



CHAPELTHORPE  
plc

## Corporate statement

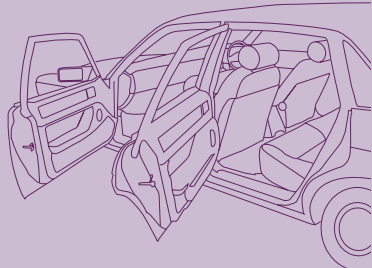
Chapelthorpe plc is a leading manufacturer of industrial products which are supplied to carefully chosen niche markets worldwide. The business is organised into three divisions, namely Fibres, Specialist Coatings and Umbrella Frames. The Fibres division supplies polypropylene fibre to the automotive, 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 continued development of the Group and by optimising the opportunities afforded by the key positions it has developed in its international markets.

# Chapelthorpe plc at a glance

## Subsidiaries

### Fibres



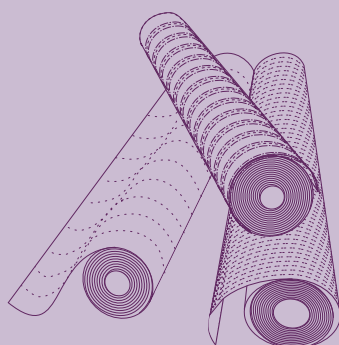
This division is involved in the manufacture of coloured polypropylene fibres and filament yarns which are supplied to a wide variety of end markets worldwide including automotive, floorcoverings, construction, food, environmental, technical products, industrial and filtration, geotextiles and home furnishings.

High performance coloured polypropylene fibres produced by us vary in gauge from 1 to 300 denier. They possess particular qualities such as colour consistency and fastness, strength and durability, all being key features demanded by customers in a number of our markets, especially automotive.

Our Fibres division is the largest producer of coloured polypropylene staple fibre in Europe and North America and is also the leading supplier to the US automotive industry.

Polypropylene fibres are used in the manufacture of a wide range of items including rear parcel shelves, kick panels and sound deadening materials (automotive); needle punched products for a variety of applications including irrigation lagoons, rail/road construction, reservoirs and landfill sites (geotextiles); tufted and woven carpets, mattress coverings and upholstered garden furniture (home furnishings); and liquid filtration products, oil spillage control products, tea bags and concrete reinforcing fibres for the construction industry (technical products).

### Specialist Coatings

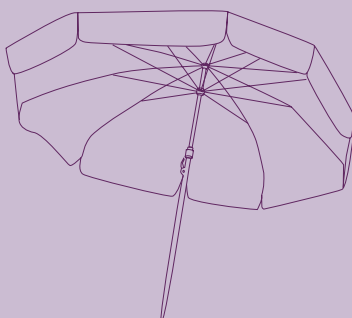


This division is primarily involved in the manufacture of coated base paper and plastisols for the wallcoverings industry worldwide. Our products are available in a wide range of substrate types from paper to non-woven, some of which are also available in pre-pasted format.

Coated base paper and plastisols are essentially the building blocks used by wallpaper designers and manufacturers to produce their products. Over a quarter of a million miles of wallpaper was sold in the UK alone in 2003.

Our Specialist Coatings business is the leading independent supplier in Europe and North America and supplies products for end use in both the domestic and commercial markets. Customers include virtually all major wallpaper manufacturers and printers in the world's largest markets of Western Europe, North America and Russia.

### Umbrella Frames



This division is involved in the manufacture of specialist frames for sun, rain, sports, golf and promotional umbrellas. A very large proportion of turnover is exported, with over 80% of sales being outside the UK.

Our range of technically advanced umbrella frames, with diameters ranging from 75cm to 3m, includes patented designs for headtilt, twisttilt crankhandled frames and cantilever frames (which provide an alternative to central pole mounted frames).

Our Umbrella Frames division has an extensive on-going development programme to ensure that it continues to produce innovative, reliable and technically advanced products to the world's umbrella manufacturers. This division is the largest supplier of umbrella frames in Europe.

Turnover	Operating Profit*	Companies	Location
<p><b>65%</b> of total 2004: £79.7m</p>	<p><b>42%</b> of total 2004: £3.4m</p>	<p><b>Drake Extrusion, Inc.</b> www.drakeextrusion.com</p> <p><b>Drake Extrusion Limited</b> www.drakeextrusionuk.com</p> <p><b>Asota G.m.b.H</b> www.asota.com</p>	<p>USA</p> <p>England</p> <p>Austria</p>
<p><b>25%</b> of total 2004: £30.0m</p>	<p><b>35%</b> of total 2004: £2.8m</p>	<p><b>Speciality Coatings (Darwen) Limited</b> www.scdgroup.com</p> <p><b>Speciality Coatings (Brantford) Limited</b> www.scdgroup.com</p>	<p>England/Russia</p> <p>Canada</p>
<p><b>10%</b> of total 2004: £11.8m</p>	<p><b>23%</b> of total 2004: £1.8m</p>	<p><b>Hoyland Fox Limited</b> www.hoylandfox.com</p>	<p>England</p>

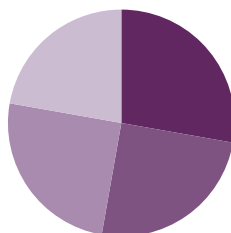
\*before goodwill

- Operating profits up 23% from £5.9m to £7.2m; underlying\* operating profits £8.0m (2003: £8.2m)
- Pre-tax profits significantly improved to £5.5m (2003: £2.3m)
- Underlying\* EPS up 31% at 2.21p per share
- 40% increase in final proposed dividend to 0.7p (2003: 0.5p), making 1.0p in total (2003: 0.75p)
- Borrowings continue to fall; debt reduced by £5.5m to £22.7m with gearing now at 50%

\* Before exceptional items and goodwill

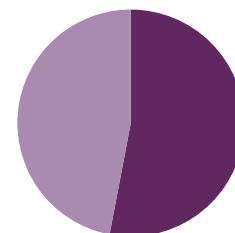
## Utilisation of Operating Profits

- £2.0m dividends
- £1.8m taxation
- £1.8m interest
- £1.6m retained



## Shareholder Profile

- 53% institutional shareholders
- 47% private investors



## Contents

- 1 Highlights
- 2 Chairman's statement
- 4 Review of operations
- 8 Financial review
- 10 Directors
- 11 Directors' report
- 14 Corporate governance
- 16 Board report on remuneration
- 21 Independent auditors' report
- 22 Consolidated profit and loss account
- 23 Consolidated balance sheet
- 24 Parent company balance sheet
- 25 Consolidated cash flow statement
- 26 Total recognised gains and losses  
Movements in shareholders' funds
- 27 Notes to the accounts
- 47 Principal group companies
- 48 Five year record
- 49 Advisers
- 50 Shareholder information
- 51 Notice of annual general meeting
- 53 Appendix to notice of annual general meeting

# Chairman's statement



"We now have a sound platform on which we must build growth and improve returns for shareholders over the longer term."

## Summary

- Targets met of reduced borrowings and maintaining financial performance
- Borrowings down and on track to meet target of £20m by March 2005
- Satisfactory trading results despite weak US Dollar, depressed North American wallcoverings market and rising raw material prices
- Full year dividend 1.0p, up 33%

The targets we set ourselves last year, primarily those of reducing borrowings still further while maintaining our recent financial performance, have been achieved despite continued difficult markets worldwide. Our business plan also demanded that we at least maintain our hard won competitive position in the markets in which we operate and, despite increasing competition in some areas, we have done that. On your behalf, I would like to congratulate the entire team, both management and employees, on delivering such good cash flow and much improved earnings against what was again a tough market background.

In addition, for the first time for some years, the full year figures contained in the accounts (which are commented on in detail in the Financial Review on pages 8 and 9) are reported free from any exceptional items, underlining our financial achievements in 2003/04.

## Results in brief

Reflecting the difficult market conditions in all our markets, turnover slipped marginally in the year to 31 March 2004 to £121.5m (2003: £121.8m). However, the 2004 figure was adversely affected by foreign exchange translation without which we would have experienced some modest growth from the previous year to around £122.7m. Operating profit improved from £5.9m to £7.2m and a significantly lower interest charge meant that pre-tax profits rose by 137% to £5.5m (2003: £2.3m). Underlying earnings per share (excluding exceptional items and goodwill amortisation) are 2.21p compared with 1.69p in 2003.

## Dividends

In the light of these encouraging financial results and in accordance with the progressive dividend policy, the Directors are proposing a 40% increase in the final dividend to 0.7p (2003: 0.5p). When taken with the interim dividend declared in December 2003 of 0.3p, the total dividend for the year, if approved at the AGM, will be 1.0p compared with 0.75p in 2003, an increase of 33%. The cost of the final dividend now proposed is £1.4m and total dividends are covered 1.8 times by earnings. The final dividend is payable on 10 August 2004 to shareholders on the register on 18 June 2004. 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.

## Business progress

We achieved a solid set of financial results in the last 12 months through the continued vigorous application of our cost reduction and control programmes. Each of our divisions contributes significantly to profits and is cash generative; as a result we have been able to reduce borrowings still further to the current level of £22.7m (from £43.3m in September 2001) and we remain firmly on course to meet our target borrowings figure of £20m by March 2005. A more detailed review of the divisional operational performance for 2003/04 is included in the Chief Executive's Review of Operations on pages 4 to 7.

## Strategy

For some time we have positioned our Group as a leading global supplier of manufactured products to three carefully chosen niche markets. Our products and markets have high barriers to entry and that enables us to concentrate our energies on maintaining and developing those key market-leading positions.

Over the last two years we have de-risked the business by significantly reducing borrowings and tightening our control of working capital. These programmes have been effective and will continue going forward. In addition, last year we began a programme to assess whether realisable or currently surplus assets are being converted into cash at a fast enough pace; we expect this programme to produce tangible results over the next few years.

We now have a sound platform on which we must build growth and improve returns for shareholders over the longer term. Therefore, during this year we will very carefully review all of our businesses and their assets to ensure that each of them is capable of rising to the challenge and delivering both growth and acceptable returns for shareholders.

Our good housekeeping of the past two years has given us a great opportunity to finally determine the optimum shape and scale of the business going forward. It is an opportunity that we will not let pass by.

## Outlook

Given the difficult economic circumstances the Group faced last year I believe we achieved a satisfactory financial performance in 2003/04. Shareholders have seen total returns improve over the last two years, but the recent surge in the oil price and its consequent impact on our raw material costs continues to present us with challenges going forward.

On the positive side, while our traditional markets will undoubtedly remain tough for the foreseeable future, we take encouragement from the experience we have recently gained with innovative products taking us into new markets. We firmly believe that these areas offer us considerable opportunities for growth.

Despite the many uncertainties, we remain cautiously confident of the outcome for the current year and beyond.



**John Standen**  
Non-executive Chairman  
8 June 2004

# Review of operations



“We remain confident that the solid gains we have achieved in operating efficiencies and cash generation over the last two years can be maintained through the current year.”

## Case Study: Fibres

### Non-woven v tufted carpets

Drake Extrusion Inc. became the number one supplier of polypropylene fibre to the automotive market in 2001. Having established its position, it was then essential to develop new applications to grow the market.

The floor system was identified as a potential major growth area; the size of the floor systems market is twice that of the current polypropylene non-woven market for cars. At present, tufted carpet is exclusively used by the “Big Three” car makers (Ford, Daimler-Chrysler and GM). Non-woven products had been considered but had been rejected due to poor wear and/or mouldability issues, although naturally, all the car makers were interested in developing a new system to reduce weight and cost.

Technology dictated that we could not develop a product using 100% polypropylene so, in 2001, in conjunction with a polyester manufacturer, we embarked upon a development project to provide a blend of polyester and polypropylene that would have the wear characteristics of the latter and the mouldability characteristics of the former. After two years of development and testing, our innovative carpets passed all the automotive mouldability and abrasion/wear requirements, whilst also reducing weight and cost. This product is such a significant advancement on previous technology that a patent application was made and is currently pending.

Our product has been approved by two of the car makers (GM and Daimler-Chrysler) for use in 2006 model year applications. Development work continues with the moulders to fine tune the production process.

While the “Big Three” review their non-woven v tufted options, the “transplant” car makers, who are much more comfortable with non-woven floor systems, are actively developing applications and these could be incorporated in existing models.

## Fibres

Tough market conditions in continental Europe were offset by an improved performance from our US business and a good result from our UK operation, allowing the division’s underlying operating profit to rise by £0.3m to £3.4m despite bad debts of £0.2m. This was achieved on a marginally increased turnover of £79.7m (2003: £79.2m) although this has been impacted by the effects of foreign exchange translation, without which turnover would have been £81.2m. All of our operations remained profitable and cash generative in the year.

## Europe

The trading environment remained mixed, with conditions in the large German market, which is traditionally the most important market for our Austrian business, remaining depressed throughout the year. The slide in the value of the US Dollar against the Euro has hit margins of specialist products manufactured in Austria for the US market. In addition, our oil-based raw material costs have continued to increase, leading to further margin erosion. Raw material cost increases, as I have remarked before, are extremely difficult to pass on to our customers in the short-term, due to the structure of the industry and the terms of our contractual agreements. Given these unhelpful factors it is encouraging that performance improved in the latter stages of the period and we finished the year strongly, particularly in the UK.

We also continued to experience competitive price pressure in a number of the commodity areas in which we operate and our response to this threat is to continue to invest in the development of new niche products into previously untapped applications.

Unusually in our industry, we have the capability to produce a wide range of fibres from very fine (one denier) to very coarse (300 denier). This has opened up a number of new applications for our products in the food, technical products and construction industries. For example, we are now supplying bulk quantities of very fine fibre which is used in the manufacture of tea bags and our fibres are now being used by the construction industry throughout Europe as concrete reinforcement. These new product sectors provide us promising growth opportunities away from our traditional markets.

Whilst we have yet to see any upturn in our markets in continental Europe we remain cautiously optimistic that our recent success of developing new products and opening up new markets will lead to an improving contribution in the current year, in the absence of any unexpected raw material price increases.

### North America

Our operational performance in the important North American market continued to improve. However, the home furnishings sector remained weak throughout the year, depressing demand for our filament yarn, whilst demand in our large staple fibre market sectors was broadly in line with our expectations.

The North American automotive industry, of course, is an important customer for us and automotive and light truck production in 2003 fell by 2.8% from 2002 levels, slightly better than general industry expectations. Current industry forecasts are for slightly higher sales in 2004. We remain by far the number one supplier of coloured polypropylene fibre to the automotive industry and we continue to improve the quality of our service and our range of products (see case study).

In the current year we are hopeful that we will be able to build on the improved financial performance seen in 2003/04, against a background of uncertain raw material prices and no signs of an improvement in the home furnishings market.

### Specialist Coatings

Turnover in our Specialist Coatings division was broadly unchanged at £30.0m (2003: £30.6m), but underlying operating profit eased from £3.0m to £2.8m. However, the decline is entirely due to a particularly disappointing performance from

our Canadian operation, whose North American market remains very depressed with retail sales having fallen by 12% from the previous year's low levels. In addition, the weakness of the US Dollar depressed margins on our exports to the US. Overall, our European business performed well, despite gloomy market conditions. Bad debts totalling approximately £0.2m were incurred in this division during the year.

### Europe

Market conditions remained difficult in Western Europe, with the UK market alone showing a sharp volume decline of some 8%, despite some indications earlier in the year that the long-term decline was levelling off. The UK wallcoverings industry has seen further consolidation following the receivership of Crown Wallcoverings, the UK's largest manufacturer, last summer.

#### Case Study: Specialist Coatings Low risk/high reward

The Russian wallcoverings market is the single largest market in the world with consumption running in excess of 200m rolls annually. During the 1990s Western European wallcovering manufacturers, and in particular British manufacturers, were heavily dependent on this market for the sale of vinyl wallcoverings, and so indirectly was Specialist Coatings as a large supplier of plastisol and vinyl base to these customers.

August 1998 saw the introduction, by Russia, of severe restrictions on foreign currency transactions, and a subsequent dramatic decline in the value of the Rouble. This resulted in a very sharp decline in the import of vinyl wallcoverings, making life difficult for Western European manufacturers.

Whilst Russia had a significant number of local manufacturers, they were not equipped to manufacture the increasingly popular vinyl wallcovering products. As they started to make plans to invest in technology for printing this type of product, Specialist Coatings took the strategic decision in 2001 to enter into a low cost/low risk manufacturing collaboration in Moscow with a Russian company, Kof Palitra, who had hitherto been an importer and distributor of wallcoverings.

Surplus equipment was installed in Kof Palitra's comprehensively refurbished facility, and today this plant is servicing not only Russian customers but also customers in the Ukraine and Belorussia. As the Russian wallcoverings market continues to grow, and import duties increase, it would appear that a number of Western European wallcoverings producers are now making plans to set up printing facilities in Eastern Europe. As market leading suppliers of their base material in the centre of this enormous market, we look forward to the continued development of our venture and an increasing royalty stream.

# Review of operations

## Specialist Coatings (continued)

### Europe (continued)

Despite the decline in the overall Western European market, our volumes increased significantly in the final quarter as a consequence of two long-term solus supply agreements we have entered into with two of Europe's largest wallcoverings manufacturers. This is a major achievement and a full year's benefit of these higher volumes will be enjoyed in the current year, although there will be some negative impact on margins.

Our low cost/low risk Russian venture continues to grow, and we remain optimistic about our prospects in the Russian wallcoverings market, which is the largest in the world. Royalty income in the year exceeded £0.3m and we anticipate an improving contribution from this venture going forward. Our involvement in Russia remains relatively modest in overall Group terms but nonetheless the contribution is still important, and growing (see case study).

Throughout Europe, vinyl wallpaper products continue to grow their share of an albeit reduced wallcoverings market, but there are some early indications that wallpaper in general is perhaps becoming just a little more fashionable. Although there has not been a discernible sales improvement as yet, we believe that this year may possibly see the beginning of a small recovery in European wallcoverings sales overall.

### North America

The North American market for wallcoverings remains in significant decline, with further weakness in demand experienced from the already very depressed levels of the previous year. The impact of this continuing decline on our business is evidenced by the fact that volumes sold last year were less than a quarter of those sold five years ago. We have continued to aggressively attack our cost base with the result that at operating level we achieved a break even result for the year.

However, we do view the commercial market in North America (offices, hotels, leisure facilities) as offering considerable opportunities for us over the medium-term, using our new wide-width capability. Our heavy sampling programme over the last 12 months has led to one customer launching the new

product and they are now taking deliveries from us. Trialling is also at a very advanced stage with a number of others and we hope to enjoy further success over the current year.

In the absence of any improvement in the residential sector, the future of our Canadian operation is dependent upon the success of our wide-width product in the commercial sector as we cannot allow this business to become a drain on the Group's resources.

## Umbrella Frames

Following the improvement in turnover and operating profit seen in 2003, sales and underlying operating profits fell back to £11.8m and £1.8m respectively, compared to £12.0m and £2.0m in 2003.

### Case Study: Umbrella Frames The "Rotilt"

The cornerstone of our Umbrella Frames division's success has been its ability to develop and deliver high quality and technically advanced products demanded not only by its customers but also by the end use market. Product differentiation is a key marketing tool used by our customers to grow their own market share. Product features evolve from ideas generated by our design and development team and are developed on to prototypes working closely with our customers. The "Rotilt" is a perfect example of how our in-house design and development team began work, just over two years ago, on the development of a new tilt mechanism. This was in response to demand from our customers for a mechanism which allowed for a variable degree of tilt in a single direction – particularly for larger frames or non-circular umbrellas which are used for the outdoor leisure and restaurant markets.

Normally the development lead time for such an advanced product would be measured in years rather than months. However, the use of advanced CAD systems enabled working models and prototypes to be produced in exceptionally short lead times enabling product features to be refined and re-modelled rapidly. The result was a new "Rotilt" mechanism unique to the Umbrella Frames division for which patents have been taken out. The "Rotilt" mechanism enables the frame to have a greater degree of tilt yet it is stable and secure in all environments.

The design was demonstrated to our customers during the summer of 2003 for use on larger frames and was greeted with considerable enthusiasm. As a result, initial sales forecasts for the 2003/04 selling season have been exceeded and our main target for the current year is to develop and then patent the application across all frame sizes, where we believe we have significant competitive advantage.

The disappointing sales performance was in part due to a run down in the inventory pipeline by some of our customers and a late start to the winter selling season. In particular the sun and leisure sectors did not appear to reap the expected benefit from the excellent summer weather throughout Europe, and in addition, demand from the promotional sector (particularly financial services) remained flat.

We remain the largest supplier of high quality sun and sporting umbrella frames in Europe with over 80% of turnover exported, but some of our customers are subject to intense competition from the Far East. Our response is to continue to invest in research and development and product innovation, and as a result we launched the new "Rotilt" product this year which has been well received (see case study).

We have also developed a number of new products for which patents have been applied. These products are currently being test marketed but it is too early to predict with any certainty the likely level of success so, although we have high expectations of success for our new products, these are unlikely to have any significant impact in the current year.

### Outlook

Despite continuing uncertainty over our prime raw material costs in light of the current high oil price and with no real sign of any pick-up in demand from many of our market sectors, we remain confident that the solid gains we have achieved in operating efficiencies and cash generation over the last two years can be maintained through the current year. We are on course to achieve our target borrowings figure of under £20m by March 2005, while our drive for operating efficiencies continues unabated. Based on the modest success of a number of new products and new applications, and in recognition of some innovative products in the pipeline, we remain cautiously optimistic for the current year.



**Brian Leckie**  
Chief Executive  
8 June 2004

## Financial review



“In light of the solid financial performance and continued cash generation, the Board is recommending a final dividend of 0.70p per share – 40% higher than last year.”

The financial statements have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards using policies consistent with the previous year.

### Performance

Group sales fell marginally from £121.8m to £121.5m. Excluding the translation effects of foreign exchange, Group sales increased in real terms by approximately £0.9m. The Fibres division sales in real terms were up £2.0m largely as a result of improved performances in both the UK and North America. The particularly weak residential wallcoverings market in North America resulted in Specialist Coatings' sales falling by £0.9m in real terms and a fall in volumes saw sales decrease by £0.2m in the Umbrella Frames division.

Operating profits for the year ended 31 March 2004 were £7.2m. This was an increase of £1.3m (23%) over last year principally due to the absence of exceptional costs in the year. Excluding exceptional items and goodwill, underlying operating profit fell marginally to £8.0m from £8.2m last year.

Fibres' underlying operating profits of £3.4m (2003: £3.1m) accounted for 42% of the Group total compared to 38% for 2003 following improved operational performance in North America and new business secured in Europe.

Specialist Coatings' underlying operating profits fell by £0.3m to £2.8m and accounted for 35% (2003: 37%) of the Group total. The continued deterioration in markets, particularly in North America, has led to a fall in overall profitability which has been partially offset by new business in Europe and the growth in income from our Russian operation.

Umbrella Frames' volumes fell by 8% as the good summer weather in Western Europe did not result in any increased demand. Underlying operating profit fell by £0.2m to £1.8m which was 23% (2003: 25%) of the Group's total.

In the year the Group incurred bad debts totalling £0.4m reflecting the continued difficult trading conditions in some of the Group's traditional markets.

Although the strengthening of the Euro against Sterling provided some welcome relief for our UK businesses exporting into the Eurozone, the significant weakening of the US Dollar reduced margins on exports to the US from Austria and Canada. The net foreign exchange impact of the weak US Dollar, including the translation of the result of our largest fibres operation based in the US, was a loss approaching £0.4m in the second half alone.

Profit before tax for the year was £5.5m, up from £2.3m last year which included £2.6m of exceptional charges.

### Earnings per share

Underlying earnings per share increased by 31% to 2.21p from 1.69p last year, reflecting the benefit of a lower interest expense. Basic earnings per share increased more significantly from 0.08p to 1.82p due to the absence of any exceptional items in the year.

### Dividends

In light of the solid financial performance and continued cash generation, the Board is recommending a final dividend of 0.70p per share – 40% higher than last year. Together with the interim dividend of 0.30p, dividends per share will total 1.00p (2003: 0.75p) and will be covered 1.8 times by earnings. Based on the year end share price of 16.5p, the total dividend represents a 6% yield.

## Interest

Net interest costs were £1.8m, a reduction of 27% on last year's charge of £2.5m reflecting the reduction in underlying levels of borrowings, the expiry of a high priced swap in November 2003 and a negotiated reduction in margin on our principal bank borrowings. Interest was covered 4.5 times by underlying operating profits (2003: 3.3 times).

## Taxation

The underlying effective tax rate for the year, excluding adjustments made in respect of prior years, based on profits before goodwill, is 30.2%. Taxation payments during the year amounted to £0.8m benefiting from losses available in the UK and US and from accelerated capital allowances. Going forward, we anticipate that payments will increase as the accelerated allowances gradually reverse.

## Cash flow

Net debt reduced by £5.5m from £28.2m to £22.7m during the year resulting in gearing at 31 March 2004 of 50% (2003: 59%). Debt has been reduced by over £20m since September 2001.

Operating cash inflow before exceptional items was £11.5m and included a £1.5m increase in working capital levels, principally as a result of a strong trading performance in the final quarter.

During the year the Group reached an out of court settlement with a firm of architects over remedial works to a defective drainage system on a property that it previously owned. The Group received a substantial cash sum and this represented full recovery of the amount brought forward as recoverable. Consequently there was no impact on earnings. The Group also incurred exceptional cash outflows amounting to £1.2m in respect of vacant leaseholds, environmental remedial works and severance costs, all of which were fully provided for last year.

As anticipated, given the significant investment made in the past, capital expenditure was £1.7m, which compares with a depreciation charge of £4.9m.

## Pensions

The Group's pension arrangements are set out on pages 40 to 43. The Group's principal UK pension scheme is a defined benefit scheme. The latest actuarial valuation at 5 April 2002 showed the scheme to have assets which were sufficient to cover 105% of accrued benefits.

Under FRS 17 (which provides a snapshot of the value of the scheme's assets and liabilities at 31 March 2004) the scheme

had assets with a market value of £44.7m, representing 95% of accrued benefits, compared to 90% last 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. 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 or revolving credit facilities. At 31 March 2004 undrawn committed facilities amounted to £15.7m. During the year our principal long-term bank facilities have been renegotiated and have been committed to March 2009. We have also restructured our repayments on the loan facilities and amended covenant levels to better match the future projected cash flows of the Group.

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 2004 43% of net debt was at a range of fixed rates after taking account of interest rate swaps.

The Group has over 60% of its net operating assets overseas and in order to mitigate its exposure to exchange rate movements on these assets, the Group seeks to maximise borrowings in 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 60% of foreign currency sales expected in 2005.



**Andy Weatherstone**  
Finance Director  
8 June 2004

## Directors



### **John Standen\***

Non-executive Chairman, aged 55

John Standen was appointed to the Board and became Chairman in 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 57

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 40

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

### **Allan Thompson**

Executive Director, aged 55

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 66

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

# Directors' report

The Directors present their Annual Report together with the accounts of the Company for the year ended 31 March 2004.

## Profits and dividends

The profit after taxation for the year ended 31 March 2004 was £3,684,000 (2003: £209,000). Preference and ordinary dividends totalling £2,057,000 (2003: £1,558,000) have been or are proposed to be paid. The profit for the year amounted to £1,627,000 (2003: deficit of £1,349,000).

The proposed final ordinary dividend, if approved, will be payable on 10 August 2004 to shareholders on the register of members at 18 June 2004. 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 ordinary 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 plastisols for the wallcoverings industry, and the manufacture of umbrella frames. A Review of Operations of the Group and future developments is included on pages 4 to 7.

## Directors

The Board of Directors is listed on page 10. These Directors have served throughout the year.

In accordance with the Articles of Association of the Company Mr A B Reeve will retire by rotation and, being eligible, offer himself for re-election. Mr Reeve does not have a service contract.

## Directors' interests

The interests of the Directors who held office at 31 March 2004, 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 2004.

At 8 June 2004 the Company had been notified that the following were interested in 3% or more of the ordinary share capital:

	Number of shares	%
Framlington Investment Management Limited	24,650,000	12.08
Schroder Investment Management Limited	24,095,744	11.81
North Atlantic Value LLP	11,179,765	5.48
Ian Knighton	8,589,664	4.21
Second Advance Value Realisation Company Limited	8,000,000	3.92
Electra Active Management plc	6,179,864	3.03

## New share option schemes

The Directors are seeking authority by Resolution Numbers 7 and 8 as set out in the Notice of Annual General Meeting to establish a new savings related share option scheme and a new executive share option plan. Details of these schemes are set out in the Appendix to the Notice of Annual General Meeting.

## Directors' authorities to allot

The Notice of Annual General Meeting on pages 51 and 52 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 9 gives the Directors authority, until the earlier of the date of the next Annual General Meeting and 23 October 2005, 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 £2,698,000, 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 10 is to give the Directors authority until the earlier of the date of the next Annual General Meeting and 23 October 2005, 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 11, 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 25 July 2003. 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 Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 and to the UK Listing Authority Rules, held 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. Any use of treasury shares by the Company in connection with Resolution Number 11 would be subject to the UK Listing Authority Rules.

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 £5,700 (2003: £3,700) for a variety of charities local to our operations. There were no political contributions (2003: £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 77 days (2003: 70 days). The Company did 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**

PricewaterhouseCoopers LLP are willing to continue as auditors and a resolution for their re-appointment 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  
8 June 2004

# 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 Rules.

The Company has complied throughout the financial year with the provisions of good governance of Section 1 of the Combined Code except for the items below:

- the Combined Code requires that Directors' service contract notice periods are set at one year or less. This matter has now been addressed as detailed in the Board Report on Remuneration on page 16; and
- the Code requires that the Audit Committee should include a minimum of three Non-executive Directors. The Board has two Non-executive Directors, both of whom are members of the Audit Committee.

In July 2003 the Financial Services Authority issued the revised Combined Code (the "Revised Code"). The Revised Code will first apply to the Company in respect of the reporting year beginning on 1 April 2004. The Board is aware of the requirements of the Revised Code and will measure and report on its compliance when issuing its Report and Accounts for the year ended 31 March 2005 and subsequent years.

## 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 2003/04 met eleven 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 senior Group executives. 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

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

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2004 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of 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 2004 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.

### 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 quarterly 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 comprises the Group's Non-executive Directors, Mr J Standen and Mr A B Reeve. It is chaired 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 remuneration matters from New Bridge Street Consultants LLP, who are retained by the Company solely for the provision of advice on such matters.

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 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 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 a specified notice period less a suitable discount) if it is terminated following a successful bid for the Company. By a variation to his contract dated 22 January 2004, Mr Leckie has agreed to a reduction in this specified notice period from two years to one year. This change was effective from 1 January 2004.

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

By variations to their service contracts dated 22 January 2004, Mr Leckie and Mr Thompson have agreed to a reduction in the notice period to which they are entitled from the Company. This notice period will reduce from two years to one year over a 12 month period. As a result, both Mr Leckie and Mr Thompson will be entitled to a one year notice period from the Company from December 2004.

Mr A P Weatherstone has a contract dated 27 November 2002 which provides for a one year notice period to be given by the Company, but may be terminated by Mr Weatherstone giving six months' notice. It 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.

## Performance related bonus

Executive Directors participate in an annual cash bonus scheme. Consistent with the Committee's policy for linking performance to delivering improved value for shareholders and meeting market expectations, the bonus scheme gives the Executive Directors the potential to receive annual benefits up to a maximum value of 85% of basic salary for exceptional performance. The criteria are agreed by the Committee each year and include up to 10% for achievement of personal objectives. Under the rules of the performance related bonus scheme, 50% of the net (post-tax) bonus must be invested in ordinary shares of the Company through, and in accordance with the rules of, the Invested Bonus Share Plan 1997.

## 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.

## Options and awards

The Remuneration Committee is responsible for the operation of the Company's share 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.

## Executive share option schemes

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.

## Performance Related Share Plan

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. The performance criteria are assessed over a three year period (the "Performance Period") beginning at the commencement of the financial year in which the award is made.

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;

where normalised earnings per share refers to earnings per share before non-operating exceptional items.

Awards made in 2001 under the 1998 Performance Related Share Plan matured on 31 March 2004. The Remuneration Committee has determined that the performance conditions have not been met and that the awards will not vest.

In respect of awards made under the 1998 Performance Related Share Plan in 2003, the Remuneration Committee has determined that the awards will vest after the Performance Period:

- i) as to 15% if operating profit grows at an average rate of 7.5% per annum over the Performance Period;
- ii) as to 100% if operating profit grows at an average rate of 15% per annum over the Performance Period;
- iii) the awards will vest pro-rata for operating profit growth between these two points.

If the operating profit performance criteria is achieved, there is a further and predetermined minimum achievement in respect of underlying earnings per share growth that must also be achieved, prior to an award vesting. Operating profit and underlying earnings per share are calculated before taking account of goodwill amortisation and exceptional items (both operating and non-operating).

# Board report on remuneration

## Options and awards (continued)

### Invested Bonus Share Plan and SAYE

Given the inherent nature of these 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.

### New share option schemes

The Chapelthorpe plc Savings Related Share Option Scheme 1994 and Chapelthorpe plc Executive Share Option Scheme 1994 come to the end of their ten year lives this year. Having taken appropriate advice from its remuneration consultants, the Company is seeking shareholder approval at the Annual General Meeting to introduce a new Chapelthorpe plc Savings Related Share Option Scheme 2004 and a new Chapelthorpe plc Executive Share Option Plan 2004. If approved, the Chapelthorpe plc 1996 Parallel Executive Share Option Scheme will also be terminated.

A description of the main features of these new employee share schemes is given in the Notice of Annual General Meeting.

The key points to note are:

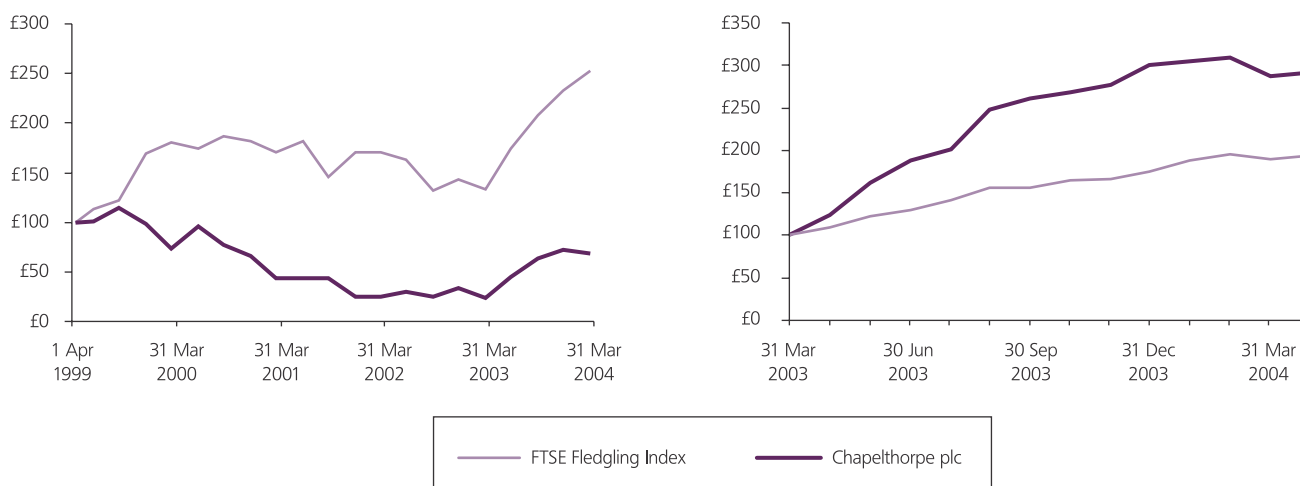
- the proposed Chapelthorpe plc Savings Related Share Option Scheme 2004 is very similar to the 1994 sharesave scheme save for changes in the tax legislation over this period;
- the proposed Chapelthorpe plc Executive Share Option Plan 2004 will be used to grant options to senior executives and directors, but excluding the Executive Directors of Chapelthorpe plc who will continue to participate in the Chapelthorpe plc 1998 Performance Related Share Plan;
- under the proposed Chapelthorpe plc Executive Share Option Plan 2004 the maximum option grant that can be made to any individual in any financial year is over shares worth 80% of the individual's salary at the date of grant; and
- the exercise of options under the proposed Chapelthorpe plc Executive Share Option Plan 2004 will be subject to a performance condition requiring the Company's earnings per share to exceed the increase in inflation plus 3% per annum over the three year vesting period, and generally the individual's continued employment over the three years beginning with the date of grant.

### Employee Benefit Trust

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 £631,000.

### 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 31 March 2003.

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

## Board report on remuneration

### 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 2004, and of their families, in the ordinary shares of the Company were:

### Holdings

	8 June 2004	31 March 2004	1 April 2003
J Standen	<b>300,000</b>	<b>300,000</b>	300,000
B Leckie	<b>1,915,759</b>	<b>1,915,759</b>	1,559,477
A L Thompson	<b>378,656</b>	<b>378,656</b>	237,959
A B Reeve	<b>121,561</b>	<b>121,561</b>	115,650
A P Weatherstone	<b>217,381</b>	<b>217,381</b>	175,000

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

### Options and awards\*

	1 April 2003	Lapsed in year	Vested in year	Granted/ awarded in year	31 March 2004	Lapsed since 31 March 2004	8 June 2004	Category (see Note 18 to the Accounts)
B Leckie								
	36,100				<b>36,100</b>		<b>36,100</b>	A
	54,818				<b>54,818</b>		<b>54,818</b>	H
	544,026				<b>544,026</b>	544,026		L
	903,291				<b>903,291</b>		<b>903,291</b>	M
				643,803	<b>643,803</b>		<b>643,803</b>	N
	41,350				<b>41,350</b>		<b>41,350</b>	P
				479,364	<b>479,364</b>		<b>479,364</b>	T
	336,149	336,149						
	61,700	61,700						
A L Thompson								
	31,700				<b>31,700</b>		<b>31,700</b>	A
	18,818	18,818						F
	22,135	22,135						G
	15,545	15,545						H
	334,721				<b>334,721</b>	334,721		L
	553,355				<b>553,355</b>		<b>553,355</b>	M
				394,391	<b>394,391</b>		<b>394,391</b>	N
	25,441				<b>25,441</b>		<b>25,441</b>	P
				293,660	<b>293,660</b>		<b>293,660</b>	T
	206,819	206,819						
	35,500	35,500						
A P Weatherstone								
				378,788	<b>378,788</b>		<b>378,788</b>	N
				70,510	<b>70,510</b>		<b>70,510</b>	T

No other Director, who held office during the year ended 31 March 2004, 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 2004 was 16.5 pence (2003: 6.25 pence). The market price during the year ended 31 March 2004 varied between 6.25 pence and 19.25 pence.

No Directors exercised any options at any time during the year (2003: Nil).

# Board report on remuneration

## Directors' emoluments\*

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

	Basic salary and fees £000	Benefits in kind £000	Performance bonus £000	Pension bonus £000	<b>Total 2004 £000</b>	Total 2003 £000
J Standen (appointed 1 June 2002)	51	—	—	—	<b>51</b>	37
B Leckie	218	28	130	103	<b>479</b>	443
A L Thompson	134	15	80	14	<b>243</b>	220
A B Reeve	31	—	—	—	<b>31</b>	30
A P Weatherstone (appointed 1 January 2003)	128	32	76	—	<b>236</b>	50
C R Godwin (retired 26 July 2002)	—	—	—	—	<b>—</b>	17
J D Riley (retired 31 December 2002)	—	—	—	—	<b>—</b>	369
Aggregate total emoluments	562	75	286	117	<b>1,040</b>	1,166
Emoluments of highest paid Director					<b>479</b>	443

Benefits in kind for Mr A P Weatherstone include an amount of £16,000 in respect of relocation expenses.

Under the rules of the performance related bonus scheme, 50% of the net (post-tax) bonus must be invested in ordinary shares of the Company through, and in accordance with the rules of, the Invested Bonus Share Plan 1997.

## 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
Accrued pension at 31 March 2004	31	56	2
Accrued pension at 31 March 2003	28	54	—
Increase in accrued pension (excluding inflation)	2	—	2
Transfer value of increase in accrued pension (less member contribution)	20	—	3
Transfer value of accrued pension at 31 March 2004	383	564	13
Transfer value of accrued pension at 31 March 2003	267	402	2
Increase in transfer value of accrued pension (less member contribution)	108	155	4

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 2004, to the Chapelthorpe plc Funded Unapproved Retirement Benefit Scheme, was £138,000 (2003: £162,000) in respect of Mr B Leckie and £19,000 (2003: £19,000) 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  
8 June 2004

# Independent auditors' report

to the members of Chapelthorpe plc

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 movements in shareholders' funds and the related notes.

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 or Group'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 2004 and of 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  
8 June 2004

# Consolidated profit and loss account

year ended 31 March 2004

	Notes	2004 £000	2003 £000
Turnover – continuing operations	2	<b>121,460</b>	121,803
Cost of sales		<b>(97,553)</b>	(96,412)
<b>Gross profit</b>		<b>23,907</b>	25,391
Net operating expenses	3	<b>(16,675)</b>	(19,500)
<b>Operating profit</b>			
Continuing operations before exceptional items and goodwill		<b>8,014</b>	8,160
– Exceptional items		<b>–</b>	(1,501)
– Goodwill amortisation		<b>(782)</b>	(768)
Operating profit	2, 7	<b>7,232</b>	5,891
Exceptional items relating to prior period disposals	8	<b>–</b>	(1,136)
Net interest payable	4	<b>(1,782)</b>	(2,454)
<b>Profit on ordinary activities before taxation</b>		<b>5,450</b>	2,301
Taxation on profit on ordinary activities	5	<b>(1,766)</b>	(2,092)
<b>Profit for the financial year</b>		<b>3,684</b>	209
Dividends (including non-equity)	6	<b>(2,057)</b>	(1,558)
<b>Profit (deficit) transferred to (from) reserves</b>	20	<b>1,627</b>	(1,349)
	Notes	2004	2003
<b>Earnings per ordinary share</b>			
Basic and diluted	19	<b>1.82p</b>	0.08p
Underlying	19	<b>2.21p</b>	1.69p

# Consolidated balance sheet

31 March 2004

	Notes	2004 £000	2003 £000
<b>Fixed assets</b>			
Intangible assets	9	<b>11,885</b>	13,069
Tangible assets	10	<b>48,304</b>	55,873
		<b>60,189</b>	68,942
<b>Current assets</b>			
Stocks	11	<b>13,650</b>	12,855
Debtors	12	<b>30,756</b>	30,624
Cash at bank and in hand		<b>3,183</b>	4,214
		<b>47,589</b>	47,693
<b>Creditors</b>			
Amounts falling due within one year	13	<b>(37,451)</b>	(40,481)
<b>Net current assets</b>		<b>10,138</b>	7,212
<b>Total assets less current liabilities</b>		<b>70,327</b>	76,154
<b>Creditors</b>			
Amounts falling due after more than one year	13	<b>(16,903)</b>	(18,984)
Provisions for liabilities and charges	15	<b>(8,135)</b>	(9,293)
<b>Net assets</b>		<b>45,289</b>	47,877
<b>Capital and reserves</b>			
Called up share capital (including non-equity interests)	18	<b>11,002</b>	11,002
Share premium account		<b>1,251</b>	1,251
Capital redemption reserve		<b>487</b>	487
Profit and loss account	20	<b>32,549</b>	35,137
<b>Total shareholders' funds (including non-equity interests)</b>		<b>45,289</b>	47,877

Approved by the Directors on 8 June 2004

**J Standen**  
Chairman

**B Leckie**  
Director

# Parent company balance sheet

31 March 2004

	Notes	2004 £000	2003 £000
<b>Fixed assets</b>			
Tangible assets	10	<b>565</b>	657
Investments	24	<b>100,078</b>	102,021
		<b>100,643</b>	102,678
<b>Current assets</b>			
Debtors	12	<b>14,467</b>	10,578
Cash at bank and in hand		<b>91</b>	89
		<b>14,558</b>	10,667
<b>Creditors</b>			
Amounts falling due within one year	13	<b>(24,694)</b>	(27,018)
<b>Net current liabilities</b>		<b>(10,136)</b>	(16,351)
<b>Total assets less current liabilities</b>		<b>90,507</b>	86,327
<b>Creditors</b>			
Amounts falling due after more than one year	13	<b>(15,615)</b>	(11,283)
<b>Net assets</b>		<b>74,892</b>	75,044
<b>Capital and reserves</b>			
Called up share capital (including non-equity interests)	18	<b>11,002</b>	11,002
Share premium account		<b>1,251</b>	1,251
Capital redemption reserve		<b>487</b>	487
Capital reserve		<b>9,204</b>	9,204
Merger reserve		<b>41,723</b>	41,723
Profit and loss account	20	<b>11,225</b>	11,377
<b>Total shareholders' funds (including non-equity interests)</b>		<b>74,892</b>	75,044

Approved by the Directors on 8 June 2004

**J Standen**

Chairman

**B Leckie**

Director

# Consolidated cash flow statement

year ended 31 March 2004

	Notes	2004 £000	2003 £000
Net cash inflow from operating activities	21	<b>10,926</b>	15,549
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>104</b>	118
Interest paid		<b>(2,462)</b>	(2,388)
Interest element of finance lease rental payments		<b>(3)</b>	(9)
Dividends paid on non-equity shares		<b>(46)</b>	(46)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(2,407)</b>	(2,325)
<b>Taxation</b>		<b>(808)</b>	603
<b>Capital expenditure</b>			
Purchases of tangible fixed assets		<b>(1,702)</b>	(1,817)
Sales of tangible fixed assets		<b>31</b>	16
		<b>(1,671)</b>	(1,801)
<b>Acquisitions and disposals</b>			
Receipts (payments) relating to prior period disposals of businesses/properties		<b>563</b>	(1,040)
		<b>563</b>	(1,040)
<b>Equity dividends paid</b>		<b>(1,603)</b>	(1,002)
<b>Net cash inflow before financing</b>		<b>5,000</b>	9,984
<b>Financing</b>			
Loans advanced		<b>17,615</b>	—
Repayment of amounts borrowed		<b>(24,548)</b>	(10,079)
Capital element of finance lease rental payments		<b>(53)</b>	(60)
<b>Net cash outflow from financing</b>	23	<b>(6,986)</b>	(10,139)
<b>Decrease in cash</b>	22	<b>(1,986)</b>	(155)

## Total recognised gains and losses

year ended 31 March 2004

	2004 £000	2003 £000
Profit for the financial year	<b>3,684</b>	209
Exchange translation adjustments on foreign currency net investments	<b>(4,215)</b>	(2,178)
<b>Total recognised losses for the year</b>	<b>(531)</b>	(1,969)

## Movements in shareholders' funds

year ended 31 March 2004

	2004 £000	2003 £000
Profit for the financial year	<b>3,684</b>	209
Dividends	<b>(2,057)</b>	(1,558)
	<b>1,627</b>	(1,349)
Exchange translation adjustments on foreign currency net investments	<b>(4,215)</b>	(2,178)
<b>Decrease in shareholders' funds</b>	<b>(2,588)</b>	(3,527)
Opening shareholders' funds	<b>47,877</b>	51,404
<b>Closing shareholders' funds</b>	<b>45,289</b>	47,877
Attributable to:		
Equity interests	<b>44,489</b>	47,077
Non-equity interests:		
First cumulative preference shares of 50 pence	<b>50</b>	50
Second cumulative preference shares of £1	<b>750</b>	750
	<b>800</b>	800
	<b>45,289</b>	47,877

## 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 the Companies Act 1985 and 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 FRS 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	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
Continuing operations						
Fibres	<b>79,656</b>	79,183	<b>3,392</b>	3,066	<b>43,708</b>	49,193
Specialist Coatings	<b>29,985</b>	30,606	<b>2,773</b>	3,045	<b>11,886</b>	12,928
Umbrella Frames	<b>11,819</b>	12,014	<b>1,849</b>	2,049	<b>8,979</b>	8,652
	<b>121,460</b>	121,803	<b>8,014</b>	8,160	<b>64,573</b>	70,773
Goodwill amortised/capitalised						
Fibres			<b>(405)</b>	(396)	<b>6,312</b>	7,119
Specialist Coatings			<b>(377)</b>	(372)	<b>5,573</b>	5,950
			<b>(782)</b>	(768)	<b>11,885</b>	13,069
	<b>121,460</b>	121,803	<b>7,232</b>	7,392	<b>76,458</b>	83,842
Net operating assets					<b>76,458</b>	83,842
Unallocated net liabilities					<b>(31,169)</b>	(35,965)
Total net assets					<b>45,289</b>	47,877

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

In the year ended 31 March 2003, the exceptional costs of £1,501,000 charged against operating profit included £209,000 associated with the Fibres division, £1,228,000 associated with the Specialist Coatings division and £64,000 related to the Umbrella Frames division.

## Geographical area

	Turnover		Pre-exceptional operating profit		Net operating assets	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
Region of origin						
Continuing operations						
Europe	<b>81,958</b>	79,274	<b>6,748</b>	6,139	<b>32,803</b>	32,095
North America	<b>39,502</b>	42,529	<b>1,266</b>	2,021	<b>31,770</b>	38,678
	<b>121,460</b>	121,803	<b>8,014</b>	8,160	<b>64,573</b>	70,773
Goodwill amortised/capitalised						
Europe			<b>(731)</b>	(696)	<b>11,053</b>	12,008
North America			<b>(51)</b>	(72)	<b>832</b>	1,061
			<b>(782)</b>	(768)	<b>11,885</b>	13,069
	<b>121,460</b>	121,803	<b>7,232</b>	7,392	<b>76,458</b>	83,842
Net operating assets					<b>76,458</b>	83,842
Unallocated net liabilities					<b>(31,169)</b>	(35,965)
Total net assets					<b>45,289</b>	47,877

In the year ended 31 March 2003, the exceptional costs of £1,501,000 included £1,389,000 associated with the European operations and £112,000 associated with the North American operations.

# Notes to the accounts

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

Region of destination	2004 £000	2003 £000
Turnover – continuing operations		
Europe	<b>75,728</b>	73,670
North America	<b>41,343</b>	44,151
Australasia and Far East	<b>3,580</b>	3,409
Rest of world	<b>809</b>	573
	<b>121,460</b>	121,803

Operating profit is after charging the following items:

	2004 £000	2003 £000
Depreciation – owned assets	<b>4,896</b>	5,026
– leased assets	<b>51</b>	51
Amortisation of goodwill	<b>782</b>	768
Operating exceptional items (Note 7)	–	1,501
Operating leases – hire of plant and equipment	<b>458</b>	425
– other	<b>222</b>	336
Auditors' remuneration	<b>152</b>	159

Non-audit fees charged by PricewaterhouseCoopers LLP, in the United Kingdom, amounted to £109,000 (2003: £113,000), of which £84,000 related to taxation services and £25,000 related to corporate finance services.

The audit fee relating to the Parent Company amounted to £35,000 (2003: £35,000).

## 3. Analysis of net operating expenses

	2004 £000	2003 £000
Distribution costs	<b>8,885</b>	9,890
Administration expenses	<b>8,235</b>	9,687
Other operating income	<b>(445)</b>	(77)
Net operating expenses	<b>16,675</b>	19,500

Other operating income in 2004 includes £361,000 in respect of royalty income from the Russian venture. Administration expenses in 2003 included £1,501,000 of exceptional items (Note 7).

## 4. Net interest payable

	2004 £000	2003 £000
Payable:		
Bank loans, overdrafts and short-term facilities	<b>1,790</b>	2,534
Interest on finance leases	<b>3</b>	9
Other interest	<b>92</b>	18
	<b>1,885</b>	2,561
Receivable:		
Bank and other deposits	<b>(44)</b>	(72)
Other interest	<b>(59)</b>	(35)
	<b>(103)</b>	(107)
Net interest payable	<b>1,782</b>	2,454

**5. Taxation on profit on ordinary activities****a) Analysis of charge in the year**

	<b>2004</b>	2003
	<b>£000</b>	£000
Corporation tax at 30%	<b>1,083</b>	862
Overseas tax	<b>200</b>	517
Taxation (over) under provided in previous years	<b>(46)</b>	170
Total current tax (Note 5b)	<b>1,237</b>	1,549
Deferred taxation – current year	<b>597</b>	281
– relating to prior years	<b>(68)</b>	262
	<b>1,766</b>	2,092

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

In 2003 the tax effect in the profit and loss account relating to operating exceptional items was a credit of £126,000 and relating to non-operating exceptional items was a credit of £60,000.

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

	<b>2004</b>	2003
	<b>£000</b>	£000
Profit on ordinary activities before taxation	<b>5,450</b>	2,301
Tax on profit on ordinary activities at standard rate of 30% (2003: 30%)	<b>1,635</b>	690
Factors affecting charge:		
Expenses not deductible for tax purposes	<b>207</b>	262
Non-taxable movements on restructuring provisions	–	324
Non-taxable costs relating to prior period disposals of businesses/properties	–	300
Differences between capital allowances and depreciation	<b>281</b>	(281)
Losses utilised in the year	<b>(300)</b>	–
Other timing differences	<b>(578)</b>	–
Differing rates of tax on overseas earnings	<b>38</b>	84
Adjustments to tax charge in respect of previous years	<b>(46)</b>	170
Current tax charge (Note 5a)	<b>1,237</b>	1,549

**6. Dividends**

	<b>2004</b>	2003
	<b>£000</b>	£000
Ordinary shares (equity shares):		
Interim dividend of 0.30p (2003: 0.25p)	<b>612</b>	510
Final dividend of 0.70p recommended (2003: 0.50p)	<b>1,429</b>	1,020
Dividends waived by the Chapelthorpe Trust	<b>(30)</b>	(18)
	<b>2,011</b>	1,512
Preference shares (non-equity shares)	<b>46</b>	46
	<b>2,057</b>	1,558

## Notes to the accounts

### 7. Operating exceptional items

In 2003 the Group incurred operating exceptional charges of £1,501,000, of which £1,080,000 related to vacant leasehold property costs of the UK Specialist Coatings business and £421,000 related to redundancy and severance costs.

### 8. Non-operating exceptional items

In 2003 the Group incurred non-operating exceptional charges of £1,136,000, of which £891,000 related 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 and £245,000 related to environmental costs in connection with the disposal of Regal Rugs Inc. in a prior year.

### 9. Intangible fixed assets

	Consolidated £000
Goodwill	
Cost	
At 1 April 2003	19,331
Exchange adjustments	<b>(402)</b>
<b>At 31 March 2004</b>	<b>18,929</b>
Amortisation	
At 1 April 2003	3,260
Provided during the year	<b>782</b>
<b>At 31 March 2004</b>	<b>4,042</b>
Impairment provision	
At 1 April 2003 and at 31 March 2004	<b>3,002</b>
Net book value	
<b>At 31 March 2004</b>	<b>11,885</b>
At 31 March 2003	13,069

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 2003	21,261	87,275	108,536	733	624	1,357
Exchange adjustments	<b>(1,073)</b>	<b>(5,246)</b>	<b>(6,319)</b>	–	–	–
Additions	<b>43</b>	<b>1,578</b>	<b>1,621</b>	–	<b>34</b>	<b>34</b>
Disposals	<b>(2)</b>	<b>(9,762)</b>	<b>(9,764)</b>	–	–	–
<b>At 31 March 2004</b>	<b>20,229</b>	<b>73,845</b>	<b>94,074</b>	<b>733</b>	<b>658</b>	<b>1,391</b>
Depreciation						
At 1 April 2003	3,984	46,083	50,067	198	502	700
Exchange adjustments	<b>(153)</b>	<b>(1,995)</b>	<b>(2,148)</b>	–	–	–
Charge for the year	<b>500</b>	<b>4,447</b>	<b>4,947</b>	<b>49</b>	<b>77</b>	<b>126</b>
Disposals	<b>(2)</b>	<b>(7,094)</b>	<b>(7,096)</b>	–	–	–
<b>At 31 March 2004</b>	<b>4,329</b>	<b>41,441</b>	<b>45,770</b>	<b>247</b>	<b>579</b>	<b>826</b>
Impairment provision						
At 1 April 2003	–	2,596	2,596	–	–	–
Disposals	–	<b>(2,596)</b>	<b>(2,596)</b>	–	–	–
<b>At 31 March 2004</b>	–	–	–	–	–	–
Net book value						
<b>At 31 March 2004</b>	<b>15,900</b>	<b>32,404</b>	<b>48,304</b>	<b>486</b>	<b>79</b>	<b>565</b>
At 31 March 2003	17,277	38,596	55,873	535	122	657

The net book value of land and buildings comprises:

	Consolidated		Parent Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Freeholds	<b>15,414</b>	16,742	–	–
Short leaseholds	<b>486</b>	535	<b>486</b>	535
	<b>15,900</b>	17,277	<b>486</b>	535

	Consolidated		Parent Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Net book value of assets subject to finance leases	<b>25</b>	76	<b>25</b>	76
Capital expenditure commitments	<b>18</b>	136	–	–

## 11. Stocks

	Consolidated	
	2004 £000	2003 £000
Raw materials and consumable stores	<b>5,617</b>	4,997
Work in progress	<b>720</b>	685
Finished products	<b>7,313</b>	7,173
	<b>13,650</b>	12,855

# Notes to the accounts

## 12. Debtors

	Consolidated		Parent Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts falling due within one year				
Trade debtors	<b>27,715</b>	25,683	–	–
Subsidiary companies	–	–	<b>13,093</b>	7,637
Other debtors	<b>1,234</b>	2,628	<b>403</b>	1,844
Prepayments and accrued income	<b>843</b>	781	<b>437</b>	406
Taxation recoverable	<b>422</b>	971	<b>534</b>	691
Amounts falling due after more than one year				
Other debtors – term deposits	<b>542</b>	561	–	–
	<b>30,756</b>	30,624	<b>14,467</b>	10,578

Included in other debtors is £309,000 (2003: £96,000) in respect of shares held by the Chapelthorpe Trust representing 3,824,000 (2003: 3,920,000) 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% (2003: 1.9%) of the Group's issued ordinary share capital. At 31 March 2004 these shares had a market value of £631,000 (2003: £245,000).

## 13. Creditors

	Consolidated		Parent Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts falling due within one year				
Bank overdrafts, loans and other borrowings	<b>8,946</b>	13,449	<b>3,234</b>	5,265
Trade creditors	<b>19,365</b>	16,414	–	–
Subsidiary companies	–	–	<b>18,728</b>	18,485
Corporation tax	<b>1,746</b>	1,790	–	–
Other taxes and social security costs	<b>724</b>	705	<b>109</b>	105
Other creditors	<b>686</b>	1,203	<b>264</b>	665
Accruals and deferred income	<b>4,556</b>	5,900	<b>931</b>	1,478
Ordinary dividend	<b>1,428</b>	1,020	<b>1,428</b>	1,020
	<b>37,451</b>	40,481	<b>24,694</b>	27,018

	Consolidated		Parent Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts falling due after more than one year				
Loans falling due:				
within 1-2 years	<b>2,649</b>	8,203	<b>2,000</b>	5,000
within 2-5 years	<b>14,254</b>	10,753	<b>13,615</b>	6,255
Finance leases falling due:				
within 1-2 years	–	28	–	28
	<b>16,903</b>	18,984	<b>15,615</b>	11,283

## 14. Loans

	Consolidated		Parent Company	
	2004 £000	2003 £000	2004 £000	2003 £000
UK bank loan repayable by ten semi-annual instalments of £1,000,000 commencing 30 September 2004	<b>10,000</b>	—	<b>10,000</b>	—
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	—	14,000
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	—	2,255
UK revolving bank loan denominated in Sterling, Euro and US Dollar reducing to £5,000,000 on 31 March 2008 and to £Nil on 31 March 2009	<b>7,615</b>	—	<b>7,615</b>	—
US Dollar denominated revolving bank loan reducing by \$1,000,000 per quarter commencing 30 June 2003	—	8,228	—	—
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	<b>1,937</b>	2,676	—	—
<b>Total</b>	<b>19,552</b>	27,159	<b>17,615</b>	16,255
Repayment of bank loans:				
in 1 year or less or on demand	<b>2,649</b>	8,203	<b>2,000</b>	5,000
in more than 1 year but not more than 2 years	<b>2,649</b>	8,203	<b>2,000</b>	5,000
in more than 2 years but not more than 5 years	<b>14,254</b>	10,753	<b>13,615</b>	6,255
<b>Total</b>	<b>19,552</b>	27,159	<b>17,615</b>	16,255

The UK loans carry interest based on LIBOR, with the exception of the Euro element of the revolving bank loan, which carries interest based on EURIBOR. At 31 March 2004, the Euro element of the revolving bank loan amounted to £2,180,000.

The UK revolving bank loan has maximum borrowings of £10,000,000 of which £7,615,000 was drawn down on 31 March 2004.

The Group entered into an interest rate swap agreement covering £5,000,000 of the UK loan, falling by £500,000 semi-annually commencing on 30 September 2004 and terminating on 31 March 2009, at a rate of 6.59% per annum. The Group also entered into interest rate swap agreements covering €1,400,000 and \$4,800,000 of the revolving bank loan to 29 December 2006 at rates of 4.67% and 4.46% respectively.

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

The Austrian loans consist of two loan accounts, one of €988,000 which carries interest based on six month EURIBOR and is secured on the freehold property of Asota GmbH and the other of €1,919,000 which carries a fixed rate of interest of 4.9% to 1 January 2007 and is secured over certain plant and machinery and buildings of Asota.

# 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 2003	2,002	697	6,594	9,293	(27)
Exchange adjustments	–	(64)	(705)	(769)	–
Charged (credited) during the year	–	155	529	684	(14)
Utilised	(475)	(598)	–	(1,073)	–
<b>At 31 March 2004</b>	<b>1,527</b>	<b>190</b>	<b>6,418</b>	<b>8,135</b>	<b>(41)</b>

At 31 March 2004 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 2004 £000	Amount provided 2004 £000	Potential liability 2003 £000	Amount provided 2003 £000
<b>Consolidated</b>				
Accelerated tax allowances on plant, equipment and buildings	<b>7,431</b>	<b>7,431</b>	8,109	8,109
Other timing differences	<b>(467)</b>	<b>(467)</b>	(1,090)	(1,090)
Losses	<b>(546)</b>	<b>(546)</b>	(425)	(425)
	<b>6,418</b>	<b>6,418</b>	6,594	6,594
<b>Parent Company</b>				
Accelerated tax allowances on plant, equipment and buildings	<b>(5)</b>	<b>(5)</b>	–	–
Other timing differences	<b>(36)</b>	<b>(36)</b>	(27)	(27)
	<b>(41)</b>	<b>(41)</b>	(27)	(27)

The deferred tax asset of the Parent Company at 31 March 2004 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	
	2004 £000	2003 £000	2004 £000	2003 £000
Leases which expire:				
within 1 year	<b>6</b>	21	<b>94</b>	72
within 2 – 5 years	<b>127</b>	215	<b>286</b>	297
after 5 years	<b>341</b>	326	–	–
	<b>474</b>	562	<b>380</b>	369

## 17. Contingent liabilities

At 31 March 2004 Group guarantees to third parties and other contingent liabilities amounted to £497,000 (2003: £141,000).

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 2004 amounted to £18,747,000.

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

# Notes to the accounts

## 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
<b>At 31 March 2004</b>		<b>13,700</b>		<b>11,002</b>
At 31 March 2003		13,700		11,002

The following options and awards were outstanding at 31 March 2004:

Category	Date of grant	No. of options/awards	Exercise price (pence)	Exercise period
<b>Options</b>				
1994 Executive Scheme				
A	3/6/96	188,600	61.00	June 1999 – June 2006
B	21/6/99	270,000	34.50	June 2002 – June 2009
C	16/9/99	74,000	40.50	September 2002 – September 2009
D	26/6/00	268,000	30.75	June 2003 – June 2010
1994 Savings Related Scheme				
E	14/7/97	7,296	31.00	August 2002 – February 2005
F	13/7/98	7,527	33.00	August 2003 – June 2004
G	12/7/99	211,123	27.75	August 2004 - February 2005
H	17/7/00	340,628	24.75	August 2005 - February 2006
Parallel Scheme				
I	22/6/98	360,000	41.25	June 2001 – June 2005
J	21/6/99	130,000	34.50	June 2002 – June 2006
K	26/6/00	272,000	30.75	June 2003 – June 2007
<b>Awards</b>				
1998 Performance Related Share Plan				
L		878,747		From April 2004
M		1,456,646		From April 2005
N		1,416,982		From April 2006
Invested Bonus Share Plan 1997				
O		8,999		From July 2001
P		166,484		From July 2002
Q		57,305		From July 2003
R		277,601		From July 2004
S		133,805		From July 2005
T		1,414,359		From July 2006

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

# Notes to the accounts

## 18. Called up share capital (continued)

### 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.

### 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 per ordinary share

	Basic and diluted earnings per share		Underlying earnings per share	
	2004 £000	2003 £000	2004 £000	2003 £000
Profit for the financial year	<b>3,684</b>	209	<b>3,684</b>	209
Goodwill amortisation	–	–	<b>782</b>	768
Dividends on preference shares	<b>(46)</b>	(46)	<b>(46)</b>	(46)
Exceptional items	–	–	–	2,637
Tax effect of exceptional items	–	–	–	(186)
Earnings attributable to ordinary shareholders	<b>3,638</b>	163	<b>4,420</b>	3,382
Weighted average number of ordinary shares in issue during the year (000's)	<b>200,177</b>	200,122	<b>200,177</b>	200,122
Basic and diluted earnings per ordinary share (pence)	<b>1.82</b>	0.08	<b>2.21</b>	1.69

The effect of the exceptional items on the earnings per share in 2003 was 1.23 pence.

## 20. Profit and loss account

	Consolidated £000	Parent Company £000
At 1 April 2003	35,137	11,377
Exchange adjustments	<b>(4,215)</b>	<b>(147)</b>
Retained profit (deficit)	<b>1,627</b>	<b>(5)</b>
<b>At 31 March 2004</b>	<b>32,549</b>	<b>11,225</b>

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 £2,052,000 (2003: £2,811,000).

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

	<b>2004</b> <b>£000</b>	2003 £000
Operating profit	<b>7,232</b>	5,891
Depreciation	<b>4,947</b>	5,077
Amortisation of goodwill	<b>782</b>	768
(Increase) decrease in stocks	<b>(1,586)</b>	1,337
Increase in debtors	<b>(3,346)</b>	(882)
Increase in creditors	<b>3,217</b>	2,707
(Decrease) increase in provisions	<b>(320)</b>	651
Net cash inflow from operating activities	<b>10,926</b>	15,549

The cash flow impact of the operating exceptional items charged in prior years is an outflow of £535,000 (2003: £993,000).

**22. Reconciliation to net debt**

	<b>2004</b> <b>£000</b>	2003 £000
Decrease in cash in the year	<b>(1,986)</b>	(155)
Decrease in debt and finance leasing	<b>6,986</b>	10,139
Change in net debt from cash flows	<b>5,000</b>	9,984
New finance leases	–	(127)
Exchange adjustments	<b>553</b>	478
Movement in net debt in the year	<b>5,553</b>	10,335
Net debt at 1 April	<b>(28,219)</b>	(38,554)
Net debt at 31 March	<b>(22,666)</b>	(28,219)

**23. Analysis of net debt**

	1 April 2003 £000	Cash flow £000	Other non-cash £000	Exchange movement £000	<b>31 March 2004 £000</b>
Cash at bank and in hand	4,214	<b>(641)</b>	–	<b>(390)</b>	<b>3,183</b>
Overdrafts and short-term facilities	(5,207)	<b>(1,345)</b>	–	<b>269</b>	<b>(6,283)</b>
	(993)	<b>(1,986)</b>	–	<b>(121)</b>	<b>(3,100)</b>
Debt due after 1 year	(18,956)	<b>890</b>	<b>676</b>	<b>487</b>	<b>(16,903)</b>
Debt due within 1 year	(8,203)	<b>6,043</b>	<b>(676)</b>	<b>187</b>	<b>(2,649)</b>
Finance leases	(67)	<b>53</b>	–	–	<b>(14)</b>
	(27,226)	<b>6,986</b>	–	<b>674</b>	<b>(19,566)</b>
Total	(28,219)	<b>5,000</b>	–	<b>553</b>	<b>(22,666)</b>

# Notes to the accounts

## 24. Investments

### Subsidiary companies

	Parent Company		
	Shares £000	Loans £000	Total £000
Cost			
At 1 April 2003	59,686	57,622	117,308
Exchange adjustments	<b>(223)</b>	–	<b>(223)</b>
Additions	–	<b>92</b>	<b>92</b>
Repayments	–	<b>(1,812)</b>	<b>(1,812)</b>
<b>At 31 March 2004</b>	<b>59,463</b>	<b>55,902</b>	<b>115,365</b>
Amount provided			
At 1 April 2003 and at 31 March 2004	<b>4,194</b>	<b>11,093</b>	<b>15,287</b>
Net book value			
At 31 March 2004	<b>55,269</b>	<b>44,809</b>	<b>100,078</b>
At 31 March 2003	55,492	46,529	102,021

The principal subsidiaries are listed on page 47.

## 25. Employees

	2004 £000	2003 £000
Employee costs (including Directors):		
Wages and salaries	<b>18,203</b>	17,939
Social security costs	<b>3,062</b>	2,778
Other pension costs	<b>1,264</b>	1,398
	<b>22,529</b>	22,115

The average number of employees during the year was:

	2004 Number	2003 Number
Fibres	<b>459</b>	457
Specialist Coatings	<b>108</b>	121
Umbrella Frames	<b>248</b>	248
	<b>815</b>	826

## 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. The disclosures required by FRS 17, 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) on page 43.

The total pension cost and contributions for the Group were £1,264,000 (2003: £1,398,000), of which £177,000 (2003: £356,000) related to overseas schemes. The cost related to defined contribution schemes amounted to £228,000 (2003: £234,000).

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.

## 26. Pensions (continued)

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 2004. Fund assets are stated at their market value at 31 March 2004.

The projected unit valuation method has been used for both years. In addition, the following assumptions have been used to calculate scheme liabilities:

	2004 % per annum	2003 % per annum
Discount rate	<b>5.7</b>	5.6
Inflation rate	<b>2.9</b>	2.4
Increases to deferred benefits during deferment	<b>2.9</b>	2.4
Increases to pensions in payment - post-April 1997 pensions	<b>2.6</b>	2.4
Salary increases	<b>3.4</b>	2.9

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 2004 % per annum	Value at 31 March 2004 £m	Long-term rate of return expected at 31 March 2003 % per annum	Value at 31 March 2003 £m
Equities	<b>8.0</b>	<b>16.0</b>	8.3	13.7
Bonds	<b>5.1</b>	<b>28.7</b>	4.8	27.0
Total market value of assets		<b>44.7</b>		40.7
Present value of liabilities		<b>(47.1)</b>		(45.4)
Deficit		<b>(2.4)</b>		(4.7)
Related deferred tax asset		<b>0.7</b>		1.4
Net pension liability		<b>(1.7)</b>		(3.3)

# Notes to the accounts

## 26. Pensions (continued)

### Balance sheet disclosures

	<b>2004 Group £m</b>	2003 Group £m
<b>Net assets</b>		
Net assets excluding FRS 17 pension liability related to the Chapelthorpe plc Pension Fund	<b>45.3</b>	47.9
Net pension liability related to the Chapelthorpe plc Pension Fund	<b>(1.7)</b>	(3.3)
Net assets including FRS 17 pension liability	<b>43.6</b>	44.6

	<b>2004 Group £m</b>	2003 Group £m
<b>Reserves</b>		
Profit and loss reserve excluding FRS 17 pension liability related to the Chapelthorpe plc Pension Fund	<b>32.5</b>	35.1
Net pension liability related to the Chapelthorpe plc Pension Fund	<b>(1.7)</b>	(3.3)
Profit and loss reserve including FRS 17 pension liability	<b>30.8</b>	31.8

The following amounts would have been recognised in the performance statements under the requirements of FRS 17:

	<b>2004 £m</b>	2003 £m
<b>Operating profit</b>		
Current service cost	<b>0.8</b>	0.9
Past service cost	<b>–</b>	0.2
Total operating charge	<b>0.8</b>	1.1

	<b>2004 £m</b>	2003 £m
<b>Other finance (expense) income</b>		
Expected return on pension scheme assets	<b>2.4</b>	2.7
Interest on pension scheme liabilities	<b>(2.5)</b>	(2.6)
Net return	<b>(0.1)</b>	0.1

	<b>2004 £m</b>	2003 £m
<b>Statement of total recognised gains and losses ("STRGL")</b>		
Actual return less expected return on pension scheme assets	<b>3.9</b>	(3.6)
Experience gains and losses arising on the scheme liabilities	<b>(1.1)</b>	0.2
Changes in assumptions underlying the present value of the scheme liabilities	<b>(0.4)</b>	(1.3)
Actuarial gain (loss) recognised in STRGL	<b>2.4</b>	(4.7)

	<b>2004 £m</b>	2003 £m
<b>Movement in surplus during the year</b>		
(Deficit) surplus in scheme at beginning of the year	<b>(4.7)</b>	0.3
Movement in year:		
Current service cost	<b>(0.8)</b>	(0.9)
Contributions	<b>0.8</b>	0.7
Past service costs	<b>–</b>	(0.2)
Finance (expense) income	<b>(0.1)</b>	0.1
Actuarial gain (loss)	<b>2.4</b>	(4.7)
Deficit at the end of the year	<b>(2.4)</b>	(4.7)

**26. Pensions (continued)**

	2004	2003
<b>Details of experience gains and losses</b>		
Difference between the expected and actual return on scheme assets:		
Amount (£m)	<b>3.9</b>	(3.6)
Percentage of scheme assets (%)	<b>8.7</b>	8.8
Experience gains and losses on scheme liabilities:		
Amount (£m)	<b>(1.1)</b>	0.2
Percentage of the present value of the scheme liabilities (%)	<b>2.3</b>	0.4
Total amount recognised in the STRGL:		
Amount (£m)	<b>2.4</b>	(4.7)
Percentage of the present value of the scheme liabilities (%)	<b>5.1</b>	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 2004 showed a decrease in the deficit from £4.7m to £2.4m.

**Austrian leaving indemnities**

The Austrian operation is required to provide leaving indemnities on redundancy or retirement. The Group balance sheet includes £542,000 (2003: £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 £1,227,000 (2003: £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 £1,202,000.

**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 2004:

	Cash and term deposits	
	2004	2003
	£000	£000
<b>Currency</b>		
Sterling	<b>410</b>	148
US Dollar	<b>2,260</b>	2,332
Canadian Dollar	<b>504</b>	908
Euro	<b>551</b>	1,387
	<b>3,725</b>	4,775

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

- Sterling denominated balances that receive interest based on the UK base rate;
- US Dollar denominated balances that receive interest based on the US base rate;
- Canadian Dollar denominated balances that receive interest based on the Canadian base rate;
- Euro denominated balances that receive interest based on the Eurozone base rate;
- Euro denominated term deposits that receive interest based on the Eurozone base rate; and
- cash held in Euro and US Dollar denominated bank accounts.

# Notes to the accounts

## 27. Derivatives and financial instruments (continued)

### Interest rate risk profile of financial assets and financial liabilities (continued)

#### Financial liabilities

The Group held the following financial liabilities at 31 March 2004:

	Total		Floating rate financial liabilities		Fixed rate financial liabilities		Financial liabilities on which no interest is paid	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
<b>Currency</b>								
Sterling – preference shares	<b>800</b>	800	–	–	<b>800</b>	800	–	–
– other financial liabilities	<b>11,741</b>	16,135	<b>5,200</b>	1,816	<b>5,014</b>	12,317	<b>1,527</b>	2,002
US Dollar	<b>5,625</b>	9,834	<b>2,826</b>	6,479	<b>2,609</b>	2,658	<b>190</b>	697
Euro	<b>10,200</b>	9,163	<b>7,988</b>	5,812	<b>2,212</b>	3,351	–	–
	<b>28,366</b>	35,932	<b>16,014</b>	14,107	<b>10,635</b>	19,126	<b>1,717</b>	2,699

The floating rate liabilities comprise:

- Sterling denominated overdrafts that bear interest based on the UK base rate;
- other Sterling denominated bank borrowings that bear interest based on the relevant LIBOR for the interest rollover period;
- US Dollar denominated bank borrowings that bear interest based on the relevant LIBOR for the interest rollover period;
- Euro denominated overdrafts that bear interest based on the Eurozone base rate; and
- other Euro denominated bank borrowings that bear interest based on the relevant EURIBOR for the interest rollover period.

The fixed rate liabilities comprise:

- 6.00% first cumulative preference shares of 50 pence;
- 5.75% second cumulative preference shares of £1;
- a Euro loan which carries a fixed interest rate of 4.9% to 1 January 2007;
- Sterling denominated bank borrowings subject to an interest rate swap agreement as disclosed in Note 14;
- US Dollar denominated bank borrowings subject to an interest rate swap agreement as disclosed in Note 14;
- Euro denominated bank borrowings subject to an interest rate swap agreement as disclosed in Note 14; and
- 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 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 2004 was as follows:

	Cash and term deposits	
	2004 £000	2003 £000
In 1 year or less, or on demand	<b>3,183</b>	4,214
In more than 5 years	<b>542</b>	561
	<b>3,725</b>	4,775

**27. Derivatives and financial instruments (continued)****Maturity of financial liabilities**

The maturity profile of the Group's financial liabilities at 31 March 2004 was as follows:

	Total		Debt		Finance leases		Other financial liabilities	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
In 1 year or less, or on demand	<b>10,663</b>	16,148	<b>8,932</b>	13,410	<b>14</b>	39	<b>1,717</b>	2,699
In more than 1 year but not more than 2 years	<b>2,649</b>	8,231	<b>2,649</b>	8,203	–	28	–	–
In more than 2 years but not more than 5 years	<b>14,254</b>	10,753	<b>14,254</b>	10,753	–	–	–	–
In more than 5 years	<b>800</b>	800	<b>800</b>	800	–	–	–	–
	<b>28,366</b>	35,932	<b>26,635</b>	33,166	<b>14</b>	67	<b>1,717</b>	2,699

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 2004 in respect of which all conditions precedent had been met were as follows:

	2004 £000	2003 £000
Expiring in 1 year or less	<b>13,355</b>	16,579
Expiring in more than 2 years but less than 5 years	<b>2,385</b>	–
	<b>15,740</b>	16,579

**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 2004:

	Book value 2004 £000	Fair value 2004 £000	Book value 2003 £000	Fair value 2003 £000
Primary financial instruments held or issued to finance the Group's operations:				
Short-term financial liabilities and current portion of long-term borrowings	<b>(8,932)</b>	<b>(8,977)</b>	(13,410)	(13,457)
Long-term borrowings	<b>(16,903)</b>	<b>(16,863)</b>	(18,956)	(18,891)
Financial assets	<b>3,725</b>	<b>3,725</b>	4,775	4,775
Preference shares	<b>(800)</b>	<b>(800)</b>	(800)	(800)
Finance leases	<b>(14)</b>	<b>(14)</b>	(67)	(67)
Other financial liabilities	<b>(1,717)</b>	<b>(1,717)</b>	(2,699)	(2,699)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	–	<b>(105)</b>	–	(436)
Forward foreign exchange contracts	–	<b>458</b>	–	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.

# Notes to the accounts

## 27. Derivatives and financial instruments (continued)

### 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 2004. 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	
	2004 £000	2003 £000
Functional currency of companies		
Sterling	<b>228</b>	221
Euro	<b>167</b>	234
	<b>395</b>	455

### Gains and losses on instruments used for hedging

There were no significant unrecognised or deferred gains and losses on hedges at 31 March 2004 or 31 March 2003, other than those disclosed in the fair value table above.

## 28. Litigation

During the year ended 31 March 2004, the Company reached an out of court settlement, without admission of liability, with 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. This substantial cash receipt had no impact on earnings and this represented full recovery of amounts brought forward as recoverable at 1 April 2003.

## Principal group companies

Company	Country of incorporation	Business activity
Chapelthorpe plc	England	Holding and management company
<b>Fibres</b>		
* Asota GmbH	Austria	
* Drake Extrusion, Inc.	USA	Producers of polypropylene staple fibre and filament
Drake Extrusion Limited	England	
<b>Specialist Coatings</b>		
* Speciality Coatings (Brantford) Limited	Canada	Manufacturers of vinyl-base and plastisols
* Speciality Coatings (Darwen) Limited	England	for the wallcoverings industry
<b>Umbrella Frames</b>		
Hoyland Fox Limited	England	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.

# Five year record

## Profit and loss account

Year ended 31 March

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Turnover	<b>121,460</b>	121,803	127,048	139,417	125,545
Operating profit (loss)	<b>7,232</b>	5,891	2,365	(5,549)	10,061
Exceptional items relating to prior period disposals	–	(1,136)	–	90	(386)
Profit on sale of property	–	–	–	–	1,740
Interest	<b>(1,782)</b>	(2,454)	(2,805)	(2,707)	(1,698)
Profit (loss) profit on ordinary activities before taxation	<b>5,450</b>	2,301	(440)	(8,166)	9,717
Taxation on profit (loss) on ordinary activities	<b>(1,766)</b>	(2,092)	266	(416)	(912)
Profit (loss) for the financial year	<b>3,684</b>	209	(174)	(8,582)	8,805
Dividends	<b>(2,057)</b>	(1,558)	(1,018)	(3,250)	(5,511)
Retained profit (deficit)	<b>1,627</b>	(1,349)	(1,192)	(11,832)	3,294
Earnings (loss) per ordinary share (pence)	<b>1.8</b>	0.1	(0.1)	(4.2)	4.2
Diluted earnings (loss) per ordinary share (pence)	<b>1.8</b>	0.1	(0.1)	(4.2)	4.2
Underlying earnings per ordinary share (pence)	<b>2.2</b>	1.7	1.1	1.7	4.7
Dividends per ordinary share (pence)	<b>1.0</b>	0.8	0.5	1.6	2.6

## Balance sheet

31 March

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Fixed assets	<b>60,189</b>	68,942	75,257	80,842	80,688
Net current assets less amounts due after more than one year	<b>(6,765)</b>	(11,772)	(15,181)	(16,044)	(11,683)
Provisions for liabilities and charges	<b>(8,135)</b>	(9,293)	(8,672)	(11,793)	(5,949)
Deferred income	–	–	–	–	(35)
Total shareholders' funds	<b>45,289</b>	47,877	51,404	53,005	63,021

**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

**Remuneration consultants**

New Bridge Street Consultants LLP  
20 Little Britain  
London EC1A 7DH

# Shareholder information

## Internet

The Company operates a website which can be found at [www.chapelthorpe.com](http://www.chapelthorpe.com). This site is regularly updated to provide information about the Company. In particular all of 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 or other details. In order to facilitate this, shareholders are able to download forms to change their details via the Registrar Services page of the Chapelthorpe website.

Shareholders may also check their shareholdings via the Registrar Services page of the Chapelthorpe website and in order 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 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 either contact the Company's Registrar or visit the Registrar Services page of the Chapelthorpe website in order 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 in respect of the year ended 31 March 2004 will be payable to shareholders on the register at 18 June 2004.

## Dividend Reinvestment Plan

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 20 July 2004. Further details regarding participation in the Dividend Reinvestment Plan are disclosed on the Registrar Services page of the Chapelthorpe website.

## Investor relations

For further copies of the Report and 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](mailto:aweatherstone@chapelthorpe.com)

# Notice of annual general meeting

NOTICE is hereby given that the fifty fifth Annual General Meeting of the Company will be held at Eversheds LLP, Cloth Hall Court, Infirmary Street, Leeds LS1 2JB at 2.00pm on 23 July 2004 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 2004.
2. To approve the Board Report on Remuneration for the year ended 31 March 2004.
3. To declare a dividend.
4. To re-elect Mr A B Reeve as a Director.
5. To reappoint PricewaterhouseCoopers LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
6. 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 numbers 7, 8 and 9 will be proposed as Ordinary Resolutions and numbers 10 and 11 as Special Resolutions:

### Ordinary Resolutions

7. That the rules of the Chapelthorpe plc Savings Related Share Option Scheme 2004, the main features of which are summarised in this Notice of Annual General Meeting, be approved and adopted in the form produced to the Meeting and signed by the Chairman for the purposes of identification and the Directors of the Company be authorised to make such modifications as they consider necessary or expedient for the purposes of implementing and giving effect to this Resolution.
8. That the rules of the Chapelthorpe plc Executive Share Option Plan 2004, the main features of which are summarised in this Notice of Annual General Meeting, be approved and adopted in the form produced to the Meeting and signed by the Chairman for the purposes of identification and the Directors of the Company be authorised, firstly, to make such modifications as they consider necessary or expedient for the purposes of implementing and giving effect to this Resolution, and secondly, to establish such further plans based on or schedules to the Chapelthorpe plc Executive Share Option Plan 2004 for the benefit of employees resident outside of the UK, subject to such modifications as may be necessary or desirable to take account of overseas securities laws, exchange control or tax legislation provided that any shares made available under such further plans or schedules are treated as counting towards the limits on individual participation or overall participation in the Chapelthorpe plc Executive Share Option Plan 2004.
9. 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 £2,698,000 provided that this authority shall expire on 23 October 2005 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

10. That, subject to the passing of the Ordinary Resolution numbered 9 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 23 October 2005 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.

# Notice of annual general meeting

## Special Resolutions (continued)

11. 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

21 June 2004

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, 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;
- b) copies of Directors' service contracts; and
- c) a copy of the draft rules of the Chapelthorpe plc Savings Related Share Option Scheme 2004 and of the Chapelthorpe plc Executive Share Option Plan 2004.

# Appendix to notice of annual general meeting

## **Summary of the principal features of the Chapelthorpe plc Savings Related Share Option Scheme 2004 (the "Scheme")** **General**

The Company intends to obtain Inland Revenue approval of the Scheme under the Income Tax (Earnings and Pensions) Act 2003. The operation of the Scheme will be supervised by the Board of Directors (the "Board").

### **Eligibility**

UK resident employees of the Company and participating subsidiaries with a specified length of service (including Executive Directors who are required to work at least 25 hours a week) will be eligible to participate. The Board may amend the eligibility conditions (within the limits set by the relevant legislation) and have a discretion to allow other employees to participate.

### **Grant of options**

Invitations to apply for options to acquire ordinary shares may be issued within six weeks following Inland Revenue approval of the Scheme and, thereafter, in the six weeks following the announcement by the Company of its results for any period, as well as at any other time if the Board considers that there are exceptional circumstances. No invitations may be issued later than ten years after the adoption of the Scheme. Options may only be granted to employees who enter into Inland Revenue approved savings contracts, under which monthly savings are normally made over a period of three or five years.

The number of ordinary shares over which an option is granted will be such that the total amount payable on its exercise will correspond to the proceeds on maturity of the related savings contract. An option will be personal to the participant and not capable of being transferred by them (save for the prescribed circumstances for the exercise of options by the participant's personal representatives following the participant's death).

### **Individual participation**

Monthly savings by an employee under all savings contracts linked to options granted under any savings related share option scheme may not exceed the statutory maximum (currently £250). Each year the Board can set a lower limit.

### **Acquisition price**

The price per ordinary share payable upon the exercise of options will not be less than the higher of:

- (a) 80% of the middle-market quotation of an ordinary share on the London Stock Exchange on a dealing day within the period of 30 days (or 42 days, if applications are scaled down) ending with the date of grant of options (or such other day or days as may be agreed with the Inland Revenue), provided that no such day may fall before the Company last announced its results for any period; and
- (b) the nominal value of an ordinary share (unless the option relates solely to existing ordinary shares).

### **Limit on subscription**

Not more than 10% of the issued ordinary share capital of the Company may be subscribed on the exercise of options granted over any period of ten consecutive financial years of the Company under the Scheme or any other share option scheme adopted by the Company or issued over that period under any other type of employees' share scheme adopted by the Company. The use of treasury shares will also count for this purpose.

### **Exercise of options**

Options will normally be exercisable only for six months from the third, fifth, or seventh anniversary of the commencement of the related savings contracts. Earlier exercise is however permitted in the following circumstances:

- following cessation of employment for reason of death, injury, disability, redundancy, retirement on reaching the age of 65 (or any other age at which the employee is bound to retire under the terms of employment) or as a result of the employee's employment being transferred to a company neither associated with or under the control of the Company;
- when an employee reaches the age of 65;
- where employment ceases more than three years from grant (for reasons other than dismissal or misconduct); and
- in the event of a takeover, amalgamation, reconstruction or winding-up of the Company.

Options will otherwise lapse on cessation of employment.

### **Pensionability**

Benefits received under the Scheme will not be pensionable.

### **Rights attaching to ordinary shares**

All ordinary shares allotted under the Scheme will rank equally with all other ordinary shares of the Company for the time being in issue (except as regards any rights attaching to such shares by reference to a record date prior to the date of allotment) and application will be made to the London Stock Exchange for such shares to be admitted for trading.

# Appendix to notice of annual general meeting

## **Summary of the principal features of the Chapelthorpe plc Savings Related Share Option Scheme 2004 (the "Scheme") (continued)**

### **Variation of capital**

In the event of any variation of the Company's share capital, the Board may make such adjustments as it considers appropriate to the number of ordinary shares subject to options and the price payable on the exercise of options.

### **Alterations**

The Board may at any time alter the Scheme in any respect, subject to the prior approval of shareholders for alterations to the advantage of participants to the rules governing eligibility, the individual limit on participation, the overall limit on the issue of ordinary shares, the terms of options, the rights attaching to ordinary shares acquired on the exercise of options, the adjustment of options in the event of a variation of capital and the amendment of the Scheme. The requirement to obtain prior shareholder approval will not, however, apply to any minor alteration to benefit the administration of the Scheme, or to take account of a change in legislation, or to obtain or maintain favourable tax, exchange control, or regulatory treatment for participants or a Chapelthorpe Group company.

## **Summary of the principal features of the Chapelthorpe plc Executive Share Option Plan 2004 (the "Plan")**

### **General**

There are three parts to the proposed Plan. The Company intends to seek Inland Revenue approval to Part A, which will have UK tax advantages for employees and the Company for options granted over up to £30,000 worth of shares. Options granted under Part B will have no tax advantages. Part C may be used to grant tax favoured options (known as Incentive Stock Options) to US tax resident employees. Except to the extent required to satisfy the UK and US tax requirements, all three Parts of the Plan are in all material respects identical.

The operation of the Plan will be supervised by the Company's Remuneration Committee, all the members of which are independent Non-executive Directors.

### **Eligibility**

All employees and full-time directors of the Company and its subsidiaries who are not within 12 months of their contractual retirement age (this exclusion will not apply to US employees), will be eligible to participate in the Plan at the discretion of the Remuneration Committee.

It is intended that options will only be granted to selected senior executives and directors. The Executive Directors of Chapelthorpe plc will not be granted options while they continue to participate in the Chapelthorpe plc 1998 Performance Related Share Plan.

### **Grant of options**

Options (which may relate to new, treasury and/or existing shares) may be granted within the six weeks following the approval of the Plan by shareholders, and thereafter, within the six weeks following the announcement by the Company of its results for any period or the removal of any statutory or regulatory restriction which had previously prevented an option being granted; and at other times in circumstances considered by the Remuneration Committee to be exceptional.

No options may be granted later than ten years after the approval of the Plan by shareholders. The Remuneration Committee shall regularly review the Plan to ensure its continued effectiveness.

No payment will be required for the grant of an option. Options are neither transferable nor pensionable.

No option may be granted to an individual if it would cause the aggregate exercise price of shares put under option to him in any financial year under the Plan to exceed 80% of base salary. Options granted under Part A of the Plan are limited to £30,000 of shares (or such other limit as prescribed by the tax legislation). Options granted under Part C of the Plan are limited to US\$100,000 per year.

### **Exercise price**

The price per share payable upon the exercise of an option will not be less than the higher of:

- (a) the price of an ordinary share on the London Stock Exchange on the date of grant or the day immediately preceding the date of grant, as determined by the Remuneration Committee; and
- (b) the nominal value of an ordinary share, if the option relates to new issue shares.

# Appendix to notice of annual general meeting

## **Summary of the principal features of the Chapelthorpe plc Executive Share Option Plan 2004 (the "Plan") (continued)**

### **Limits on the issue of shares**

No options may be granted under the Plan in any financial year of the Company which would cause the number of shares issued or issuable pursuant to options granted in that year and the previous nine financial years under the Plan or under any other executive share scheme to exceed 5% of the Company's issued ordinary share capital from time to time.

No options may be granted under the Plan in any financial year of the Company which would cause the number of shares issued or issuable pursuant to options granted in that year and the previous nine financial years under the Plan or under any other option scheme or issued during that period under any other share scheme (other than an option scheme) to exceed 10% of the Company's issued ordinary share capital from time to time.

The use of treasury shares to satisfy options will also count towards these limits.

### **Exercise of options**

An option will normally be exercisable between three and ten years following its grant, but normally only if a performance condition has been satisfied. This performance condition is that the Company's earnings per share before exceptional items and goodwill amortisation as disclosed in the Company's Annual Report and Accounts, in the third financial year following the financial year immediately preceding the year in which the date of grant falls must equal or exceed the growth in the retail prices index plus 3% per annum compounded over the same three year period. The condition may be varied by the Remuneration Committee in certain circumstances following the grant of an option so as to achieve its original purpose.

If the performance condition is not satisfied after the three years, the option will lapse; there will be no opportunity to retest the performance condition.

Options will lapse upon cessation of employment, unless the Remuneration Committee decides otherwise, except where the cessation of employment is by reason of death, injury, ill-health, disability, redundancy, retirement at or after contractual retirement age (or the specified retirement age of 55 years for Inland Revenue approval options), or the sale from the Group of the company or business in which an employee works. In such cases, options will be capable of exercise for a period of six months (12 months in the case of death). In all cases, the performance condition has to be satisfied, measuring performance of the Company up to cessation of employment.

Options may be exercised early in the event of an amalgamation, takeover, reconstruction or winding up of the Company. In such circumstances, the performance condition must be satisfied, with the Remuneration Committee measuring the performance of the Company up until the relevant event. An internal reorganisation where a replacement option is offered will not trigger the exercise of the option.

Further, the extent to which the options may be exercised early shall also be time prorated having regard to the proportion of the three year vesting period that has elapsed at the date of cessation of employment or the corporate event.

### **Rights attaching to shares**

Shares allotted under the Plan will rank *pari passu* with all other ordinary shares of the Company for the time being in issue (except for rights arising by reference to a record date prior to their allotment).

### **Adjustment of options**

In the event of any variation to the Company's shares (or, in the case of options granted under Part B, on a demerger, payment of a capital dividend or other events similarly affecting options) adjustments considered to be appropriate may be made to the total number of shares subject to options and the price payable on the exercise of options.

### **Alterations to the Plan**

The Board of Directors may at any time alter or add to the Plan in any respect, provided that the prior approval of shareholders is obtained for alterations or additions to the advantage of participants to the rules governing eligibility, the terms on which individuals participate (including individual and overall participation limits), terms of exercise, the rights attaching to the shares acquired and the adjustment of options as described above.

The requirement to obtain the prior approval of shareholders will not, however, apply in relation to any alteration or addition which is minor in nature and is made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control, or regulatory treatment for participants or any company in the Chapelthorpe Group.

The right is also reserved up to the forthcoming Annual General Meeting to make such amendments to the Plan as are considered appropriate, provided they do not conflict in any material respect with this summary of the rules of the Plan, and to add to or modify the Plan in order for it to be operated outside the UK.

