CHAPELTHORPE

plc

Report & Accounts 2005

PRINCIPAL ACTIVITIES

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 supplies frames to the sun and sports umbrella markets.

- Borrowings reduced by £3m in year – target reached of borrowings below £20m
- Progressive dividend policy maintained with a 10% increase in final proposed dividend to 0.77p (2004: 0.70p), making 1.1p (2004: 1.0p) in total
- Operating profits of £2.4m (2004: £7.1m) reflect difficult market conditions, significant raw material price rises and exceptional charges of £2.1m for bad debts and EGM costs
- Reshaping of the Group is progressing; Canadian operation closed and Umbrella Frames site being sold

CONTENTS

1 Highlights
2 Chairman's statement
4 Review of operations
6 Financial review
8 Directors
9 Directors' report
12 Corporate governance
15 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
49 Principal Group companies
50 Five year record
51 Advisers
52 Shareholder information
53 Notice of annual general meeting

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.

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.

Our Specialist Coatings business is the leading independent supplier in Europe 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. This division is the largest supplier of umbrella frames in Europe, with over 80% of sales being outside the UK.

"OUR POLICY OF RELEASING CASH FROM THE BUSINESS AND REVIEWING AND UTILISING OUR ASSETS WHEREVER POSSIBLE HAS RESULTED IN ACHIEVING THE TARGET REDUCTION IN BORROWINGS TO £19.7M, DOWN FROM £43.3M IN SEPTEMBER 2001."

This year has been both eventful and exceptional for Chapelthorpe. We have experienced unprecedented cost pressures in our businesses and had to defend our strategy at an Extraordinary General Meeting ("EGM") called earlier this year. At the same time, the target we set ourselves of reducing borrowings below £20m by March 2005 has been achieved. The process of delivering on our strategy has also continued with the impending sale of the Penistone site.

STRATEGY

At an EGM held on 18 March of this year, shareholders overwhelmingly endorsed the methods we are pursuing to deliver value.

These are to:

- reduce borrowings through generating cash from trading and maintaining a tight control of working capital;
- re-shape under-performing businesses in the Group;
- recycle assets no longer performing at their optimum level and raise cash wherever possible in that process;
- continue a progressive dividend policy; and
- maximise returns from higher added value opportunities in our Fibres division.

We have made substantial progress on the above objectives since 2003 and have more to deliver. We are committed to selling the business and assets of our Umbrella Frames division and will return surplus cash to shareholders when that exercise is complete.

BUSINESS PROGRESS

Unprecedented rises in raw material prices, together with adverse movements in currency rates, have caused very difficult trading conditions to be experienced by all our divisions and their markets.

With these difficult market conditions seemingly a constant backdrop, two years ago we devised a safety-first strategy for the Group which was aimed to deliver continued reduction in our borrowings whilst maintaining, wherever possible, our hard fought premier position in the markets we have chosen to serve. Our policy of releasing cash from the business and reviewing and utilising our assets wherever possible has resulted in achieving the target reduction in borrowings to £19.7m, down from £43.3m in September 2001.

We have been concentrating also on re-shaping the Group to cope with the challenges we are facing and as shareholders will be aware, we are in the process of selling the land and buildings at Penistone, South Yorkshire, which the Group owns. This site is currently occupied by Hoyland Fox, our Umbrella Frames subsidiary, and this business is being re-shaped and will be re-located once the property transaction is completed. The Group will receive £3m on completion and further payments of up to £6m, dependent on planning permission, are expected. The exchange of contracts has been delayed beyond our original expectations as a result of us seeking adequate security over the further expected payments and also to allow adequate time for the due diligence process to be completed. Negotiations are continuing positively and shareholders will be advised once contracts are exchanged.

We are also examining a proposal to sell our site in Drighlington, West Yorkshire, which is currently one of the two sites occupied by our UK Fibres operation. We are currently evaluating the benefits that could arise following a re-location from this site and we will update shareholders of further developments in due course.

RESULTS IN BRIEF

Group turnover remained broadly flat at £121.9m (2004: £121.5m). Underlying operating profit (before exceptional items and goodwill amortisation) was £5.3m (2004: £7.9m) reflecting the difficult conditions in all our markets, the impact of significant raw material costs and a weak US Dollar.

Exceptional operating costs comprising £1.8m of bad debts, incurred as a consequence of the continued decline in wallcoverings demand, and £0.3m of costs in connection with the EGM, resulted in operating profit of £2.4m (2004: £7.1m).

The actions taken as part of our review of the Group's operations have resulted in a non-operating exceptional charge of £9.1m. This charge includes the cost of closure of our Canadian wallcoverings operation of £5.1m and the recycling of historic goodwill of £3.5m, which has no impact on net assets, and a net charge of £0.5m relating to the restructuring and ongoing sale of the business and assets of the Umbrella Frames division.

The pre tax loss after a reduced net interest charge of £1.6m (2004: £1.8m) was £8.3m (2004: profit of £5.4m). Underlying earnings per share fell to 1.48p from 2.16p in 2004, whilst the basic loss per share was 3.92p compared to earnings per share of 1.77p in 2004.

DIVIDENDS

In line with our progressive dividend policy your Board is proposing a 10% increase in the final dividend payment to 0.77p (2004: 0.7p). When taken with the interim dividend declared in December 2004 of 0.33p, the total dividend for the year, if approved at the Annual General Meeting ("AGM"), will be 1.1p compared with 1.0p in 2004. The cost of the final dividend now proposed is £1.6m. The final dividend is payable on 16 August 2005 to shareholders on the register on 24 June 2005.

Shareholders will once again have the opportunity to reinvest the whole of their cash dividends in the purchase of additional shares in the Company, in the open market, at competitive dealing rates, pursuant to the Dividend Reinvestment Plan.

BOARD CHANGES

I am pleased to welcome John Biles to the Board, who joined us on 10 January 2005. John is 57 and has enormous financial experience which will be invaluable as we take the Group forward. John will serve as a Non-executive Director and Chairman of the Audit Committee.

Allan Thompson will not seek re-election as a Director at the AGM. He will continue to lead our European Fibres business and focus his efforts exclusively in that division. I would like to thank him for his contribution to the Board over the past years.

OUTLOOK

Operationally, the outlook for our markets remains mixed and your Board is under no illusion that prospects will suddenly become brighter.

Our main emphasis this year will be on achieving a satisfactory level of profit and planning permission on the Penistone property.

Trading performance in the early part of this year is slightly behind that of the previous year, however, raw material prices are now falling. These reductions have yet to stimulate an underlying increase in demand but, if sustained, we would expect to see the benefits flow as the year progresses.

As I stated in my annual statement last year, our good housekeeping of recent years has given us a clear opportunity to determine the optimum shape and scale of the business going forward and this is an opportunity that must not be missed.

JOHN STANDEN
Non-executive Chairman
7 June 2005

"THE MAIN EMPHASIS WILL CONTINUE TO BE TO GENERATE CASH BOTH FROM OPERATIONS AND SURPLUS ASSETS, TO ENSURE THAT WE HAVE APPROPRIATE CAPACITY TO MEET DEMAND IN OUR TARGETED GEOGRAPHICAL MARKETS AND TO REALISE HIGHER ADDED VALUE OPPORTUNITIES IN OUR FIBRES DIVISION."

FIBRES

Man-made specialist polypropylene fibres represents, by far, the largest part of our business, with turnover in the year of £84.3m (2004: £79.7m), some 69% (2004: 66%) of Group total. Underlying operating profit was £2.8m (2004: £3.3m).

NORTH AMERICA

The key market sector in our US operation is the automotive industry and problems currently facing the "Big Three" automobile manufacturers have been well documented. North American auto sales in the 2005 calendar year to date are down by 4% on the previous year. Influenced by the sharp increase in the price of petrol, there has been a distinct move away from Sports Utility Vehicles ("SUVs"), where sales have fallen by as much as 10%. This move, which appears to be gathering pace, is not good news for us as the fibre content of a SUV can be up to five times higher than that of a saloon. On the positive side, however, our mouldable flooring product (which has potential applications across all vehicle types) continues to gain support and sales are expected to commence, in the US, in 2006/07.

While the "Big Three" continue to wrestle with their own problems, it is encouraging to note that, as the major supplier of polypropylene fibre to the entire US auto market, we are increasing our sales into "transplant manufacturers" (foreign motor companies with manufacturing facilities in the US) where they continue to gain market share.

One of the features of our business in the US is that the majority of our sales prices are now "indexed" against the cost of raw materials, albeit subject to a review period of up to three months. Consequently the impact of the dramatic rise in the cost of polypropylene polymer has not been as great as in our European business where indexation is not common industry practice.

Demand for our staple fibre was robust where sales are ahead by some 6% year on year. Particular success was achieved in non-woven floor covering areas where sales have been strong and demand is expected to remain strong in the current year. Sales of our filament yarn into the home furnishings sector, however, are slightly down on the previous year as this manufacturing sector in the US remains weak.

Following the dramatic rise in raw material prices last year, since the year end prices have stabilised and, indeed, have retreated from their peak. It is, however, too early to judge whether this respite will continue given the economic predictions of a continuing high oil price.

EUROPE

Staple fibre volumes were slightly up on last year but the biggest factor impacting our trading performance in the year was the inexorable rise in the price of our raw materials. In our interim statement we indicated that polymer prices had reached a ten year high in Europe and 25 year high in the US. The second half saw prices rise by even more than the first half. Our raw material costs increased in every one of the last six months of the year. The raw material price ended the year 40% higher than at the beginning of the year. In common with most other manufacturing operations facing these raw material price increases we suffered a significant loss of margin throughout the year. As in the US, the price of polymer has fallen somewhat since the year end but again it is impossible to predict with any certainty whether this trend will continue.

The emphasis going forward will be to concentrate our efforts into higher added-value areas such as the food and construction industries where we have had success in the recent past and have identified opportunities for further growth in the current year.

SPECIALIST COATINGS

Our Specialist Coatings division provides coated base paper and plastisols for the wallcoverings industry worldwide. Sales in the division were £27.6m (2004: £30.0m) which resulted in an underlying operating profit of £1.6m (2004: £2.7m).

REVIEW OF OPERATIONS

EUROPE

The market for wallcoverings has become increasingly challenging over recent years and we have experienced year-on-year significant declines in all our traditional markets. This declining trend has shown no signs of ending, with UK wallpaper sales showing a double digit decline in the first calendar quarter of 2005 compared with the already depressed levels in the first calendar quarter of 2004. This is in contrast to the position in Eastern Europe and part of Asia where there are opportunities to meet the growth in demand for our plastisols and vinyl coated products.

The overall market decline outstripped the contribution from our increase in market share and, consequently, volumes of vinyl base sold were down 11% on last year. However, plastisol volumes were up by some 24%, reflecting the first year contribution from new sole supply contracts with the two major UK wallpaper manufacturers.

As shareholders will be aware, we have been the major supplier in the market for some time, but with the demise of some smaller manufacturers and the gaining of new supply contracts, we now account for around 95% of total UK manufacturers' volumes and some 80% of UK retail sales of vinyl wallcoverings products.

Through constant control of overheads and manufacturing efficiencies we continue to outperform the market generally, and operationally, the business is in good shape. The actions we have taken in recent years have given us a lean and tight manufacturing unit that is also very flexible and responsive.

Our established venture in Russia, the largest wallpaper market in the world, where we have supplied surplus machinery and technical expertise in return for royalties on volumes produced, continues to grow and volumes were ahead by over a quarter this year compared with 2004. This will grow further in the current year as our partner is installing equipment which is due to come on stream this summer.

Encouraged by our success in Russia we have recently signed a five year sole supply agreement with a major Polish wallcoverings manufacturer whereby we will manufacture PVC plastisol in their established wallpaper factory for their use and for sale to other customers in the same geographical region.

We believe that there is also a potential opportunity for us in China, a market that, at present, is estimated at around 25 million rolls of wallpaper per annum. We have been in talks for some time with one of the largest wallpaper manufacturers in China with a view to manufacturing our PVC products in their factory to sell into the Far East market. We have sent a technical team to China and we anticipate products being available for display at a major exhibition in China in July.

NORTH AMERICA

Demand in North America has been at least as weak as in Western Europe and, as announced in September 2004, we were left with no option but to close our Canadian business. Contracts have now been exchanged on the sale of the site and, as we indicated in our interim statement, we anticipate that when the property sale is complete the costs of closure will be broadly cash neutral.

UMBRELLA FRAMES

Our Umbrella Frames division is the smallest of our operating divisions and accounts for around 8% of turnover (2004: 10%). We announced in February that sales were behind our expectations due to a slow start to the major selling season and, since then, we have not experienced any upturn in demand. This has resulted in volumes for this division for the year as a whole being down by some 14% and operating profit for the period of £0.9m, half the level earned in 2004. This is all the more disappointing, since at the half year stage, sales were ahead of last year and in line with expectations.

We are examining ways of re-modelling this business which will involve its re-location from its existing site. We have already announced that we are selling the site and we are aggressively pursuing ways of ensuring the business is capable of competing effectively in an increasingly challenging global market. This will ensure we maximise its value for shareholders on disposal.

SUMMARY

The main emphasis will continue to be to generate cash both from operations and surplus assets, to ensure that we have appropriate capacity to meet demand in our targeted geographical markets and to realise higher added value opportunities in our Fibres division.

BRIAN LECKIE
Chief Executive
7 June 2005

"THE BOARD IS RECOMMENDING A FINAL DIVIDEND OF 0.77p WHICH WILL RESULT IN A FULL YEAR DIVIDEND OF 1.1p, A 10% INCREASE OVER LAST YEAR."

GROUP PERFORMANCE

In 2005, sales were £121.9m (2004: £121.5m) and underlying operating profit (before exceptional items and goodwill amortisation) was £5.3m (2004: £7.9m). After operating exceptional items and goodwill amortisation, total operating profit was £2.4m (2004: £7.1m).

Raw material price increases impacted our margins significantly, particularly in the second half. We experienced price rises in polypropylene polymer of approximately 40%; 44% in steel and 25% in plastisol chemicals year on year. In addition, energy costs in the second half in the UK rose by £0.4m driven, in part, by the rise in oil price but also in part by the expiry of a long-term supply contract.

Around a third of our business is denominated in US Dollars and, as a consequence, the weakening of the US Dollar during the year had an adverse impact on both sales and operating profit when converted into sterling. There was a 9% reduction in the average sterling to US Dollar exchange rate which reduced sales and profits by £3.5m and £0.2m respectively.

The decline in the Western European and North American wallcoverings markets not only reduced underlying profitability of that division but led to exceptional bad debts totalling £1.8m which were incurred as a result of a number of key wallcovering customers failing. Given our dominant supply position in the market, withdrawing credit would have precipitated the collapse of the companies concerned. We worked closely with them in an attempt to trade out the outstanding debt position. Although we suffered substantial losses, we were able to reduce our exposure in all cases from its peak by continuing to trade with these companies.

The traditional selling season for umbrella frames failed to reach levels expected with volumes over 14% down on last year, resulting in profit being significantly below our expectations.

More detailed discussion of the Group's performance is set out in the Chairman's Statement on pages 2 to 3 and Review of Operations on pages 4 to 5.

We also incurred costs of £0.35m in connection with the EGM requisitioned by two minority shareholders in February 2005.

NON-OPERATING EXCEPTIONAL ITEMS

The Board's strategy of reviewing the Group's businesses and assets to ensure the Group is well placed to deliver acceptable returns for shareholders is well advanced. The actions taken so far have focused on the Specialist Coatings and Umbrella Frames divisions.

The closure of our Canadian wallcoverings operation is largely complete at a cost of £5.1m plus a further £3.5m of recycled goodwill. As previously indicated, we anticipate the net costs of closure will be broadly cash neutral.

Restructuring and professional costs of £0.9m were incurred associated with the ongoing sale of the Umbrella Frames business and its assets, offset by a profit on sale of £0.4m of one surplus property.

Further details of the non-operating exceptional costs can be found in Note 5.

After all exceptional costs, a loss before tax of £8.3m was incurred compared to a profit before tax of £5.4m last year.

INTEREST

The net interest expense fell to £1.6m (2004: £1.8m). Interest charges continue to track the reduction in underlying borrowings.

TAXATION

The underlying effective rate excluding prior year tax adjustments, based on profit before exceptional items and goodwill is 32.1% (2004: 30.6%), reflecting the geographical mix of the Group's profits.

The closure of our Canadian operation is anticipated to generate a tax refund of approximately £0.6m which we expect to receive this year.

EARNINGS PER SHARE AND DIVIDENDS

Underlying earnings per share are stated before goodwill and exceptional items and were 1.48p compared to 2.16p last year.

After goodwill and exceptional items the basic loss per share was 3.92p compared to a basic earnings per share of 1.77p last year.

Given the continued cash generation achieved by the Group, the Board remains committed to its progressive dividend policy and is recommending a final dividend of 0.77p (2004: 0.70p) which, together with the interim dividend of 0.33p (2004: 0.30p), will result in a full year dividend of 1.1p, a 10% increase over last year.

This approximates to a gross yield of 7% based on a share price of 15.5p.

CASH FLOW

A further debt reduction of £3.0m to £19.7m in 2005 enabled the Group to meet its stated target of borrowings below £20m.

Cash inflows from ordinary activities benefited from a reduction in working capital of £0.8m, excluding exceptional cash flows. Capital expenditure amounted to only £1.8m, approximately 40% of depreciation, which contributed a further net £2.5m to free cash flow.

Although cash costs relating to the fundamental reorganisation were £1.4m, these were offset in part by £0.8m of proceeds from the sale of assets.

Dividend payments of £2.1m were made in the year which were covered 2.6 times by free cash flow.

PENSIONS

The Group's pension arrangements are set out in Note 26 on pages 42 to 44. The Group's principal UK pension scheme is a defined benefit scheme which, under FRS17 had assets with a market value of £46.2m representing 94% of accrued benefits, compared to 95% last year. The slight deterioration in the position in spite of strong investment performance in the year is attributable to a more cautious view being adopted on the underlying assumptions, in advance of the results of the full triennial actuarial valuation currently being undertaken.

MANAGEMENT OF FINANCIAL RISK

Borrowing facilities are monitored against the Group's forecast requirements and it is our policy to mitigate financial risk by staggering the maturity of borrowings and by maintaining undrawn committed facilities, principally overdrafts. At 31 March 2005 undrawn committed facilities amounted to £14.2m.

Since the year end the Group's principal borrowing facilities have been revised. In the event that the Group completes the sale of its Penistone site, it will be required to repay £3m of its UK revolving bank loan, that would otherwise fall due for repayment on 31 March 2008. The Group has agreed to reduce the relevant facility by £3m, to grant alternative security and amend covenant levels.

To minimise the cost of borrowings all surplus cash balances in the UK are pooled to offset against borrowings. The efficiency of all other cash balances is reviewed across the Group on a frequent basis.

The Group also tries to minimise its exposure to interest rate fluctuations by having a mix of fixed rates and interest rate swaps.

The foreign currency transaction exposure in the business is protected with forward currency purchases and sales. All contracts are placed by the Group centrally. Currently the Group has hedged over 60% of foreign currency sales in the present financial year.

It is the Group's policy not to hedge foreign currency profit and loss translation exposures and we are subject to the risk of currency fluctuation, particularly the US Dollar.

IFRS

Commencing with the year ending 31 March 2006 the Group will present its results in accordance with International Financial Reporting Standards ("IFRS").

We have been preparing for the transition to IFRS and we are currently finalising the restatement of our results for 2004/05 in accordance with IFRS.

The adoption of IFRS will have no impact on the underlying cash and economic performance of our operations, but it will have an effect on the Group's results reported to shareholders.

The major effect will be the adoption of IAS19 which is similar to FRS17 and determines how pension obligations are reported and this will most likely reduce shareholders' funds mainly as a result of recognising the deficit on the balance sheet. There will be other changes covering issues such as the timing of recognition of the liability for dividends, costs of share based payments and accounting for derivatives which the Group uses to hedge into currency and interest rate exposures.

ANDY WEATHERSTONE
Finance Director
7 June 2005

DIRECTORS

John Standen*
Non-executive Chairman, aged 56

John Standen was appointed to the Board and became Chairman in 2002. His other public company roles are as Chairman of Reg Vardy plc, as senior Non-executive Director of Financial Objects plc and as a Non-executive Director of Lavendon Group 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 58

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 41

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 56

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 67

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

John Biles*
Non-executive Director, aged 57

John Biles was appointed to the Board on 10 January 2005. He is a Chartered Accountant and is a Non-executive Director and Chairman of the Audit Committee of ArmorGroup International plc and a Non-executive Director of Charter plc. He was previously Finance Director of FKI plc and prior to that Chubb Security plc, and a Non-executive Director of Amey plc.

* Member of Nomination, Remuneration and Audit Committees

† Member of Nomination Committee

The Directors present their Annual Report together with the accounts of the Company for the year ended 31 March 2005.

PROFITS AND DIVIDENDS

The loss after taxation for the year ended 31 March 2005 was £7,787,000 (2004: profit of £3,594,000). Preference and ordinary dividends totalling £2,250,000 (2004: £2,057,000) have been or are proposed to be paid. The deficit transferred from reserves amounted to £10,037,000 (2004: profit of £1,537,000). 2004 results have been reduced by £90,000 due to the application of UITF Abstracts 17 (revised 2003) and 38 as described in Note 28.

The proposed final ordinary dividend, if approved, will be payable on 16 August 2005 to shareholders on the register of members at 24 June 2005. As in previous years, the Chapelthorpe Trust will continue 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 5.

DIRECTORS

The Board of Directors is listed on page 8. These Directors have served throughout the year, with the exception of Mr J A Biles who was appointed to the Board on 10 January 2005. Mr Biles does not have a service contract.

In accordance with the Articles of Association of the Company, Mr Biles will retire from office at the AGM and, being eligible, offer himself for election.

In accordance with the Articles of Association of the Company, Mr J Standen and Mr A L Thompson will retire by rotation at the AGM. Being eligible, Mr Standen will offer himself for re-election. Mr Standen does not have a service contract. Mr Thompson is not seeking re-election as a Director at the AGM.

DIRECTORS' INTERESTS

The interests of the Directors who held office at 31 March 2005, and of their families, in the ordinary shares of the Company, are disclosed in the Board Report on Remuneration.

SHARE CAPITAL

Note 18 on pages 38 and 39 provides information concerning share capital for the year ended 31 March 2005.

At 7 June 2005 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	30,250,000	14.83
Cantor Fitzgerald Europe	14,673,860	7.19
North Atlantic Value LLP	12,454,765	6.10
Ian Knighton	8,589,664	4.21
Electra Active Management plc	6,179,864	3.03

DIRECTORS' AUTHORITIES TO ALLOT

The Notice of AGM on pages 53 and 54 includes two Resolutions relating to the Company's share capital. They are similar to Resolutions passed at previous shareholders' meetings.

Under Section 80 of the Companies Act 1985 (the "Act") the Directors are not allowed to allot shares unless they are authorised to do so by shareholders. Resolution Number 8 gives the Directors authority, until the earlier of the date of the next AGM and 22 October 2006, 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' AUTHORITIES TO ALLOT (CONTINUED)

Section 89 of the Act gives all shareholders the right to participate on a pro-rata basis in all issues of equity shares for cash unless they agree that this right should be excluded. The effect of Resolution Number 9 is to give the Directors authority until the earlier of the date of the next AGM and 22 October 2006, first to make a rights issue without having to comply with the detailed requirements of Sections 89 and 90 of the Act and, secondly, to allot equity shares for cash otherwise than by an issue pro-rata to existing shareholders, up to an aggregate nominal value of £510,000, representing 5% of the present issued and allotted ordinary share capital.

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

AUTHORITY TO PURCHASE OWN SHARES

By virtue of Resolution Number 10, the Directors are seeking authority to enable the Company to make market purchases of up to a maximum of 30,600,000 of its own ordinary shares, representing less than 15% of the existing issued ordinary share capital. This is a renewal of the authority granted at the AGM of the Company held on 23 July 2004. 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 10 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 AGM 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 34.

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 £4,051 (2004: £5,700) for a variety of charities. There were no political contributions (2004: £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 72 days (2004: 77 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.

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 AGM, together with a resolution to authorise the Directors to fix the remuneration of the auditors.

By order of the Board,

A P WEATHERSTONE
Finance Director and Secretary
7 June 2005

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 that the Code requires that the Audit Committee and Remuneration Committee should include a minimum of two independent Non-executive Directors and that the Nomination Committee should comprise a majority of independent Non-executive Directors. Following the appointment of Mr J A Biles on 10 January 2005 the Company complies with the requirements of the Combined Code in respect of the composition of the Audit and Remuneration Committees. The Board believes that the composition of the Nomination Committee is appropriate for a company of this size. Additionally, the Company has recently adopted a formal "whistleblowing" procedure whereby employees may, in confidence, raise concerns regarding financial reporting or other matters.

THE BOARD

The Board of Directors comprises three Executive (reducing to two from the 2005 AGM) and three Non-executive Directors. The Board believes its composition is sufficient for a company of this size and each Director has considerable knowledge and experience from both within and outside the Group's spheres of business. The Chairman is deemed not to be independent by the Combined Code. The other 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 2004/05 met 13 times with each meeting attended by every Director. 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 Board has established an annual performance evaluation procedure for the Board, the Committees and the individual Directors. The procedure is in the form of a questionnaire used to assess the effectiveness of the Board, each of its members and Committees and is supplemented by individual performance appraisal meetings. The Non-executive Directors are responsible for the performance evaluation of the Chairman. The results of the performance evaluation procedure are reported to the full Board.

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. During the year the Nomination Committee sought the appointment of a further Non-executive Director. The appointment process comprised of appropriate interviews and was supported by an external recruitment consultancy.

Mr J A Biles was duly appointed to the Board on 10 January 2005. His election to the Board is proposed within the accompanying Notice of AGM and shareholders are urged to vote in favour of Mr Biles' election as he brings a wealth of financial experience to the Group, as well as strengthening the Company's compliance with the Combined Code.

During 2004/05 the Committee met three times, with each Committee member attending on each occasion.

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. The Company reports formally to shareholders twice a year, when its half year and full year results are announced and an interim report and a full report are issued to shareholders. These reports are posted on Chapelthorpe's website (www.chapelthorpe.com). At the same time the Directors give presentations on the results to institutional investors, analysts and the media. Copies of major presentations are also posted on the Company's website.

The Chairman is always available to shareholders on all matters, relating to governance or otherwise and has met with shareholders on a number of occasions during the year.

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 and cash flows of the Group 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 except as shown in Note 1 in connection with the accounting for employee share ownership plans. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2005 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.

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 financial statements.

THE AUDIT COMMITTEE

The Audit Committee was established in 1994 and comprises the Group's Non-executive Directors. Until 10 January 2005 it was chaired by Mr A B Reeve and after that date by Mr J A Biles. 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.

The Audit Committee's terms of reference include a responsibility to review the external auditors' independence, objectivity and the effectiveness of the audit process. Its terms of reference are available on request from the Company Secretary. The Committee has developed and implemented a policy for the engagement of the external auditors to supply non-audit services to the Company, with the intention of avoiding the independence and objectivity of the auditors being, or appearing to be, impaired. During the year £543,000 of fees were charged by PricewaterhouseCoopers LLP in the United Kingdom in respect of corporate finance services in their role as the Group's retained corporate finance adviser.

During 2004/05 the Committee met three times, with each Committee member attending on each occasion.

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 2005 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.

ACCOUNTABILITY AND AUDIT (CONTINUED)

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.

THE REMUNERATION COMMITTEE

The Remuneration Committee comprises the Group's Non-executive Directors, Mr J Standen, Mr A B Reeve and, from 10 January 2005, Mr J A Biles. It is chaired by Mr 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, with the exception that only since the appointment of Mr J A Biles on 10 January 2005 has the Committee comprised of two independent Non-executive Directors (excluding the Chairman). During 2004/05 the Committee met five times, with each Committee member attending on each occasion.

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 subsequently amended by a variation dated 22 January 2004. It can be terminated by the Company giving one year's notice or by Mr Leckie giving six months' notice. His contract provides for a predetermined or liquidated sum by way of damages (broadly speaking, the remuneration which would have been payable during his contractual notice period less a suitable discount) if it is terminated following a successful bid for the Company.

Mr A L Thompson has a contract dated 27 May 1999 subsequently amended by a variation dated 22 January 2004. It can be terminated by the Company giving one year's notice or by Mr Thompson giving six months' notice. It does not give any right to a predetermined or liquidated sum by way of damages.

Mr 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 elements for both profit and strategic 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 Group'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 38, 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.

The exercise of options under the Chapelthorpe plc Executive Share Option Plan 2004 is 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. To date no options have been granted under this Plan.

OPTIONS AND AWARDS (CONTINUED)

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 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 2002 under the 1998 Performance Related Share Plan matured on 31 March 2005. 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 and 2004, 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).

INVESTED BONUS SHARE PLAN AND SAYE

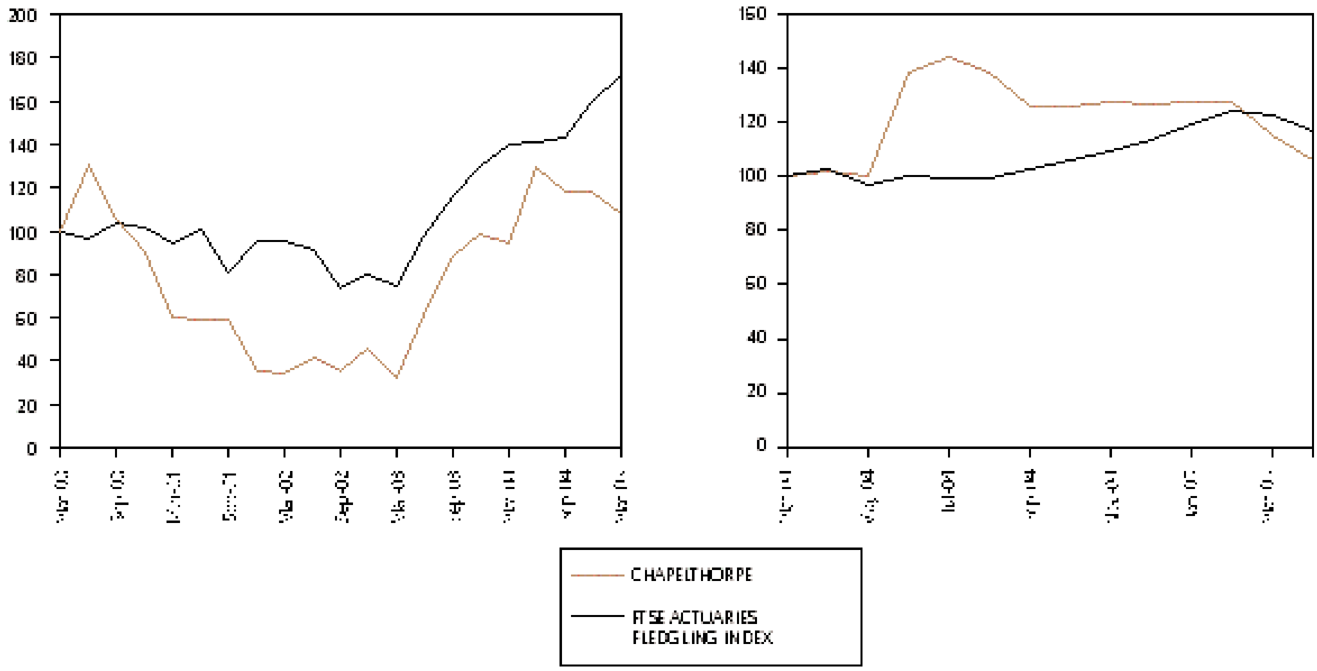
Given the inherent nature of these schemes, the exercise of options granted under the Chapelthorpe plc Savings Related Share Option Scheme 1994 and the Chapelthorpe plc Savings Related Share Option Scheme 2004 and the award of shares under the Chapelthorpe plc Invested Bonus Share Plan 1997, are not conditional on any performance criteria.

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 £786,000.

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 2004.

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.

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 2005, and of their families, in the ordinary shares of the Company were:

HOLDINGS

	7 June 2005	**31 March 2005**	1 April 2004 (or date of appointment if later)
J Standen	**435,000**	**435,000**	300,000
B Leckie	**2,192,361**	**2,192,361**	1,915,759
A L Thompson	**524,945**	**524,945**	378,656
A P Weatherstone	**347,763**	**347,763**	217,381
A B Reeve	**124,614**	**124,614**	121,561
J A Biles	**75,000**	**75,000**	–

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

DIRECTORS' SHARE INTERESTS (CONTINUED)

OPTIONS AND AWARDS

(Audited information)

	1 April 2004	Lapsed in year	Vested in year	Granted/ awarded in year	**31 March 2005**	Lapsed since 31 March 2005	**7 June 2005**	Category (see Note 18 to the Accounts)
B Leckie								
	36,100				**36,100**		**36,100**	A
	54,818				**54,818**		**54,818**	E
	903,291				**903,291**	903,291		I
	643,803				**643,803**		**643,803**	J
				599,992	**599,992**		**599,992**	K
	41,350		41,350					L
	479,364				**479,364**		**479,364**	P
				352,936	**352,936**		**352,936**	Q
	544,026	544,026						
A L Thompson								
	31,700				**31,700**		**31,700**	A
	553,355				**553,355**	553,355		I
	394,391				**394,391**		**394,391**	J
				373,236	**373,236**		**373,236**	K
	25,441		25,441					L
	293,660				**293,660**		**293,660**	P
				216,208	**216,208**		**216,208**	Q
	334,721	334,721						
A P Weatherstone								
	378,788				**378,788**		**378,788**	J
				373,236	**373,236**		**373,236**	K
	70,510				**70,510**		**70,510**	P
				207,655	**207,655**		**207,655**	Q

Under the rules of the Invested Bonus Share Plan 1997, where Directors and employees can invest a proportion of their cash bonus in shares of the Company, certain awards vested for Mr B Leckie and Mr A L Thompson during the year ended 31 March 2005 as a result of having fulfilled the appropriate service period condition. Mr Leckie's award of 41,350 shares vested at a value of £7,753 and Mr Thompson's award of 25,441 shares vested at a value of £4,770.

No other Director, who held office during the year ended 31 March 2005, 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 2005 was 18.0 pence (2004: 16.5 pence). The market price during the year ended 31 March 2005 varied between 16.25 pence and 23.25 pence.

No Directors exercised any options at any time during the year (2004: £Nil).

DIRECTORS' EMOLUMENTS

(Audited information)

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	**Total 2005 £000**	Total 2004 £000
J Standen	60	–	–	–	**60**	51
B Leckie	222	34	–	17	**273**	479
A L Thompson	139	16	–	12	**167**	243
A B Reeve	31	–	–	–	**31**	31
A P Weatherstone	138	16	–	–	**154**	236
J A Biles (appointed 10 January 2005)	7	–	–	–	**7**	–
Aggregate total emoluments	597	66	–	29	**692**	1,040
Emoluments of highest paid Director					**273**	479

DIRECTORS' PENSIONS

(Audited information)

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 2005	34	58	4
Accrued pension at 31 March 2004	31	56	2
Increase in accrued pension (excluding inflation)	2	–	2
Transfer value of increase in accrued pension (less member contribution)	31	1	5
Transfer value of accrued pension at 31 March 2005	491	679	27
Transfer value of accrued pension at 31 March 2004	383	564	13
Increase in transfer value of accrued pension (less member contribution)	101	108	7

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 2005, to the Chapelthorpe plc Funded Unapproved Retirement Benefit Scheme, was £30,000 (2004: £138,000) in respect of Mr B Leckie and £20,000 (2004: £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
7 June 2005

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 nine provisions of the 2003 FRC 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 2005 and of the loss 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
7 June 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

year ended 31 March 2005

	Notes	Operating activities 2005 £000	Exceptional items 2005 £000	2005 £000	Restated 2004 £000
Turnover – continuing operations	2	**121,912**	**–**	**121,912**	121,460
Cost of sales		**(102,036)**	**–**	**(102,036)**	(97,553)
Gross profit		**19,876**	**–**	**19,876**	23,907
Net operating expenses	3	**(15,360)**	**(2,118)**	**(17,478)**	(16,765)
Operating profit					
Continuing operations before exceptional items and goodwill		**5,310**	**–**	**5,310**	7,924
– Exceptional items		**–**	**(2,118)**	**(2,118)**	–
– Goodwill amortisation		**(794)**	**–**	**(794)**	(782)
Total operating profit	2, 4	**4,516**	**(2,118)**	**2,398**	7,142
Costs of fundamental reorganisation (including reinstatement of historic goodwill of £3,513,000)	5	**–**	**(9,126)**	**(9,126)**	–
Net interest payable	6	**(1,550)**	**–**	**(1,550)**	(1,782)
(Loss) profit before taxation		**2,966**	**(11,244)**	**(8,278)**	5,360
Taxation	7	**(753)**	**1,244**	**491**	(1,766)
(Loss) profit for the financial year		**2,213**	**(10,000)**	**(7,787)**	3,594
Dividends (including non-equity)	8			**(2,250)**	(2,057)
(Deficit) profit transferred (from) to reserves	20			**(10,037)**	1,537

	Notes	2005	2004
(Loss) earnings per ordinary share			
Basic and diluted	19	**(3.92)p**	1.77p
Underlying	19	**1.48p**	2.16p

CONSOLIDATED BALANCE SHEET

31 March 2005

	Notes	2005 £000	Restated 2004 £000
Fixed assets			
Intangible assets	9	**11,288**	11,885
Tangible assets	10	**41,255**	48,304
		52,543	60,189
Current assets			
Stocks	11	**14,066**	13,650
Debtors	12	**25,807**	30,447
Cash at bank and in hand		**5,187**	3,183
		45,060	47,280
Creditors			
Amounts falling due within one year	13	**(34,842)**	(37,451)
Net current assets		**10,218**	9,829
Total assets less current liabilities		**62,761**	70,018
Creditors			
Amounts falling due after more than one year	13	**(16,671)**	(16,903)
Provisions for liabilities and charges	15	**(8,072)**	(8,135)
Net assets		**38,018**	44,980
Capital and reserves			
Called up share capital (including non-equity interests)	18	**11,002**	11,002
Share premium account		**1,251**	1,251
Capital redemption reserve		**487**	487
Profit and loss account	20	**25,278**	32,240
Total shareholders' funds (including non-equity interests)		**38,018**	44,980

Approved by the Directors on 7 June 2005

J STANDEN
Chairman

B LECKIE
Director

PARENT COMPANY BALANCE SHEET

31 March 2005

	Notes	2005 £000	Restated 2004 £000
Fixed assets			
Tangible assets	10	**469**	565
Investments	24	**65,010**	100,078
		65,479	100,643
Current assets			
Debtors	12	**7,976**	14,158
Cash at bank and in hand		**2,328**	91
		10,304	14,249
Creditors			
Amounts falling due within one year	13	**(24,363)**	(24,694)
Net current liabilities		**(14,059)**	(10,445)
Total assets less current liabilities		**51,420**	90,198
Creditors			
Amounts falling due after more than one year	13	**(16,000)**	(15,615)
Net assets		**35,420**	74,583
Capital and reserves			
Called up share capital (including non-equity interests)	18	**11,002**	11,002
Share premium account		**1,251**	1,251
Capital redemption reserve		**487**	487
Capital reserve		**9,204**	9,204
Merger reserve	20	**6,545**	41,723
Profit and loss account	20	**6,931**	10,916
Total shareholders' funds (including non-equity interests)		**35,420**	74,583

Approved by the Directors on 7 June 2005

J STANDEN
Chairman

B LECKIE
Director

CONSOLIDATED CASH FLOW STATEMENT

year ended 31 March 2005

	Notes	2005 £000	2004 £000
Net cash inflow from operating activities	21	**8,570**	10,926
Returns on investments and servicing of finance			
Interest received		**207**	104
Interest paid		**(1,411)**	(2,462)
Interest element of finance lease rental payments		**–**	(3)
Dividends paid on non-equity shares		**(46)**	(46)
Net cash outflow from returns on investments and servicing of finance		**(1,250)**	(2,407)
Net taxation paid		**(628)**	(808)
Capital expenditure			
Purchases of tangible fixed assets		**(1,830)**	(1,702)
Sales of tangible fixed assets		**810**	31
Purchase of own shares by employee benefit trust		**(210)**	–
		(1,230)	(1,671)
Acquisitions and disposals			
(Payments) receipts relating to prior period disposals of businesses/properties		**(94)**	563
		(94)	563
Equity dividends paid		**(2,061)**	(1,603)
Net cash inflow before financing		**3,307**	5,000
Financing			
Loans advanced		**6,517**	17,615
Repayment of amounts borrowed		**(6,840)**	(24,548)
Capital element of finance lease rental payments		**(14)**	(53)
Net cash outflow from financing	23	**(337)**	(6,986)
Increase (decrease) in cash	22	**2,970**	(1,986)

TOTAL RECOGNISED GAINS AND LOSSES

year ended 31 March 2005

	2005 £000	Restated 2004 £000
(Loss) profit for the financial year	**(7,787)**	3,594
Exchange translation adjustments on foreign currency net investments	**(263)**	(4,215)
Credit (charge) in respect of employee share scheme	**35**	(123)
Total recognised losses for the year	**(8,015)**	(744)
Prior year adjustment (Note 28)	**362**	—
Total losses recognised since last annual report	**(7,653)**	(744)

MOVEMENTS IN SHAREHOLDERS' FUNDS

year ended 31 March 2005

	2005 £000	Restated 2004 £000
(Loss) profit for the financial year	**(7,787)**	3,594
Dividends	**(2,250)**	(2,057)
	(10,037)	1,537
Reinstatement of historic goodwill relating to fundamental reorganisation	**3,513**	—
Exchange translation adjustments on foreign currency net investments	**(263)**	(4,215)
Acquisition of own shares by employee benefit trust	**(210)**	—
Credit (charge) in respect of employee share scheme	**35**	(123)
Decrease in shareholders' funds	**(6,962)**	(2,801)
Opening shareholders' funds – as previously reported	**45,289**	47,877
Prior year adjustment (Note 28)	**(309)**	(96)
Opening shareholders' funds – as restated	**44,980**	47,781
Closing shareholders' funds	**38,018**	44,980
Attributable to:		
Equity interests	**37,218**	44,180
Non-equity interests:		
First cumulative preference shares of 50 pence	**50**	50
Second cumulative preference shares of £1	**750**	750
	800	800
	38,018	44,980

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.

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.

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.

With effect from 1 April 2004 the Company adopted the accounting requirements of UITF 17 (revised 2003) and UITF 38. Under revised guidance the cost of share awards to employees are recognised over the period to which the employee's performance relates.
The amount recognised is based on the fair value of the award at the date the award is made. Full details of the impact of the change in accounting policy are set out in Note 28.

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	
	2005 £000	2004 £000	**2005 £000**	Restated 2004 £000	**2005 £000**	Restated 2004 £000
Continuing operations						
Fibres	**84,294**	79,656	**2,777**	3,334	**37,757**	43,499
Specialist Coatings	**27,595**	29,985	**1,618**	2,750	**7,394**	11,829
Umbrella Frames	**10,023**	11,819	**915**	1,840	**8,125**	8,936
	121,912	121,460	**5,310**	7,924	**53,276**	64,264
Goodwill amortised/capitalised						
Fibres			**(417)**	(405)	**6,092**	6,312
Specialist Coatings			**(377)**	(377)	**5,196**	5,573
			(794)	(782)	**11,288**	11,885
	121,912	121,460	**4,516**	7,142	**64,564**	76,149
Net operating assets					**64,564**	76,149
Unallocated net liabilities					**(26,546)**	(31,169)
Total net assets					**38,018**	44,980

Unallocated net liabilities comprise taxation, deferred taxation, dividends, cash, borrowings, term deposits and a property held for resale.

During the year ended 31 March 2005 the Specialist Coatings operation in North America was closed as part of the Group's fundamental reorganisation. During the year this operation recorded turnover of £1,296,000 (2004: £4,470,000) and a pre-exceptional operating loss of £165,000 (2004: profit of £20,000).

In the year ended 31 March 2005, the exceptional costs of £2,118,000 charged against operating profit included £350,000 relating to the EGM and £1,768,000 associated with the Specialist Coatings division. Of the non-operating exceptional item of £9,126,000, £8,657,000 related to the Specialist Coatings division and £469,000 related to the Umbrella Frames division.

GEOGRAPHICAL AREA

	Turnover		Pre-exceptional operating profit		Net operating assets	
Region of origin	**2005 £000**	2004 £000	**2005 £000**	Restated 2004 £000	**2005 £000**	Restated 2004 £000
Continuing operations						
Europe	**83,683**	81,958	**4,119**	6,686	**30,561**	32,646
North America	**38,229**	39,502	**1,191**	1,238	**22,715**	31,618
	121,912	121,460	**5,310**	7,924	**53,276**	64,264
Goodwill amortised/capitalised						
Europe			**(745)**	(731)	**10,533**	11,053
North America			**(49)**	(51)	**755**	832
			(794)	(782)	**11,288**	11,885
	121,912	121,460	**4,516**	7,142	**64,564**	76,149
Net operating assets					**64,564**	76,149
Unallocated net liabilities					**(26,546)**	(31,169)
Total net assets					**38,018**	44,980

In the year ended 31 March 2005, the exceptional costs of £1,768,000 in the Specialist Coatings division included £1,071,000 associated with the European operations and £697,000 associated with the North American operations. Of the non-operating exceptional item of £9,126,000, £8,657,000 related to the North American operations and £469,000 related to the European operations.

2. TURNOVER, OPERATING PROFIT AND SEGMENTAL ANALYSIS (CONTINUED)

GEOGRAPHICAL AREA (CONTINUED)

Region of destination	2005 £000	2004 £000
Turnover – continuing operations		
Europe	**77,548**	75,728
North America	**40,019**	41,343
Australasia and Far East	**3,655**	3,580
Rest of world	**690**	809
	121,912	121,460

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

	2005 £000	2004 £000
Depreciation – owned assets	**4,319**	4,896
– leased assets	**25**	51
Amortisation of goodwill	**794**	782
Profit on sale of fixed assets	**(140)**	–
Operating exceptional items (Note 4)	**2,118**	–
Operating leases – hire of plant and equipment	**422**	458
– other	**235**	222
Auditors' remuneration	**168**	152

Non-audit fees charged by PricewaterhouseCoopers LLP ("PWC"), in the United Kingdom, amounted to £584,000 (2004: £109,000), of which £41,000 related to taxation services and £543,000 related to corporate finance services. Such corporate finance fees were charged by PWC in their role as the Group's retained corporate finance adviser.

The audit fee relating to the Parent Company amounted to £35,000 (2004: £35,000).

3. ANALYSIS OF NET OPERATING EXPENSES

	2005 £000	2004 £000
Distribution costs	**10,399**	8,885
Administrative expenses	**7,514**	8,325
Other operating income	**(435)**	(445)
Net operating expenses	**17,478**	16,765

Other operating income in 2005 includes £373,000 (2004: £301,000) in respect of royalty income from the Russian venture. Distribution costs in 2005 included £1,768,000 of exceptional items (Note 4). Administrative expenses in 2005 included £350,000 of exceptional items (Note 4).

4. OPERATING EXCEPTIONAL ITEMS

	2005 £000	2004 £000
Bad debts in Specialist Coatings division	**1,768**	–
Costs incurred with EGM held on 18 March 2005	**350**	–
	2,118	–

The cash flow impact of operating exceptional items in the year was £Nil.

5. NON-OPERATING EXCEPTIONAL ITEMS

During the year the Board has continued to review the Group's businesses. Two strategic decisions were taken during the year, which are regarded as material to the nature and focus of the Group's operations.

Firstly, as a consequence of the continued decline in the North American wallcoverings market, the decision was taken to close the Specialist Coatings Canadian manufacturing business. This resulted in exceptional charges as follows:

	2005 £000
Tangible fixed asset impairments	**3,282**
Costs of closure of Canadian operation and other asset write-offs	**1,862**
	5,144

In light of the closure, goodwill of £3,513,000 relating to the Canadian operation, previously written off directly against reserves has been recognised in the profit and loss account in the year.

Secondly, the Board announced its intention to dispose of the Umbrella Frames business and assets. As part of this ongoing process, a property was sold and restructuring and professional costs incurred as follows:

	2005 £000
Profit on sale of property	**(397)**
Restructuring and professional costs associated with the ongoing sale of the business and assets	**866**
	469

The cash flow impact of non-operating exceptional items in the year was £1,363,000.

6. NET INTEREST PAYABLE

	2005 £000	2004 £000
Payable:		
Bank loans, overdrafts and short-term facilities	**1,645**	1,790
Interest on finance leases	**–**	3
Other interest	**125**	92
	1,770	1,885
Receivable:		
Bank and other deposits	**(59)**	(44)
Other interest	**(161)**	(59)
	(220)	(103)
Net interest payable	**1,550**	1,782

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

A) ANALYSIS OF (CREDIT) CHARGE IN THE YEAR

	2005 £000	2004 £000
Corporation tax at 30%	**133**	1,083
Overseas tax	**(391)**	200
Taxation (over) provided in previous years	**(698)**	(46)
Total current tax (Note 7B)	**(956)**	1,237
Deferred taxation – current year	**223**	597
– relating to prior years	**242**	(68)
	(491)	1,766

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

The tax effect in the profit and loss account relating to operating exceptional items was a credit of £330,000 and relating to non-operating exceptional items was a credit of £914,000.

B) FACTORS AFFECTING THE TAX CHARGE FOR THE YEAR

	2005 £000	Restated 2004 £000
(Loss) profit on ordinary activities before taxation	**(8,278)**	5,360
Tax on (loss) profit on ordinary activities at standard rate of 30% (2004: 30%)	**(2,483)**	1,608
Factors affecting charge:		
Expenses not deductible for tax purposes	**276**	234
Differences between capital allowances and depreciation	**726**	281
Unrelieved losses arising	**868**	–
Profit on sale of fixed assets	**(210)**	–
Goodwill reinstated	**1,054**	–
Losses utilised in the year	**–**	(300)
Other timing differences	**(503)**	(578)
Differing rates of tax on overseas earnings	**14**	38
Adjustments to tax charge in respect of previous years	**(698)**	(46)
Current tax (credit) charge (Note 7A)	**(956)**	1,237

8. DIVIDENDS

	2005 £000	2004 £000
Ordinary shares (equity shares):		
Interim dividend of 0.33p (2004: 0.30p)	**673**	612
Final dividend of 0.77p recommended (2004: 0.70p)	**1,571**	1,428
Dividends waived by the Chapelthorpe Trust	**(40)**	(29)
	2,204	2,011
Preference shares (non-equity shares)	**46**	46
	2,250	2,057

9. INTANGIBLE FIXED ASSETS

Goodwill	Consolidated £000
Cost	
At 1 April 2004	18,929
Exchange adjustments	197
At 31 March 2005	**19,126**
Amortisation	
At 1 April 2004	4,042
Provided during the year	794
At 31 March 2005	**4,836**
Impairment provision	
At 1 April 2004 and at 31 March 2005	**3,002**
Net book value	
At 31 March 2005	**11,288**
At 31 March 2004	11,885

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 2004	20,229	73,845	94,074	733	658	1,391
Exchange adjustments	17	(347)	(330)	–	–	–
Additions	60	1,728	1,788	–	2	2
Disposals	(280)	(1,365)	(1,645)	–	(354)	(354)
Reclassification to debtors	(903)	–	(903)	–	–	–
At 31 March 2005	**19,123**	**73,861**	**92,984**	**733**	**306**	**1,039**
Depreciation						
At 1 April 2004	4,329	41,441	45,770	247	579	826
Exchange adjustments	9	(173)	(164)	–	–	–
Charge for the year	466	3,878	4,344	48	50	98
Disposals	(90)	(1,273)	(1,363)	–	(354)	(354)
Reclassification to debtors	(237)	–	(237)	–	–	–
At 31 March 2005	**4,477**	**43,873**	**48,350**	**295**	**275**	**570**
Impairment provision						
At 1 April 2004	–	–	–	–	–	–
Provided in the year	–	3,282	3,282	–	–	–
Exchange adjustments	–	97	97	–	–	–
At 31 March 2005	**–**	**3,379**	**3,379**	**–**	**–**	**–**
Net book value						
At 31 March 2005	**14,646**	**26,609**	**41,255**	**438**	**31**	**469**
At 31 March 2004	15,900	32,404	48,304	486	79	565

The Group's Canadian property, with a net book value of £666,000 has been reclassified as an asset held for resale and accordingly is included within debtors (Note 12).

The impairment provision charged in the year relates to the write down to net realisable value of fixed assets included in the fundamental reorganisation within the Specialist Coatings division, as disclosed within Note 5.

The net book value of land and buildings comprises:

	Consolidated		Parent Company	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Freeholds	**14,208**	15,414	**–**	–
Short leaseholds	**438**	486	**438**	486
	14,646	15,900	**438**	486

	Consolidated		Parent Company	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Net book value of assets subject to finance leases	**–**	25	**–**	25
Capital expenditure commitments	**6**	18	**–**	–

11. STOCKS

	Consolidated 2005 £000	Consolidated 2004 £000
Raw materials and consumable stores	**5,628**	5,617
Work in progress	**971**	720
Finished products	**7,467**	7,313
	14,066	13,650

12. DEBTORS

	Consolidated 2005 £000	Consolidated Restated 2004 £000	Parent Company 2005 £000	Parent Company Restated 2004 £000
Amounts falling due within one year				
Trade debtors	**22,188**	27,715	**–**	–
Subsidiary companies	**–**	–	**7,078**	13,093
Other debtors	**1,092**	925	**63**	94
Prepayments and accrued income	**679**	843	**394**	437
Asset held for resale	**666**	–	**–**	–
Taxation recoverable	**621**	422	**441**	534
Amounts falling due after more than one year				
Other debtors – term deposits	**561**	542	**–**	–
	25,807	30,447	**7,976**	14,158

13. CREDITORS

	Consolidated 2005 £000	Consolidated 2004 £000	Parent Company 2005 £000	Parent Company 2004 £000
Amounts falling due within one year				
Bank overdrafts, loans and other borrowings	**8,229**	8,946	**2,000**	3,234
Trade creditors	**18,430**	19,365	**–**	–
Subsidiary companies	**–**	–	**18,916**	18,728
Corporation tax	**355**	1,746	**–**	–
Other taxes and social security costs	**565**	724	**70**	109
Other creditors	**785**	686	**521**	264
Accruals and deferred income	**4,907**	4,556	**1,285**	931
Ordinary dividend	**1,571**	1,428	**1,571**	1,428
	34,842	37,451	**24,363**	24,694

	Consolidated 2005 £000	Consolidated 2004 £000	Parent Company 2005 £000	Parent Company 2004 £000
Amounts falling due after more than one year				
Loans falling due:				
within 1 – 2 years	**2,671**	2,649	**2,000**	2,000
within 2 – 5 years	**14,000**	14,254	**14,000**	13,615
	16,671	16,903	**16,000**	15,615

14. LOANS

	Consolidated		Parent Company	
	2005 £000	2004 £000	**2005 £000**	2004 £000
UK bank loan repayable by ten semi-annual instalments of £1,000,000 commencing 30 September 2004	**8,000**	10,000	**8,000**	10,000
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	**10,000**	7,615	**10,000**	7,615
Austrian bank loans repayable by semi-annual installments of €487,000 on 1 January and 1 July and a final installment of €472,000 on 1 January 2007	**1,343**	1,937	**–**	–
Total	**19,343**	19,552	**18,000**	17,615
Repayment of bank loans:				
in 1 year or less or on demand	**2,672**	2,649	**2,000**	2,000
in more than 1 year but not more than 2 years	**2,671**	2,649	**2,000**	2,000
in more than 2 years but not more than 5 years	**14,000**	14,254	**14,000**	13,615
Total	**19,343**	19,552	**18,000**	17,615

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 2005, the Euro element of the revolving bank loan amounted to £2,255,000 which was fully drawn down.

The UK revolving bank loan has maximum borrowings of £10,000,000 at 31 March 2005.

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 €654,000 which carries interest based on six month EURIBOR and is secured on the freehold property of Asota GmbH and the other of €1,279,000 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.

Since the year end the Group's principal borrowing facilities have been revised. In the event that the Group completes the sale of its Penistone site, it will be required to repay £3,000,000 of the UK revolving bank loan noted above, that would otherwise fall due for repayment on 31 March 2008.

15. PROVISIONS FOR LIABILITIES AND CHARGES

MOVEMENTS DURING THE YEAR

	Consolidated				Parent Company
	Provision for vacant lease £000	Provision for environmental liabilities £000	Deferred taxation £000	Total £000	Deferred taxation £000
At 1 April 2004	1,527	190	6,418	8,135	(41)
Exchange adjustments	—	(4)	(128)	(132)	—
Charged (credited) during the year	131	—	465	596	(2)
Utilised	(433)	(94)	—	(527)	—
At 31 March 2005	**1,225**	**92**	**6,755**	**8,072**	**(43)**

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 2005 £000	**Amount provided 2005 £000**	Potential liability 2004 £000	Amount provided 2004 £000
Consolidated				
Accelerated tax allowances on plant, equipment and buildings	**7,288**	**7,288**	7,431	7,431
Other timing differences	**(300)**	**(300)**	(467)	(467)
Losses	**(233)**	**(233)**	(546)	(546)
	6,755	**6,755**	6,418	6,418
Parent Company				
Accelerated tax allowances on plant, equipment and buildings	**(7)**	**(7)**	(5)	(5)
Other timing differences	**(36)**	**(36)**	(36)	(36)
	(43)	**(43)**	(41)	(41)

The deferred tax asset of the Parent Company at 31 March 2005 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	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Leases which expire:				
within 1 year	**45**	6	**87**	94
within 2 – 5 years	**–**	127	**264**	286
after 5 years	**341**	341	**–**	—
	386	474	**351**	380

17. CONTINGENT LIABILITIES

At 31 March 2005 Group guarantees to third parties and other contingent liabilities amounted to £141,000 (2004: £497,000).

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 2005 amounted to £14,936,000.

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

18. CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	Number	£000	Number	£000
Equity share capital:				
Ordinary shares of 5 pence	258,000,000	12,900	204,040,900	10,202
Non-equity share capital:				
First cumulative preference shares of 50 pence	100,000	50	100,000	50
Second cumulative preference shares of £1	750,000	750	750,000	750
		800		800
At 31 March 2005		**13,700**		**11,002**
At 31 March 2004		13,700		11,002

The following options and awards were outstanding at 31 March 2005:

Category	Date of grant	No. of options/ awards	Exercise price (pence)	Exercise period
Options				
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	17/7/00	278,721	24.75	August 2005 – February 2006
Parallel Scheme				
F	22/6/98	360,000	41.25	June 2001 – June 2005
G	21/6/99	130,000	34.50	June 2002 – June 2006
H	26/6/00	272,000	30.75	June 2003 – June 2007
Awards				
1998 Performance Related Share Plan				
I		1,456,646		From April 2005
J		1,416,982		From April 2006
K		1,346,464		From April 2007
Invested Bonus Share Plan 1997				
L		25,441		From July 2002
M		10,001		From July 2003
N		138,798		From July 2004
O		35,484		From July 2005
P		1,393,348		From July 2006
Q		993,215		From July 2007

Further details of the above share option and award schemes are included in the Board Report on Remuneration on pages 16 and 17.

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 (LOSS) EARNINGS PER ORDINARY SHARE

	Basic and diluted earnings per share		Underlying earnings per share	
	2005 £000	Restated 2004 £000	**2005 £000**	Restated 2004 £000
(Loss) profit for the financial year	**(7,787)**	3,594	**(7,787)**	3,594
Goodwill amortisation			**794**	782
Dividends on preference shares	**(46)**	(46)	**(46)**	(46)
Exceptional items			**11,244**	–
Tax effect of exceptional items			**(1,244)**	–
(Loss) earnings attributable to ordinary shareholders	**(7,833)**	3,548	**2,961**	4,330
Weighted average number of ordinary shares in issue during the year (000's)	**199,665**	200,177	**199,665**	200,177
Basic and diluted (loss) earnings per ordinary share (pence)	**(3.92)**	1.77	**1.48**	2.16

The effect of the exceptional items on the earnings per share in 2005 was 5.0 pence (2004: Nil).

20. RESERVES

	Consolidated	Parent Company	
	Profit and loss account £000	Merger Reserve £000	Profit and loss account £000
At 1 April 2004 - as previously reported	32,549	41,723	11,225
Prior year adjustment (Note 28)	(309)	—	(309)
At 1 April 2004 - as restated	32,240	—	10,916
Exchange adjustments	(263)	—	147
Deficit transferred from reserves	(10,037)	—	(39,135)
Adjustment in respect of employee share scheme	(175)	—	(175)
Reinstatement of historic goodwill relating to fundamental reorganisation	3,513	—	—
Provision against investment carrying value	—	(35,178)	35,178
At 31 March 2005	**25,278**	**6,545**	**6,931**

Goodwill, arising prior to 1998/99, of £36,887,000 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 loss after taxation for the year of the Parent Company was £36,885,117 (2004: profit of £2,052,000).

21. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005 £000	Restated 2004 £000
Operating profit	**2,398**	7,142
Depreciation	**4,344**	4,947
Charge (credit) in respect of employee share scheme	**35**	(123)
Profit on disposal of fixed assets	**(140)**	—
Amortisation of goodwill	**794**	782
(Increase) in stocks	**(367)**	(1,586)
Decrease (increase) in debtors	**5,221**	(3,133)
(Decrease) increase in creditors	**(1,942)**	3,217
(Decrease) in provisions	**(410)**	(320)
Fundamental reorganisation costs	**(1,363)**	—
Net cash inflow from operating activities	**8,570**	10,926

The cash flow impact of the operating exceptional items charged in prior years is an outflow of £410,000 (2004: £535,000).

22. RECONCILIATION TO NET DEBT

	2005 £000	2004 £000
Increase (decrease) in cash in the year	**2,970**	(1,986)
Decrease in debt and finance leasing	**337**	6,986
Change in net debt from cash flows	**3,307**	5,000
Exchange adjustments	**(354)**	553
Movement in net debt in the year	**2,953**	5,553
Net debt at 1 April	**(22,666)**	(28,219)
Net debt at 31 March	**(19,713)**	(22,666)

23. ANALYSIS OF NET DEBT

	1 April 2004 £000	Cash flow £000	Other non-cash £000	Exchange movement £000	**31 March 2005 £000**
Cash at bank and in hand	3,183	2,034	–	(30)	**5,187**
Overdrafts and short-term facilities	(6,283)	936	–	(210)	**(5,557)**
	(3,100)	2,970	–	(240)	**(370)**
Debt due after 1 year	(16,903)	(2,336)	2,671	(103)	**(16,671)**
Debt due within 1 year	(2,649)	2,659	(2,671)	(11)	**(2,672)**
Finance leases	(14)	14	–	–	**–**
	(19,566)	337	–	(114)	**(19,343)**
Total	(22,666)	3,307	–	(354)	**(19,713)**

24. INVESTMENTS

SUBSIDIARY COMPANIES

	Parent Company		
	Shares £000	Loans £000	Total £000
Cost			
At 1 April 2004	59,463	55,902	115,365
Exchange adjustments	223	–	223
Repayments	–	(113)	(113)
At 31 March 2005	**59,686**	**55,789**	**115,475**
Amount provided			
At 1 April 2004	4,194	11,093	15,287
Provided during the year	32,397	2,781	35,178
At 31 March 2005	**36,591**	**13,874**	**50,465**
Net book value			
At 31 March 2005	**23,095**	**41,915**	**65,010**
At 31 March 2004	55,269	44,809	100,078

Following an assessment of the future cash flows of each of the Company's investments, a further £35,178,000 was provided against their carrying value.

The principal subsidiaries are listed on page 49.

25. EMPLOYEES

	2005 £000	2004 £000
Employee costs (including Directors):		
Wages and salaries	**16,973**	18,203
Social security costs	**2,823**	3,062
Other pension costs	**1,185**	1,264
	20,981	22,529

The average number of employees during the year was:

	2005 Number	2004 Number
Fibres	**451**	459
Specialist Coatings	**104**	108
Umbrella Frames	**240**	248
	795	815

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 44.

The total pension cost and contributions for the Group were £1,185,000 (2004: £1,264,000), of which £342,000 (2004: £177,000) related to overseas schemes. The cost related to defined contribution schemes amounted to £381,000 (2004: £228,000).

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

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

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

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

b) FRS 17 retirement benefits calculations have been based on the most recent actuarial valuation, updated to take account of the requirements of FRS 17 in order to assess the liabilities of the Chapelthorpe plc Pension Fund at 31 March 2005. Fund assets are stated at their market value at 31 March 2005.

26. PENSIONS (CONTINUED)

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

	2005 % per annum	2004 % per annum	2003 % per annum
Discount rate	**5.65**	5.70	5.60
Inflation rate	**2.90**	2.90	2.40
Increases to deferred benefits during deferment	**2.90**	2.90	2.40
Increases to pensions in payment – post-April 1997 pensions	**2.60**	2.60	2.40
Salary increases	**3.40**	3.40	2.90

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 2005 % per annum	**Value at 31 March 2005 £m**	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	**8.0**	**16.5**	8.0	16.0	8.3	13.7
Bonds	**5.0**	**29.7**	5.1	28.7	4.8	27.0
Total market value of assets		**46.2**		44.7		40.7
Present value of liabilities		**(49.2)**		(47.1)		(45.4)
Deficit		**(3.0)**		(2.4)		(4.7)
Related deferred tax asset		**0.9**		0.7		1.4
Net pension liability		**(2.1)**		(1.7)		(3.3)

BALANCE SHEET DISCLOSURES

	2005 Group £m	Restated 2004 Group £m
Net assets		
Net assets excluding FRS 17 pension liability related to the Chapelthorpe plc Pension Fund	**38.0**	45.0
Net pension liability related to the Chapelthorpe plc Pension Fund	**(2.1)**	(1.7)
Net assets including FRS 17 pension liability	**35.9**	43.3

	2005 Group £m	Restated 2004 Group £m
Reserves		
Profit and loss reserve excluding FRS 17 pension liability related to the Chapelthorpe plc Pension Fund	**25.3**	32.2
Net pension liability related to the Chapelthorpe plc Pension Fund	**(2.1)**	(1.7)
Profit and loss reserve including FRS 17 pension liability	**23.2**	30.5

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

	2005 £m	2004 £m
Operating profit		
Current service cost	**0.7**	0.8
Total operating charge	**0.7**	0.8

26. PENSIONS (CONTINUED)

BALANCE SHEET DISCLOSURES (CONTINUED)

	2005 £m	2004 £m
Other finance income (expense)		
Expected return on pension scheme assets	**2.7**	2.4
Interest on pension scheme liabilities	**(2.6)**	(2.5)
Net return (charge)	**0.1**	(0.1)

	2005 £m	2004 £m
Statement of total recognised gains and losses ("STRGL")		
Actual return less expected return on pension scheme assets	**1.0**	3.9
Experience gains and losses arising on the scheme liabilities	**–**	(1.1)
Changes in assumptions underlying the present value of the scheme liabilities	**(1.8)**	(0.4)
Actuarial (loss) gain recognised in STRGL	**(0.8)**	2.4

	2005 £m	2004 £m
Movement in surplus during the year		
(Deficit) in scheme at beginning of the year	**(2.4)**	(4.7)
Movement in year:		
Current service cost	**(0.7)**	(0.8)
Contributions	**0.8**	0.8
Finance income (expense)	**0.1**	(0.1)
Actuarial (loss) gain	**(0.8)**	2.4
Deficit at the end of the year	**(3.0)**	(2.4)

	2005	2004	2003
Details of experience gains and losses			
Difference between the expected and actual return on scheme assets:			
Amount (£m)	**1.0**	3.9	(3.6)
Percentage of scheme assets (%)	**2.2**	8.7	8.8
Experience gains and losses on scheme liabilities:			
Amount (£m)	**–**	(1.1)	0.2
Percentage of the present value of the scheme liabilities (%)	**–**	2.3	0.4
Total amount recognised in the STRGL:			
Amount (£m)	**(0.8)**	2.4	(4.7)
Percentage of the present value of the scheme liabilities (%)	**1.6**	5.1	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 2005 showed an increase in the deficit from £2.4m to £3.0m.

AUSTRIAN LEAVING INDEMNITIES

The Austrian operation is required to provide leaving indemnities on redundancy or retirement. The Group balance sheet includes £561,000 (2004: £542,000) 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 £1,242,000 (2004: £1,227,000) within accruals and deferred income, in Note 13.

An independent actuarial valuation of the leaving indemnities' accrual was 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 £1,243,000.

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 7, 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 2005:

	Cash and term deposits	
	2005 £000	2004 £000
Currency		
Sterling	**2,408**	410
US Dollar	**2,588**	2,260
Canadian Dollar	**147**	504
Euro	**605**	551
	5,748	3,725

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

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

Financial liabilities

The Group held the following financial liabilities at 31 March 2005:

	Total		Floating rate financial liabilities		Fixed rate financial liabilities		Financial liabilities on which no interest is paid	
	2005 £000	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000
Currency								
Sterling								
– preference shares	**800**	800	**–**	—	**800**	800	**–**	—
– other financial liabilities	**15,835**	11,741	**10,610**	5,200	**4,000**	5,014	**1,225**	1,527
US Dollar	**1,330**	5,625	**–**	2,826	**1,238**	2,609	**92**	190
Euro	**9,052**	10,200	**7,204**	7,988	**1,848**	2,212	**–**	—
	27,017	28,366	**17,814**	16,014	**7,886**	10,635	**1,317**	1,717

The floating rate liabilities comprise:

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

27. DERIVATIVES AND FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial liabilities (continued)

The fixed rate liabilities comprise:

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

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

The preference shares have no fixed repayment date.

Information relating to the weighted average interest rate of the fixed rate 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 2005 was as follows:

	Cash and term deposits	
	2005 £000	2004 £000
In 1 year or less, or on demand	**5,187**	3,183
In more than 5 years	**561**	542
	5,748	3,725

MATURITY OF FINANCIAL LIABILITIES

The maturity profile of the Group's financial liabilities at 31 March 2005 was as follows:

	Total		Debt		Finance leases		Other financial liabilities	
	2005 £000	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000
In 1 year or less, or on demand	**8,577**	10,663	**8,229**	8,932	**–**	14	**348**	1,717
In more than 1 year but not more than 2 years	**2,903**	2,649	**2,671**	2,649	**–**	–	**232**	–
In more than 2 years but not more than 5 years	**14,578**	14,254	**14,000**	14,254	**–**	–	**578**	–
In more than 5 years	**959**	800	**800**	800	**–**	–	**159**	–
	27,017	28,366	**25,700**	26,635	**–**	14	**1,317**	1,717

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 2005 in respect of which all conditions precedent had been met were as follows:

	2005 £000	2004 £000
Expiring in 1 year or less	**14,190**	13,355
Expiring in more than 2 years but less than 5 years	**–**	2,385
	14,190	15,740

27. DERIVATIVES AND FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 March 2005:

	Book value 2005 £000	**Fair value 2005 £000**	Book value 2004 £000	Fair value 2004 £000
Primary financial instruments held or issued to finance the Group's operations:				
Short-term financial liabilities and current portion of long-term borrowings	**(8,229)**	**(8,254)**	(8,932)	(8,977)
Long-term borrowings	**(16,671)**	**(16,651)**	(16,903)	(16,863)
Financial assets	**5,748**	**5,748**	3,725	3,725
Preference shares	**(800)**	**(800)**	(800)	(800)
Finance leases	**–**	**–**	(14)	(14)
Other financial liabilities	**(1,317)**	**(1,317)**	(1,717)	(1,717)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	**–**	**26**	–	(105)
Forward foreign exchange contracts	**–**	**43**	–	458

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

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

CURRENCY EXPOSURES

The analysis below shows the net monetary assets of companies in the Group which are subject to currency fluctuations that are not denominated in their functional currency at 31 March 2005. 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	
	2005 £000	2004 £000
Functional currency of companies		
Sterling	**627**	228
Euro	**139**	167
	766	395

GAINS AND LOSSES ON INSTRUMENTS USED FOR HEDGING

There were no significant unrecognised or deferred gains and losses on hedges at 31 March 2005 or 31 March 2004, other than those disclosed in the fair value table above.

28. PRIOR YEAR ADJUSTMENT

In accordance with the requirement to adopt the accounting requirements of UITF Abstract 17 (revised 2003) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts" comparative figures have been restated where applicable.

Under the revised UITF 17 the cost of share awards to employees is recognised over the period to which the employee's performance relates. The amount recognised is based on the fair value of the award at the date the award is made. Under the previous accounting policy the cost of awards made under the Company's employee share ownership plans was amortised over the periods of service to which the awards related. The amount recognised in the profit and loss account in the comparative period as a prior year adjustment represents the difference between the charge calculated under the revised and the previous accounting policies. This has resulted in a decrease in the profit recorded for the year ended 31 March 2004 of £90,000. In the year ended 31 March 2005 the charge in the profit and loss account was £35,000 under the revised accounting policy. Had the policy not changed, a credit of £133,000 would have been recorded in the profit and loss account.

Under UITF 38, a change is required in the presentation of the shares held in Chapelthorpe plc by the Chapelthorpe plc 1996 Employee Benefit Trust. Previously these shares were stated at the lower of cost and net realisable value at the balance sheet date, less the related amortisation charge, and recorded within debtors. UITF 38 requires that until a company's own shares held by an employee benefit trust vest unconditionally in employees, the consideration paid for the shares should be deducted in arriving at shareholders' funds. As a consequence, the opening shareholders' funds have been restated and at 1 April 2003 have been reduced by £96,000 and at 1 April 2004 by £309,000.

PRINCIPAL GROUP COMPANIES

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

	2005 £000	Restated 2004 £000	2003 £000	2002 £000	2001 £000
Turnover	**121,912**	121,460	121,803	127,048	139,417
Operating profit (loss)	**2,398**	7,142	5,891	2,365	(5,549)
Exceptional items	**(9,126)**	–	(1,136)	–	90
Interest	**(1,550)**	(1,782)	(2,454)	(2,805)	(2,707)
(Loss) profit before taxation	**(8,278)**	5,360	2,301	(440)	(8,166)
Taxation on (loss) profit	**491**	(1,766)	(2,092)	266	(416)
(Loss) profit for the financial year	**(7,787)**	3,594	209	(174)	(8,582)
Dividends	**(2,250)**	(2,057)	(1,558)	(1,018)	(3,250)
(Deficit) retained profit	**(10,037)**	1,537	(1,349)	(1,192)	(11,832)
(Loss) earnings per ordinary share (pence)	**(3.9)**	1.8	0.1	(0.1)	(4.2)
Diluted (loss) earnings per ordinary share (pence)	**(3.9)**	1.8	0.1	(0.1)	(4.2)
Underlying (loss) earnings per ordinary share (pence)	**1.5**	2.2	1.7	1.1	1.7
Dividends per ordinary share (pence)	**1.1**	1.0	0.8	0.5	1.6

BALANCE SHEET

31 March

	2005 £000	Restated 2004 £000	2003 £000	2002 £000	2001 £000
Fixed assets	**52,543**	60,189	68,942	75,257	80,842
Net current assets less amounts due after more than one year	**(6,453)**	(7,074)	(11,772)	(15,181)	(16,044)
Provisions for liabilities and charges	**(8,072)**	(8,135)	(9,293)	(8,672)	(11,793)
Total shareholders' funds	**38,018**	44,980	47,877	51,404	53,005

ADVISERS

REGISTERED OFFICE
Chapelthorpe plc
Chapelthorpe Hall
Church Lane
Chapelthorpe
Wakefield
West Yorkshire WF4 3JB

REGISTERED NUMBER
468624

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Lower Mosley Street
Manchester M2 3PW

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48 St Vincent Street
Glasgow G2 5TS

REGISTRAR
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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

INTERNET

The Company operates a website which can be found at www.chapelthorpe.com. This site is regularly updated to provide information about the Company. In particular all 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
81 George Street
Edinburgh EH2 3ES

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 2005 will be payable to shareholders on the register at 24 June 2005.

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 5pm on 26 July 2005. 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

NOTICE is hereby given that the fifty sixth AGM of the Company will be held at Eversheds LLP, Cloth Hall Court, Infirmary Street, Leeds LS1 2JB at 2.00pm on 22 July 2005 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 2005.
2. To approve the Board Report on Remuneration for the year ended 31 March 2005.
3 To declare a dividend.
4. To elect Mr J A Biles as a Director.
5. To re-elect Mr J Standen as a Director.
6. 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.
7. To authorise the Directors to fix the remuneration of the auditors.

AS SPECIAL BUSINESS

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

ORDINARY RESOLUTION

8. That the Directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £2,698,000 provided that this authority shall expire on 22 October 2006 or, if earlier, on the date of the next AGM of the Company after the passing of this Resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTIONS

9. That, subject to the passing of the Ordinary Resolution numbered 8 above, the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) pursuant to the authority conferred by the said Ordinary Resolution as if sub-section (1) of Section 89 of that Act did not apply to any such allotment provided that this power shall be limited:
   (a) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, provided that the Directors may make such arrangements as they consider necessary or expedient in respect of fractional entitlements and in respect of legal or practical problems arising under the laws or securities regulations in any overseas territory; and
   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £510,000 and shall expire on 22 October 2006 or, if earlier, on the date of the next AGM 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.

SPECIAL RESOLUTIONS (CONTINUED)

10. That, the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on the London Stock Exchange plc of ordinary shares of 5 pence each in the capital of the Company ("ordinary shares" or singularly "ordinary share") provided that:
    (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 30,600,000 (representing less than 15% of the Company's issued ordinary share capital);
    (b) the minimum price which may be paid for such ordinary shares is 5 pence per share (exclusive of expenses);
    (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than 5% above the average of the market value for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;
    (d) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next AGM 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 2005

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 of proxy (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, by 2.00pm on 20 July 2005. 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 by close of business on 20 July 2005.

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

a) the Register of Directors' share interests kept pursuant to Section 325 of the Companies Act 1985; and
b) copies of Directors' service contracts.

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C H A P E L T H O R P E
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