003 – February 2004 |
| G | | 14/7/97 | 7,296 | 31.00 | August 2002 – February 2005 |
| H | | 13/7/98 | 197,999 | 33.00 | August 2003 – February 2004 |
| I | | 12/7/99 | 248,823 | 27.75 | August 2004 – February 2005 |
| J | | 17/7/00 | 374,445 | 24.75 | August 2005 – February 2006 |
| K | Parallel Scheme | 28/8/96 | 158,900 | 53.50 | August 1999 – August 2003 |
| L | | 22/6/98 | 400,000 | 41.25 | June 2001 – June 2005 |
| M | | 21/6/99 | 130,000 | 34.50 | June 2002 – June 2006 |
| N | | 26/6/00 | 272,000 | 30.75 | June 2003 – June 2007 |
| **Awards** | | | | | |
| O | 1998 Performance Related Share Plan | | 726,301 | | From April 2003 |
| P | | | 1,175,457 | | From April 2004 |
| Q | | | 1,945,613 | | From April 2005 |
| R | Invested Bonus Share Plan 1997 | | 47,840 | | From July 2001 |
| S | | | 177,690 | | From July 2002 |
| T | | | 114,613 | | From July 2003 |
| U | | | 277,601 | | From July 2004 |
| V | | | 133,805 | | From July 2005 |

Further details of the above share option and award schemes are included in the Board Report on Remuneration on pages 17, 18 and 19.

### Dividend rights

Profits of the Company to be distributed by way of dividend shall be applied, prior to any payment to holders of ordinary shares, first in payment of a fixed cumulative preferential dividend at a rate of 6.00% to the holders of the first cumulative preference shares of 50 pence each (the "First Preference Shares") and second in payment of a fixed cumulative preferential dividend at a rate of 5.75% to the holders of the second cumulative preference shares of £1 each (the "Second Preference Shares"). These fixed dividends are payable by equal half-yearly instalments on 31 March and 30 September in each year.

### Redemption

Neither the First Preference Shares nor the Second Preference Shares are redeemable.

# Notes to the accounts

### 18. Called up share capital (continued)

#### On a winding-up

In the event of a winding-up of the Company, the surplus assets shall be applied, prior to any payment to holders of ordinary shares, first in repaying the capital on the First Preference Shares together with a premium of 5 pence per share and a sum equal to any arrears of the fixed dividend and second in repaying the capital on the Second Preference Shares together with a premium of 5 pence per share and a sum equal to any arrears of the fixed dividend.

#### Voting rights

Holders of the First Preference Shares and holders of the Second Preference Shares are not entitled to receive notice of, or to attend or vote at, any general meeting of the Company by virtue of their holdings unless their fixed dividend is six months in arrears and remains unpaid at the date of the notice convening the meeting, or a resolution is to be proposed at the meeting altering the objects of the Company as set out in its Memorandum of Association, or varying or abrogating any of the special rights or privileges attached to the First Preference Shares or the Second Preference Shares, or for winding-up the Company, in which case holders of the First Preference Shares and holders of the Second Preference Shares shall have one vote on a show of hands and upon a poll, if present in person or by proxy, 20 votes for every First Preference Share or Second Preference Share held.

### 19. Basic and diluted earnings (loss) per ordinary share

| | Basic and diluted earnings (loss) per share | | Underlying earnings per share | |
|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Profit (loss) for the financial year | **209** | (174) | **209** | (174) |
| Goodwill amortisation | – | – | **768** | 822 |
| Dividends on preference shares | **(46)** | (46) | **(46)** | (46) |
| Exceptional items | **–** | – | **2,637** | 2,819 |
| Tax effect of exceptional items | **–** | – | **(186)** | (1,184) |
| Earnings (loss) attributable to ordinary shareholders | **163** | (220) | **3,382** | 2,237 |
| Weighted average number of ordinary shares in issue during the year (000's) | **200,122** | 200,656 | **200,122** | 200,656 |
| Basic and diluted earnings (loss) per ordinary share (pence) | **0.08** | (0.11) | **1.69** | 1.11 |

The effect of the exceptional items on the earnings per share for the current year is a loss of 1.23 pence (2002: loss of 0.82 pence).

### 20. Profit and loss account

| | Consolidated £000 | Parent Company £000 |
|---|---|---|
| At 1 April 2002 | 38,664 | 9,630 |
| Exchange adjustments | **(2,178)** | **494** |
| Retained (deficit) profit | **(1,349)** | **1,253** |
| At 31 March 2003 | **35,137** | **11,377** |

Goodwill, arising prior to 1998/99, of £40,400,000 in aggregate has been charged against Group reserves.

As permitted by Section 230 (1) of the Companies Act 1985, the Parent Company has not presented its own profit and loss account. The profit for the year of the Parent Company was £2,811,000 (2002: loss of £570,000).

### 21. Reconciliation of operating profit to net cash inflow from operating activities

| | **2003 £000** | 2002 £000 |
|---|---|---|
| Operating profit | **5,891** | 2,365 |
| Depreciation | **5,077** | 5,974 |
| Impairment of tangible fixed assets | **–** | 237 |
| Profit on disposal of tangible fixed assets | **–** | (98) |
| Amortisation of goodwill | **768** | 822 |
| Decrease in stocks | **1,337** | 2,558 |
| (Increase) decrease in debtors | **(882)** | 7,162 |
| Increase (decrease) in creditors | **3,358** | (9,468) |
| Net cash inflow from operating activities | **15,549** | 9,552 |

The cash flow impact of the operating exceptional items as disclosed in Note 7 is an outflow of £993,000 (2002: £3,540,000).

## 22. Reconciliation to net debt

| | 2003 £000 | 2002 £000 |
|---|---|---|
| (Decrease) increase in cash in the year | **(155)** | 7,898 |
| Decrease (increase) in debt and finance leasing | **10,139** | (4,884) |
| Change in net debt from cash flows | **9,984** | 3,014 |
| New finance leases | **(127)** | – |
| Exchange adjustments | **478** | 54 |
| Movement in net debt in the year | **10,335** | 3,068 |
| Net debt at 1 April | **(38,554)** | (41,622) |
| Net debt at 31 March | **(28,219)** | (38,554) |

## 23. Analysis of net debt

| | 1 April 2002 £000 | Cash flow £000 | Other non-cash £000 | Exchange movement £000 | 31 March 2003 £000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 9,006 | **(4,613)** | | **(179)** | **4,214** |
| Overdrafts and short-term facilities | (9,808) | **4,458** | | **143** | **(5,207)** |
| | | **(155)** | | | |
| Debt due after 1 year | (30,338) | **–** | **11,079** | **303** | **(18,956)** |
| Debt due within 1 year | (7,414) | **10,079** | **(11,079)** | **211** | **(8,203)** |
| Finance leases | – | **60** | **(127)** | **–** | **(67)** |
| | | **10,139** | | | |
| Total | (38,554) | **9,984** | **(127)** | **478** | **(28,219)** |

## 24. Investments

### Subsidiary companies

| | Parent Company | | |
|---|---|---|---|
| | Shares £000 | Loans £000 | Total £000 |
| Cost | | | |
| At 1 April 2002 | 58,975 | 58,086 | 117,061 |
| Exchange adjustments | **740** | **–** | **740** |
| Additions | **–** | **2,997** | **2,997** |
| Repayments | **–** | **(3,461)** | **(3,461)** |
| Liquidations | **(29)** | **–** | **(29)** |
| **At 31 March 2003** | **59,686** | **57,622** | **117,308** |
| Amount provided | | | |
| At 1 April 2002 | 4,223 | 12,498 | 16,721 |
| Provided during the year | **–** | **(1)** | **(1)** |
| Liquidations | **(29)** | **(1,404)** | **(1,433)** |
| **At 31 March 2003** | **4,194** | **11,093** | **15,287** |
| Net book value | | | |
| **At 31 March 2003** | **55,492** | **46,529** | **102,021** |
| At 31 March 2002 | 54,752 | 45,588 | 100,340 |

The principal subsidiaries are listed on page 46.

# Notes to the accounts

## 25. Employees

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Employee costs (including Directors): | | |
| Wages and salaries | **17,939** | 18,213 |
| Social security costs | **2,778** | 2,780 |
| Other pension costs | **1,398** | 1,426 |
| | **22,115** | 22,419 |

The average number of employees during the year was:

| | 2003 Number | 2002 Number |
|---|---|---|
| Fibres | **457** | 465 |
| Specialist Coatings | **121** | 145 |
| Umbrella Frames | **248** | 251 |
| | **826** | 861 |

## 26. Pensions

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in paragraph a) are those required by that standard. Financial Reporting Standard 17 ("FRS 17") was issued in November 2000. Full disclosure is mandatory for the Group in the year ended 31 March 2003. The relevant disclosures, to the extent not given in a), are set out in b).

a) A number of pension schemes are operated by the Company and certain subsidiaries. The major scheme is in the UK and is of the funded defined benefit type. All other pension schemes operated by the Group are of the defined contribution type and consist of schemes in the UK, Austria, Canada and the US. The assets of all of the schemes are held in separate trustee-administered funds. In addition, in Austria, there are leaving indemnities, which represent a defined benefit on retirement. Further details of these are given in section b) below.

The total pension cost and contributions for the Group were £1,398,000 (2002: £1,426,000), of which £356,000 (2002: £350,000) related to overseas schemes. The cost related to defined contribution schemes amounted to £373,000 (2002: £365,000).

The pension cost relating to the major UK scheme, the Chapelthorpe plc Pension Fund, is assessed in accordance with the advice of an independent professionally qualified actuary, using the projected unit method. The latest actuarial assessment of the Chapelthorpe plc Pension Fund used in determining pension cost was at 5 April 2002.

The principal assumptions used in the valuation were set with reference to bond yields at the valuation date and are as follows:

| | % per annum |
|---|---|
| Post-retirement discount rate | 5.3 |
| Pre-retirement discount rate | 7.1 |
| Increase in earnings | 4.3 |
| Pension increases | |
| – Pre-April 1997 pensions | Nil |
| – Post-April 1997 pensions | 2.7 |

The market value of the Fund's assets at 5 April 2002 was £44,382,000, sufficient to cover 105% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

b) FRS 17 retirement benefits calculations have been based on the most recent actuarial valuation, updated to take account of the requirements of FRS 17 in order to assess the liabilities of the Chapelthorpe plc Pension Fund at 31 March 2003. Fund assets are stated at their market value at 31 March 2003.

## 26. Pensions (continued)

The following assumptions have been used to calculate scheme liabilities:

| | | |
|---|---|---|
| Valuation method (for both years) | | Projected unit |
| | **2003 % per annum** | 2002 % per annum |
| Discount rate | **5.6** | 6.1 |
| Inflation rate | **2.4** | 2.9 |
| Increases to deferred benefits during deferment | **2.4** | 2.9 |
| Increases to pensions in payment – post-April 1997 pensions | **2.4** | 2.8 |
| Salary increases | **2.9** | 4.4 |

In accordance with FRS 17, future increases to pre-April 1997 pensions have not been included in the calculation of scheme liabilities, since these are awarded entirely at the discretion of the trustees, and are dependent on the future performance of the Fund.

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

| | **Long-term rate of return expected at 31 March 2003 % per annum** | **Value at 31 March 2003 £m** | Long-term rate of return expected at 31 March 2002 % per annum | Value at 31 March 2002 £m |
|---|---|---|---|---|
| Equities | **8.3** | **13.7** | 7.8 | 16.1 |
| Bonds | **4.8** | **27.0** | 5.5 | 27.9 |
| Total market value of assets | | **40.7** | | 44.0 |
| Present value of liabilities | | **(45.4)** | | (43.7) |
| (Deficit) surplus | | **(4.7)** | | 0.3 |
| Related deferred tax asset (liability) | | **1.4** | | (0.1) |
| Net pension (liability) asset | | **(3.3)** | | 0.2 |

### Balance sheet disclosures

| | **31 March 2003 Group £m** | 31 March 2002 Group £m |
|---|---|---|
| **Net assets** | | |
| Net assets excluding FRS 17 pension (liability) asset related to the Chapelthorpe plc Pension Fund | **47.9** | 51.4 |
| Net pension (liability) asset related to the Chapelthorpe plc Pension Fund | **(3.3)** | 0.2 |
| Net assets including FRS17 pension (liability) asset | **44.6** | 51.6 |

| | **31 March 2003 Group £m** | 31 March 2002 Group £m |
|---|---|---|
| **Reserves** | | |
| Profit and loss reserve excluding FRS 17 pension (liability) asset related to the Chapelthorpe plc Pension Fund | **35.1** | 38.7 |
| Net pension (liability) asset related to the Chapelthorpe plc Pension Fund | **(3.3)** | 0.2 |
| Profit and loss reserve including FRS17 pension (liability) asset | **31.8** | 38.9 |

The following amounts would have been recognised in the performance statements in the year to 31 March 2003 under the requirements of FRS 17:

| | **£m** |
|---|---|
| **Operating profit:** | |
| Current service cost | **0.9** |
| Past service cost | **0.2** |
| Total operating charge | **1.1** |

| | **£m** |
|---|---|
| **Other finance income:** | |
| Expected return on pension scheme assets | **2.7** |
| Interest on pension scheme liabilities | **(2.6)** |
| Net return | **0.1** |

### 26. Pensions (continued)

| | £m |
|---|---|
| **Statement of total recognised gains and losses ("STRGL"):** | |
| Actual return less expected return on pension scheme assets | **(3.6)** |
| Experience gains and losses arising on the scheme liabilities | **0.2** |
| Changes in assumptions underlying the present value of the scheme liabilities | **(1.3)** |
| Actuarial (loss) recognised in STRGL | **(4.7)** |

| | £m |
|---|---|
| **Movement in surplus during the year:** | |
| Surplus in scheme at beginning of the year | **0.3** |
| Movement in year: | |
| Current service cost | **(0.9)** |
| Contributions | **0.7** |
| Past service costs | **(0.2)** |
| Other finance income | **0.1** |
| Actuarial (loss) | **(4.7)** |
| (Deficit) at the end of the year | **(4.7)** |

| | |
|---|---|
| **Details of experience gains and losses for the year ended 31 March 2003** | |
| Difference between the expected and actual return on scheme assets: | |
| Amount (£m) | **(3.6)** |
| Percentage of scheme assets (%) | **8.8** |
| Experience gains and losses on scheme liabilities: | |
| Amount (£m) | **0.2** |
| Percentage of the present value of the scheme liabilities (%) | **0.4** |
| Total amount recognised in the STRGL: | |
| Amount (£m) | **(4.7)** |
| Percentage of the present value of the scheme liabilities (%) | **10.4** |

The Chapelthorpe plc Pension Fund is a defined benefit scheme which includes employees of the Company and its subsidiaries.

The valuation at 31 March 2003 showed a decrease in the surplus from £0.3m to a deficit of £(4.7)m.

#### Austrian leaving indemnities

The Austrian operation is required to provide leaving indemnities on redundancy or retirement. The Group balance sheet includes £561,000 of term deposits, disclosed within Note 12, representing the statutory requirement to hold a specific proportion of the liability in such funds. In addition, the Group balance sheet also includes a creditor amounting to £1,327,000 within accruals and deferred income, in Note 13.

An independent actuarial valuation of the leaving indemnities' accrual was last undertaken as at 31 December 2002. The key assumptions included within this valuation were salary rises of 2.5% per annum and a discount rate of 5.5%. This valuation indicated a required provision under UK GAAP of £1,240,000.

## 27. Derivatives and financial instruments

The Group does not trade in financial instruments.

Further details of the Group's policies and procedures relating to derivatives and other financial instruments are included in the Financial Review on page 9, in the paragraphs under the heading "Management of financial risk".

Short-term debtors and short-term creditors (except borrowings, overdrafts and finance leases) have been excluded from all of the following disclosures, other than the currency risk disclosures.

### Interest rate risk profile of financial assets and financial liabilities

#### Financial assets

The Group held the following financial assets at 31 March 2003:

| | Cash and term deposits | |
|---|---|---|
| | **2003 £000** | 2002 £000 |
| Currency | | |
| Sterling | **148** | 5,733 |
| US dollar | **2,332** | 1,972 |
| Canadian dollar | **908** | 942 |
| Euro | **1,387** | 858 |
| | **4,775** | 9,505 |

The above assets, all of which are subject to floating rates of interest, comprise:

a) Sterling denominated balances that receive interest based on the United Kingdom base rate;
b) US dollar denominated balances that receive interest based on the US base rate;
c) Canadian dollar denominated balances that receive interest based on the Canadian base rate;
d) Euro denominated balances that receive interest based on the Austrian base rate;
e) Euro denominated term deposits that receive interest based on the Austrian base rate; and
f) cash held in Euro denominated bank accounts.

#### Financial liabilities

The Group held the following financial liabilities at 31 March 2003:

| | Total | | Floating rate financial liabilities | | Fixed rate financial liabilities | | Financial liabilities on which no interest is paid | |
|---|---|---|---|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| Currency | | | | | | | | |
| Sterling – preference shares | **800** | 800 | **–** | – | **800** | 800 | **–** | – |
| – other financial liabilities | **16,135** | 22,831 | **1,816** | 6,450 | **12,317** | 15,050 | **2,002** | 1,331 |
| US dollar | **9,834** | 18,045 | **6,479** | 14,346 | **2,658** | 2,958 | **697** | 741 |
| Euro | **9,163** | 8,756 | **5,812** | 5,383 | **3,351** | 3,373 | **–** | – |
| | **35,932** | 50,432 | **14,107** | 26,179 | **19,126** | 22,181 | **2,699** | 2,072 |

The floating rate liabilities comprise:

a) Sterling denominated bank borrowings that bear interest based on the relevant LIBOR for each interest rollover period;
b) Euro denominated overdrafts that bear interest based on the Austrian lending rate;
c) Euro denominated borrowings that bear interest based on the relevant EURIBOR for each interest rollover period;
d) US dollar denominated overdrafts that bear interest based on the US base rate;
e) US dollar denominated bank borrowings that bear interest based on the dollar deposit rate quoted on the London Interbank Market; and
f) Euro denominated bank borrowings that bear interest based on the Euro deposit rate quoted on the London Interbank Market.

## 27. Derivatives and financial instruments (continued)

The fixed rate liabilities comprise:

a) 6.00% first cumulative preference shares of 50 pence;
b) 5.75% second cumulative preference shares of £1;
c) a Euro loan which carries a fixed interest rate of 4.9% to 1 January 2007;
d) Sterling denominated bank borrowings subject to an interest rate swap agreement as disclosed in Note 14;
e) US dollar denominated bank borrowings subject to an interest rate swap agreement as disclosed in Note 14;
f) Euro denominated bank borrowings subject to an interest rate swap agreement as disclosed in Note 14; and
g) Sterling finance lease which carries an interest rate of 8.96%.

The financial liabilities on which no interest is paid comprise provisions relating to vacant leasehold properties denominated in Sterling, and long-term environmental liabilities denominated in US dollars.

The preference shares have no fixed repayment date.

Information relating to the weighted average interest rate of the fixed rate financial liabilities has not been separately disclosed as full details of interest rates and maturity periods have been disclosed for each liability in Note 14 and this Note.

### Maturity of financial assets

The maturity profile of the Group's financial assets at 31 March 2003 was as follows:

| | Cash and term deposits | |
|---|---|---|
| | **2003 £000** | 2002 £000 |
| In one year or less, or on demand | **4,214** | 9,006 |
| In more than five years | **561** | 499 |
| | **4,775** | 9,505 |

### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 March 2003 was as follows:

| | Total | | Debt | | Finance leases | | Other financial liabilities | |
|---|---|---|---|---|---|---|---|---|
| | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 | **2003 £000** | 2002 £000 |
| In one year or less, or on demand | **16,148** | 19,294 | **13,410** | 17,222 | **39** | – | **2,699** | 2,072 |
| In more than one year but not more than two years | **8,231** | 8,415 | **8,203** | 8,415 | **28** | – | **–** | – |
| In more than two years but not more than five years | **10,753** | 21,923 | **10,753** | 21,923 | **–** | – | **–** | – |
| In more than five years | **800** | 800 | **800** | 800 | **–** | – | **–** | – |
| | **35,932** | 50,432 | **33,166** | 48,360 | **67** | – | **2,699** | 2,072 |

Debt due in more than five years comprises £800,000 of Chapelthorpe plc preference shares.

### Borrowing facilities

The Group has various undrawn committed borrowing facilities, which are at floating rates of interest. The facilities available at 31 March 2003 in respect of which all conditions precedent had been met were as follows:

| | **2003 £000** | 2002 £000 |
|---|---|---|
| Expiring in one year or less | **16,579** | 11,067 |

Subsequent to the year end, the Group renegotiated its principal short-term overdraft facilities in the UK and US of £13,665,000 to May 2004.

## 27. Derivatives and financial instruments (continued)

### Fair values of financial assets and liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 March 2003:

| | Book value **2003** **£000** | Fair value **2003** **£000** | Book value 2002 £000 | Fair value 2002 £000 |
|---|---|---|---|---|
| Primary financial instruments held or issued to finance the Group's operations: | | | | |
| Short-term financial liabilities and current portion of long-term borrowings | **(13,410)** | **(13,457)** | (17,222) | (17,316) |
| Long-term borrowings | **(18,956)** | **(18,891)** | (30,338) | (30,344) |
| Financial assets | **4,775** | **4,775** | 9,505 | 9,505 |
| Preference shares | **(800)** | **(800)** | (800) | (800) |
| Finance leases | **(67)** | **(67)** | – | – |
| Other financial liabilities | **(2,699)** | **(2,699)** | (2,072) | (2,072) |
| Derivative financial instruments held to manage the interest rate and currency profile: | | | | |
| Interest rate swaps | **–** | **(436)** | – | (503) |
| Forward foreign exchange contracts | **–** | **422** | – | – |

The fair values of the forward foreign exchange contracts have been determined by reference to market values. The fair value of the interest rate swaps is based on the market prices of comparable instruments at the balance sheet date. The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of the instruments.

All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

### Currency exposures

The analysis below shows the net monetary assets of companies in the Group which are subject to currency fluctuations that are not denominated in their functional currency at 31 March 2003. These assets give rise to the net currency gains and losses recognised in the profit and loss account. Exchange differences on these exposures are generally eliminated by the placing of forward currency contracts prior to maturity.

| | Total | | Euro | | Other | |
|---|---|---|---|---|---|---|
| | **2003** **£000** | 2002 £000 | **2003** **£000** | 2002 £000 | **2003** **£000** | 2002 £000 |
| Functional currency of companies | | | | | | |
| Sterling | **221** | 791 | **–** | 766 | **221** | 25 |
| Canadian dollar | **–** | 43 | **–** | – | **–** | 43 |
| Euro | **234** | 283 | **–** | – | **234** | 283 |
| | **455** | 1,117 | **–** | 766 | **455** | 351 |

### Gains and losses on instruments used for hedging

There were no significant unrecognised or deferred gains and losses on hedges at 31 March 2003 or 31 March 2002, other than those disclosed in the fair value table above.

## 28. Litigation

The Company is involved in legal action against Noel Heppenstall Limited, a firm of architects, in respect of the significant costs of rectifying defects to a drainage system on a site previously owned by the Group. Noel Heppenstall Limited denies responsibility for the design of the system and also disputes the quantum of claim.

This matter progressed to trial in February 2003 and a limited judgement on the extent of the architect's responsibilities is expected in late July 2003. Trial of the remaining issues of liability, causation and quantum is scheduled for September 2003.

The Company has been advised by its legal advisers that it has a strong case.

# Principal group companies

| | | |
|---|---|---|
| **Chapelthorpe plc** | | Holding and management company |

## Fibres

| | | |
|---|---|---|
| * Asota GmbH (Austria) | ) | |
| * Drake Extrusion, Inc. (USA) | ) | Producers of polypropylene staple fibre and filament. |
| Drake Extrusion Limited | ) | |

## Specialist Coatings

| | | |
|---|---|---|
| * Speciality Coatings (Brantford) Limited (Canada) | ) | Manufacturers of vinyl-base and plastisols |
| * Speciality Coatings (Darwen) Limited | ) | for the wallcoverings industry. |

## Umbrella Frames

| | |
|---|---|
| Hoyland Fox Limited | Manufacturers of sun, sports and rain umbrella frames. |

Chapelthorpe plc holds the whole of the equity share capital of the companies either in its own name or, where marked *, in the names of subsidiaries. Unless otherwise indicated, the companies are incorporated and operate in Great Britain.

# Five year record

## Profit and loss account

| Year ended 31 March | **2003 £000** | 2002 £000 | 2001 £000 | 2000 £000 | 1999 £000 |
|---|---|---|---|---|---|
| Turnover | **121,803** | 127,048 | 139,417 | 125,545 | 139,548 |
| Operating profit (loss) | **5,891** | 2,365 | (5,549) | 10,061 | 10,975 |
| Exceptional items relating to prior period disposals | **(1,136)** | – | 90 | (386) | (633) |
| Profit on sale of property | **–** | – | – | 1,740 | 2,831 |
| Interest | **2,454** | 2,805 | 2,707 | 1,698 | 1,192 |
| Profit (loss) profit on ordinary activities before taxation | **2,301** | (440) | (8,166) | 9,717 | 11,981 |
| Taxation on profit (loss) on ordinary activities | **2,092** | (266) | 416 | 912 | 3,357 |
| Profit (loss) for the financial year | **209** | (174) | (8,582) | 8,805 | 8,624 |
| Dividends | **1,558** | 1,018 | 3,250 | 5,511 | 5,343 |
| Retained (deficit) profit | **(1,349)** | (1,192) | (11,832) | 3,294 | 3,281 |
| Earnings (loss) per ordinary share (pence) | **0.1** | (0.1) | (4.2) | 4.2 | 4.2 |
| Diluted earnings (loss) per ordinary share (pence) | **0.1** | (0.1) | (4.2) | 4.2 | 4.2 |
| Underlying earnings per ordinary share (pence) | **1.7** | 1.1 | 1.7 | 4.7 | 4.1 |
| Dividends per ordinary share (pence) | **0.8** | 0.5 | 1.6 | 2.6 | 2.6 |

## Balance sheet

| 31 March | **2003 £000** | 2002 £000 | 2001 £000 | 2000 £000 | 1999 £000 |
|---|---|---|---|---|---|
| Fixed assets | **68,942** | 75,257 | 80,842 | 80,688 | 62,970 |
| Net current assets less amounts due after more than one year | **(11,772)** | (15,181) | (16,044) | (11,683) | 1,489 |
| Provisions for liabilities and charges | **(9,293)** | (8,672) | (11,793) | (5,949) | (8,387) |
| Deferred income | **–** | – | – | (35) | (44) |
| Total shareholders' funds | **47,877** | 51,404 | 53,005 | 63,021 | 56,028 |

# Advisers

**Registered office**
Chapelthorpe plc
Chapelthorpe Hall
Church Lane
Chapelthorpe
Wakefield
West Yorkshire WF4 3JB

**Registered number**
468624

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

**Bankers**
Barclays Bank PLC
PO Box 190
Barclays House
East Parade
Leeds LS1 2UX

**Financial advisers**
PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
Manchester M2 3PW

**Solicitors**
Eversheds LLP
Cloth Hall Court
Infirmary Street
Leeds LS1 2JB

**Stockbrokers**
Bell Lawrie White
(A division of Brewin Dolphin Securities Ltd)
48 St Vincent Street
Glasgow G2 5TS

**Registrar**
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

**Financial public relations**
Weber Shandwick Square Mile
Fox Court
14 Gray's Inn Road
London WC1X 8WS

# Shareholder information

**Internet**
The Company operates a website which can be found at www.chapelthorpe.com. This site is regularly updated to provide information about the Company. In particular all the Company's press releases and announcements can be found on the site.

**Registrar**
Any enquiries concerning your shareholding should be addressed to the Company's Registrar:

Mr C Wood
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
BRISTOL BS99 7NH
Tel: 0870 702 0001
Fax: 0870 703 6116

The Registrar should be notified promptly of any change in a shareholder's address. Shareholders may view their shareholdings and download forms to change their details from the Computershare website (www.computershare.com). To do so they require their shareholder reference number as shown on dividend vouchers or share certificates.

**Share price**
The current share price of Chapelthorpe plc ordinary shares of 5 pence can be obtained from the Company's website and on FT Cityline by dialling 0906 843 3786 (calls cost 60 pence per minute).

**Low cost dealing service**
The Company has arranged a low cost dealing service for those wishing to buy or sell shares in Chapelthorpe plc. To use this service please call 0845 601 0995 and quote ref: LOW C0094.

Alternatively, write to:

Chapelthorpe Share Dealing Service, Stocktrade, PO Box 1076, 10 George Street, Edinburgh EH2 2PZ.

**Payment of dividends**
It is in the interests of shareholders and the Company for dividends to be paid directly into bank or building society accounts. Any shareholder who wishes to receive dividends in this way should contact the Company's Registrar to obtain a dividend mandate form.

Dividends are paid as follows:

| | | |
|---|---|---|
| Ordinary shares | February (Interim) | August (Final) |
| First and Second Preference Shares | 31 March | 30 September |

The final dividend on ordinary shares will be payable to shareholders on the register at 20 June 2003.

Shareholders have the opportunity to reinvest their cash dividend in existing shares through the Dividend Reinvestment Plan. All applications to join that plan or to amend existing instructions under it must be received by the Company's Registrar by 5.00pm on 22 July 2003.

**Investor relations**
For further copies of the Report & Accounts or other investor relations enquiries, please contact:

The Company Secretary
Chapelthorpe plc
Chapelthorpe Hall
Church Lane
Chapelthorpe
Wakefield WF4 3JB
Tel: 01924 248200
Fax: 01924 248222
e-mail: aweatherstone@chapelthorpe.com

# Notice of annual general meeting

NOTICE is hereby given that the fifty fourth Annual General Meeting of the Company will be held at Eversheds LLP, Cloth Hall Court, Infirmary Street, Leeds LS1 2JB at 2.00pm on 25 July 2003 for the following purposes:

**As ordinary business**

1. To receive the Reports of the Directors and of the auditors and the Accounts for the year ended 31 March 2003.
2. To approve the Board Report on Remuneration for the year ended 31 March 2003.
3 To declare a dividend.
4. To elect Mr A P Weatherstone as a Director.
5. To re-elect Mr B Leckie as a Director.
6. To reappoint PricewaterhouseCoopers LLP as auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
7. To authorise the Directors to fix the remuneration of the auditors.

**As special business**

To consider and if thought fit, pass the following resolutions of which number 8, will be proposed as an Ordinary Resolution and numbers 9 and 10 as Special Resolutions:

Ordinary Resolution

8. That the Directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £2,697,000 provided that this authority shall expire on 25 October 2004 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

9. That, subject to the passing of the Ordinary Resolution numbered 8 above, the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) pursuant to the authority conferred by the said Ordinary Resolution as if sub-section (1) of Section 89 of that Act did not apply to any such allotment provided that this power shall be limited:
   (a) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, provided that the Directors may make such arrangements as they consider necessary or expedient in respect of fractional entitlements and in respect of legal or practical problems arising under the laws or securities regulations in any overseas territory; and
   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £510,000 and shall expire on 25 October 2004 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.
10. That, the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Companies Act 1985) on the London Stock Exchange plc of ordinary shares of 5 pence each in the capital of the Company ("ordinary shares" or singularly "ordinary share") provided that:
   (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 30,600,000 (representing less than 15% of the Company's issued ordinary share capital);
   (b) the minimum price which may be paid for such ordinary shares is 5 pence per share (exclusive of expenses);
   (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than 5% above the average of the market value for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;

(d) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company, or 12 months from the date of the passing of this Resolution if earlier; and

(e) the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and the Company may make a purchase of ordinary shares in pursuance of any such contract or contracts.

On behalf of the Board,

**A P Weatherstone**
Finance Director and Secretary

Chapelthorpe Hall
Church Lane
Chapelthorpe
Wakefield
West Yorkshire
WF4 3JB

24 June 2003

A member entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed. The form (with the power of attorney or other authority (if any) under which it is signed, or a duly certified copy of such power or authority) must be lodged with the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB not less than 48 hours before the time for holding the meeting. The completion and return of a form of proxy will not prevent a member from attending the meeting and voting in person. A member is not entitled to attend and vote at the meeting (whether in person or by proxy) unless his name is entered in the register of members 48 hours before the date of the meeting.

The following documents will be available for inspection at the registered office of the Company from now until the date of the meeting, during normal business hours, and at the place of the meeting from 1.45pm until its conclusion:

a) the Register of Directors' share interests kept pursuant to Section 325 of the Companies Act 1985; and

b) copies of Directors' service contracts.

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CHAPELTHORPE
plc

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