CHAPELTHORPE

plc

Report and Accounts 2006

Chapelthorpe plc is a leading manufacturer of industrial products which are supplied to 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.

DIVISIONS

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.

HIGHLIGHTS

Group borrowings reduced by £4.5m to £15.2m; fifth consecutive year of reduction.

Dividend maintained with a proposed final dividend of 0.77 pence (2005: 0.77 pence), making 1.1 pence (2005: 1.1 pence) in total, supported by free cash flow of £6.6m (2005: £5.6m).

Operating profit pre exceptionals £3.2m (2005: £5.3m) reflecting challenging trading conditions. Post exceptional operating loss £1.1m (2005: £2.4m).

Asset sales for the period realised £6.2m.

Planning permission obtained for Penistone site generating maximum proceeds of £9.0m to be received on relocation of the Umbrella Frames business.

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.

CHAIRMAN'S STATEMENT

OUR STRATEGY

Our strategy has been consistently applied over the past three years. This strategy aims to ensure that the Group businesses are operating in the most effective and efficient way, appropriate for the market conditions they face, which have been difficult, and that the balance sheet is carefully managed. The individual strands that comprise the strategy are best summarised as follows:

- → to reduce borrowings;
- → to re-shape and maximise returns from under-performing Group businesses;
- → to maximise returns from higher added value opportunities in our Fibres division;
- → to examine our asset base and to raise cash or recycle under-performing or non-core assets; and
- → to continue paying dividends.

I firmly believe this strategy represents the best way forward for the business as a whole and that there remains considerable intrinsic value within the Group. I am therefore pleased to report that we have continued to make good solid progress across all fronts in pursuit of our strategy.

Reflecting this progress, we are proposing an unchanged final dividend of 0.77 pence which, if ratified at the Annual General Meeting, would mean total dividends for the year of 1.1 pence (2005: 1.1 pence). Although the total dividend is currently uncovered by earnings, we have maintained the payment at last year's level as our free cash flow remains robust.

The final dividend is payable on 15 August 2006 to shareholders on the register on 23 June 2006. 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

Alan Reeve, who has been a Non-executive Director for nine years, is stepping down from the Board in accordance with best practice as set out in the Combined Code. I would like to thank him for his support and his particularly wise counsel as the Board came to terms with many complex issues in recent years. I am delighted that he has agreed to continue in his important role as Chairman of the Chapelthorpe plc Pension Fund Trustees.

OUR ACHIEVEMENTS

Principal amongst our achievements this year has been reaching agreement with the Local Authority covering both the outline planning consent for the Penistone site and the requirement to relocate the Hoyland Fox business to new premises. As previously announced, the gross sale proceeds for the Penistone site are expected to be £9.0m and we now expect full payment of this sum once the business has been relocated.

During the year under review a total of £6.2m has been received from asset sales, in line with our declared strategy. This includes the sale and leaseback of our UK Specialist Coatings site in Darwen, Lancashire; the sale of surplus land at our UK Fibres site in Drighlington, West Yorkshire and the sale and leaseback of the remainder of the site; and the sale of our property in Canada which formerly housed our North American Specialist Coatings business. A further maximum £0.6m is expected to be received in the current financial year subject to planning permission being granted at Drighlington.

Principal amongst our achievements has been obtaining outline planning permission for the Penistone site. Gross proceeds of £9m are expected once the Hoyland Fox business has been relocated.

Success on the strategic front is vital and we are confident our efforts will prove rewarding for shareholders.

As a result of the above and continued strict control of our working capital, net bank borrowings at the year end stood at £15.2m, slightly better than our expectations. Achieving our borrowing target is all the more commendable after taking into account the cash costs of restructuring our businesses and the industry-wide tightening in polymer supplier terms. A further significant reduction in borrowings is anticipated upon receipt of the Penistone sale proceeds.

Underlying operating profit (before exceptional items) was £3.2m (2005: £5.3m) reflecting the continuing difficult trading environment, the impact of significant world-wide raw material costs and escalating energy costs in the UK.

Exceptional costs include an impairment charge of £3.0m in respect of the goodwill originally arising on the acquisition of Asota GmbH, indicating just how tough trading is within the European fibres market. Further exceptional costs have been incurred amounting to £2.3m, representing the actions taken during the year to restructure our businesses. In addition, costs of £0.6m were incurred in connection with the ongoing sale of the business and assets of the Umbrella Frames division together with a £0.6m increase in the provision for a vacant leasehold in the Specialist Coatings division.

A net profit of £2.2m was generated from asset sales made in the year.

The pre tax loss for the year was £2.9m giving a basic loss per share of 0.57 pence (2005: 1.73 pence). Excluding exceptional items, underlying earnings per share were 0.86 pence (2005: 1.48 pence).

OUR OBJECTIVES

Market conditions for our products, world-wide, remain mixed at best given the twin pressures of sharply increasing energy costs, particularly in the UK, and volatile raw material prices. Our 'safety-first' strategy for the development of the Group has served us well and although this strategy has been in place since 2003, it remains particularly pertinent in the current trading environment.

Our Group operating performance in the period under review has been particularly affected by a disappointing performance from the Umbrella Frames division, and this is unlikely to change in the near term whilst we continue to re-shape that business in readiness for its relocation and to ensure that it is able to compete effectively.

Over the next 12 to 18 months, as the restructuring and relocation of the Umbrella Frames business takes place, we will explore how best to maximise returns for shareholders from our remaining business base. To this end, we have decided to appoint N M Rothschild & Sons as our advisers. I would like to record our thanks to PricewaterhouseCoopers (Corporate Finance) who have advised us for almost six years and with whom we have enjoyed a successful relationship.

Trading conditions remain difficult and we do not expect that situation to change. Success on the strategic front is, therefore, vital and we are confident our efforts will prove rewarding for shareholders.

JOHN STANDEN
Non-executive Chairman
7 June 2006

04 REVIEW OF OPERATIONS

OUR BUSINESS

Chapelthorpe is a leading manufacturer of industrial products which are supplied to niche markets worldwide.

The business is based around three divisions; man-made Fibres, which is based in the UK, Austria and North America; Specialist Coatings, based in the UK with branches and trading relationships in Poland and Russia; and the smallest of the three, Umbrella Frames, which is based in the UK but with sub-assembly being carried out in Romania.

All three divisions are market leaders in their chosen niche markets. The Fibres division supplies coloured polypropylene fibre to the automotive, floorcoverings, technical textiles, geotextiles and home furnishings markets. It is the largest supplier by far of coloured polypropylene fibre to the world's automotive markets as a key tier 2/tier 3 supplier to the "Big Three" US automotive manufacturers, as well as Toyota, Nissan and Honda.

The Specialist Coatings division supplies vinyl coated paper and plastisols to the wallcoverings industry worldwide. Whilst its UK and North American markets have suffered several years of decline, it has expanded into important new markets through ventures into which it has supplied technical expertise and surplus machinery. It is now an important supplier to the Russian wallcoverings market (the largest wallcoverings market in the world) as well as having recently established a branch in Poland and is continuing to evaluate opportunities in China.

The Umbrella Frames division supplies sophisticated umbrella frames to the sun and sports umbrella markets, and it is the largest supplier in Europe. The business is in the process of being restructured with most of the assembly work now carried out in Romania, and the remaining UK operations will be relocated into a smaller, new facility as soon as practicable.

OUR YEAR

The year under review was always going to be challenging and was unlikely to experience any significant improvement in trading conditions. Demand in the majority of markets in which we operate declined for various reasons, and this was combined with costs being forced higher through increases in energy costs, particularly in the UK, and oil price driven increases in raw material prices. However, we do not believe we have lost share in any of our significant markets, other than in our Umbrella Frames division, where the retail market in Europe has seen substantial penetration by suppliers of complete umbrellas from the Far East.

Overall, in the period under review, volumes are down due to market conditions, but Group turnover has increased, marginally, due to higher sales prices being achieved. Profits are lower as a result of the cost pressures identified above.

FIBRES

Man-made specialist polypropylene fibres represent, by far, the largest part of our business, with turnover in the year of £89.2m (2005: £84.3m), from which we achieved an operating profit before exceptionals of £2.7m (2005: £3.2m).

NORTH AMERICA

Year on year total volumes sold showed a decline of some 7% and there was also considerable change in our sales mix. Shareholders will be aware that the "Big Three" US automotive manufacturers are important customers of this division, with large SUVs being an important product category for us. The "Big Three" have had their own, well documented problems and the market for SUVs, in particular, has been in steep decline principally due to record gasoline prices in the United States. Our sales volumes were also impacted by our customers de-stocking in the face of uncertain retail demand. We have, however, continued to make

In the year under review we have achieved significant reductions in our overhead cost base whilst raising £6.2m from asset sales. As a result, operationally, the business is in much better shape.

We have become the approved supplier of coloured polypropylene fibre to Toyota for use in the Camry, the No.1 selling saloon car in the US.

progress in penetrating the "transplant" automotive manufacturers in the US and we have become the approved supplier of coloured polypropylene fibre to Toyota for use in the Camry, the No.1 selling saloon car in the US. We will shortly begin supplying Nissan for their 2007 Maxima and Altima ranges, whilst agreement has recently been reached to supply fibre for the new Honda Pilot SUV which will be launched in mid 2007. The overall effect in the year under review is that sales to transplants increased to over 10% of our volumes, but our automotive volumes in total were down by some 25%.

Our non-automotive staple volumes were broadly flat year on year, despite our biggest customer in this area experiencing lower than expected demand for its traditional product ranges. Encouragingly, however, they introduced a new product range at the beginning of the calendar year from which we have seen tremendous growth with volumes some 15% ahead of the comparable period.

Our filament yarn volumes into the home furnishings markets grew by 17% year on year, principally due to the demise of a competitor. Overall in this sub-sector, market conditions remained flat throughout the period and are expected to remain so in the current year.

Around 75% of our sales prices in the US are "indexed" to ensure some protection from rising raw material costs.

EUROPE

The overall picture here is of slightly declining volumes but sharply rising costs. Staple volumes were down by 4% year on year but there was, once again, little evidence of a loss of market share. Cost pressures, on the other hand, were harsh and unremitting. Our raw material (polymer) costs rose by 16% year on year, fuelled by the oil price rise. Unlike North America, our terms of trade with our customers do not allow for indexation of our raw material costs and while we have been able to push some price increases through, margins have been under pressure all year long. This position has been exacerbated further by the soaring cost of energy, where in the UK our power costs have increased by no less than 49% year on year. In Austria, by comparison, our power costs have increased by 8%.

Against this background we have progressed with the sale of the site at Drighlington, part of which is for redevelopment and part has been retained in a sale and leaseback deal. During this process we have been conscious that we have needed to reduce our capacity in line with current and future market conditions and the necessary reorganisation and restructuring has unfortunately meant reducing the headcount by 30. As a result of the reorganisation, we have been able to streamline the UK Fibres operation into a fit-for-purpose unit whilst releasing over £3m from the sale of the site.

SPECIALIST COATINGS

Turnover for the year was £26.1m (2005: £27.6m) which generated operating profits before exceptionals of £1.3m (2005: £1.8m). Sales from this division have been in decline in recent years as conditions in our traditional markets of the UK and North America have failed to improve. The market for wallcoverings declined further in the year under review with volumes in the UK down by some 17% alone. The decline in total sales for this division, however, has been held to just 5%.

Demand for wallcoverings in the UK and North America shows no sign of reversing the decline in recent years; however the position in Continental and Eastern Europe appears to be somewhat more promising.

REVIEW OF OPERATIONS CONTINUED

SPECIALIST COATINGS CONTINUED

Russia is the largest wallcoverings market in the world and our established venture produced another good performance in the year under review. Volumes on which we receive royalties were up some 14% over the previous year with further growth from our partner expected this year. Royalty income in 2004/05 benefited from a one-off adjustment to our supply agreement.

In the latter part of the year we commenced supplying two other Eastern European customers from our Moscow operation and whilst volumes are currently modest, we are encouraged by the prospects for the rest of this year and beyond.

We referred last year to what was then a new five year sole supply agreement with a major Polish wallcoverings manufacturer. Initially product was supplied from the UK but the venture is now fully up and running in Poland as a branch of our UK business and we will supply all our Polish customer needs from that facility. Additionally, we have recently commenced trials supplying another Polish customer out of that same facility. As a result, we look forward to increasing our market share considerably in this emerging market for our products.

In China, we are continuing to work with a major manufacturer, assisting them in developing a higher quality range of products for the Chinese market and we will be in a good position to evaluate progress and expectations later in the year after these new products are presented at forthcoming regional trade shows.

UMBRELLA FRAMES

This is our smallest division, representing some 7% of turnover. Competitive pressures have taken their toll on our customers' sales, which as a consequence has resulted in a decline in our turnover to £8.3m from £10.0m in 2005, whilst at the operating profit before exceptionals level, the division achieved break-even, against an operating profit of £1.0m last year.

We have experienced a dramatic decline in volumes over the past 18 months as a result of a structural change in the marketplace with imports of finished umbrellas into Europe from the Far East impacting both our volumes and margins.

Restructuring commenced in the period under review to align capacity with the predicted market needs and reducing the cost base by outsourcing the majority of assembly operations to Romania. This has led to the workforce being almost halved. The restructuring has resulted in an exceptional charge of £0.8m being made against Group profits.

As we have previously announced, the downsized business will be re-located from its Penistone site to a new site in the Barnsley area and we are seeking to achieve this at the earliest opportunity. This will also realise the £9.0m sale proceeds from the Penistone site.

Russia is the largest wallcoverings market in the world and our established venture produced another good performance in the year under review.

Our Umbrella Frames business has been dramatically overhauled and will be re-located as soon as possible.

OUR PROSPECTS

In the year under review we have achieved significant reductions in our overhead cost base whilst raising £6.2m from asset sales. As a result, operationally, the business is in much better shape to withstand further declines in market conditions, should they occur.

Work on reducing our cost base is ongoing, and will continue going forward.

We have reason to believe that prospects for our Fibres division will improve in the current year, as we take advantage of further higher value-added opportunities, and continue to win new business from the automotive market in the US.

Similarly the prospects for our Specialist Coatings operations also give some room for encouragement. While the markets of the UK and North America show little signs of significant improvement, the prospects in Continental and Eastern Europe are promising, and our low-risk business plans and ventures in these areas mean that we can maximise the opportunities that will undoubtedly arise.

We will continue to pursue all these opportunities aggressively throughout the remainder of the financial year and beyond.

Our Umbrella Frames business has been dramatically overhauled and will be re-located as soon as possible. Once this move has been completed we will be in a position to actively market the business.

BRIAN LECKIE
Chief Executive
7 June 2006

08 FINANCIAL REVIEW

INTRODUCTION

Against a background of extremely challenging market conditions the Group's borrowings have reduced for the fifth year running, assisted by the sale of a number of properties. This continued feature of robust cash generation and the Group's overall debt position has allowed the Board of Directors to recommend the payment of an unchanged final dividend of 0.77 pence per share.

RESULTS FOR THE YEAR

The Group implemented International Financial Reporting Standards ("IFRS") during the year. Comparative figures for 2005 are restated accordingly. A full analysis of the impact is provided in Notes 31 and 32 to the financial statements.

Revenues for the year ended 31 March 2006 were £123.7m (2005: £121.9m) which generated an operating profit pre exceptional items of £3.2m (2005: £5.3m). After exceptional items an operating loss of £1.1m (2005: £2.4m) was recorded.

All of our three divisions have experienced very demanding market conditions coupled with high raw material costs, in particular polypropylene costs which exceeded the record highs experienced in the previous year and escalating energy costs in the UK. In US Fibres the fall in consumer demand for SUVs led to our US automotive volumes shrinking by a quarter in 2005/06 despite growth in sales to US transplant operations which now account for over 10% of US automotive volumes. Overcapacity and aggressive competition impacted margins and volumes in our European Fibres operation. Overall, volumes in our Fibres division declined by 5% year on year.

The market for wallcoverings continued in decline in the UK but was offset in part by improvements in Continental Europe, in particular Eastern Europe, predominantly for plastisols. In all vinyl base volumes fell 12% whilst plastisol volumes fell by 7%. Plastisol volumes in Russia, on which we receive a royalty, increased by 14% year on year.

Umbrella Frames experienced a further deterioration in volumes by nearly 25% year on year as the selling season failed to return to expected levels, caused by a shift in retail demand for lower cost product from the Far East.

Further details are set out in the Chairman's Statement on pages 2 and 3 and Review of Operations on pages 4 to 7.

EXCEPTIONAL ITEMS

The Board's strategy of re-shaping the Group's operations to achieve acceptable returns and releasing value from its asset base has continued.

During the year, the Group entered into sale and leaseback arrangements for two of its UK manufacturing sites: the Specialist Coatings site at Darwen, Lancashire and the UK Fibres site at Drighlington, West Yorkshire. The latter sale also included the outright disposal of part of the site for redevelopment, allowing the UK Fibres business to reduce capacity and overheads. These sales yielded £5.5m with a potential £0.6m to be received upon the granting of an acceptable planning permission on the surplus land at Drighlington. In addition the Group completed the sale of its vacant wallcoverings site in Canada for £0.7m.

In total property disposals generated cash proceeds of £6.2m and profits of £2.2m in the year.

Against a background of extremely challenging market conditions the Group's borrowings have reduced for the fifth year running to £15.2m at 31 March 2006.

During the year, the Group entered into sale and leaseback arrangements for two of its UK manufacturing sites, which together with other asset sales raised £6.2m of cash proceeds.

All of the divisions have undergone restructuring to align the businesses with current demand and total exceptional costs of £2.3m have been charged in the year. Further anticipated cash costs of approximately £1m will be incurred in connection with the planned relocation of the Umbrella Frames operation from its site in Penistone, on which the Group obtained an outline residential planning permission during the year. This planning permission is principally conditional on relocating the Umbrella Frames operation in the Barnsley metropolitan area. The site was conditionally sold to Cala for £9.0m during the year. Professional, legal and other costs were incurred in connection with this process amounting to £0.6m.

As required by IFRS a detailed review of the carrying value of goodwill was carried out which resulted in an impairment charge of £3.0m being made in respect of the goodwill arising on the original acquisition of Asota GmbH, the Group's Fibres operation in Austria. Further details of exceptional costs can be found in Note 4.

TAXATION

The tax credit arising on the loss for the year was £1.8m (2005: £0.5m) of which a £0.4m charge related to profits before exceptional items, a £1.5m credit related to the exceptional items and a £0.7m credit was in respect of prior years. The tax charge for the year of £0.4m on a profit before exceptional items represents an underlying tax rate of 26%. This is below the UK standard rate of 30% principally due to the release of the deferred tax liability in respect of the Penistone site as required by IAS 12. Excluding this, the remaining charge arises primarily on overseas earnings.

Property gains were shielded from tax by available capital losses brought forward.

EARNINGS PER SHARE AND DIVIDENDS

Underlying earnings per share are stated before exceptional items and were 0.86 pence compared to 1.48 pence last year. After exceptional items the basic loss per share was 0.57 pence (2005: 1.73 pence).

Although the dividend is currently uncovered by earnings the Board, based on the free cash flow in the year, is recommending an unchanged final dividend of 0.77 pence which, together with the interim dividend, will result in a full year dividend of 1.1 pence (2005: 1.1 pence). This approximates to a gross yield of 8% based on a share price of 13.50 pence.

In accordance with IFRS dividends are now recognised in the financial statements in the year in which they are paid, or in the case of a final dividend, when approved by shareholders.

BORROWINGS AND CASH FLOW

Cash generation continues to be a prominent feature of the Group's performance. The Group was in a net debt position of £15.2m at 31 March 2006, a £4.5m reduction year on year.

Cash generated from operations (before exceptional items) amounted to £1.4m (2005: £2.9m). Capital expenditure was £1.0m, equating to only 23% of depreciation. Sales from assets raised £6.2m whilst there was a cash outflow of £3.2m relating to restructuring and other exceptional costs.

FINANCIAL REVIEW CONTINUED

BORROWINGS AND CASH FLOW CONTINUED

Net interest on borrowings in the income statement amounted to £1.5m and were unchanged reflecting the timing of asset sales in the latter part of the year.

Free cash flow (cash flow before financing activities) was £6.6m (2005: £5.6m).

At 31 March 2006 the Group had committed bank facilities of £16.7m (2005: £19.3m) which were fully drawn. The Group also had £16.7m (2005: £19.8m) of uncommitted facilities with UK and overseas banks for working capital requirements of which £6.7m (2005: £5.6m) was utilised at the year end.

PENSIONS

The Group's pension arrangements are set out on pages 54 to 56. The Group's principal UK pension scheme is a defined benefit scheme and is closed to new members. The gross deficit calculated in accordance with IAS 19 was £1.5m (2005: £4.3m). The triennial valuation of the scheme as at 5 April 2005 was finalised during the year and revealed a modest funding deficit of only £0.25m which the Company agreed to fund over a two year period commencing in April 2006.

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.

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.

The continued feature of robust cash generation and the Group's overall debt position has allowed the Board of Directors to recommend the payment of an unchanged final dividend of 0.77 pence per share.

The triennial valuation of the pension scheme was finalised during the year and revealed a modest funding deficit of only £0.25m.

KEY FINANCIAL PERFORMANCE INDICATORS

The Key Financial Performance Indicators ("KPIs") for the Group are those that communicate the financial performance and strength of the Group as a whole to shareholders. The Group's KPIs are as follows:

- the level of free cash flow, which for 2005/06 was £6.6m (2004/05: £5.6m);
- the level of underlying operating profit (before exceptional items) which for 2005/06 was £3.2m (2004/05: £5.3m); and
- the level of the Group's net bank borrowings, which at 31 March 2006 were £15.2m (31 March 2005: £19.7m).

Information regarding other performance indicators used by management in running and assessing the performance of individual businesses within the Group is disclosed in the Corporate Governance Statement on page 18.

ANDREW WEATHERSTONE
Finance Director
7 June 2006

DIRECTORS





John Standen*
Non-executive Chairman, aged 57
John Standen was appointed to the Board and became Chairman in 2002. His other public company roles are as Chairman of Z Group plc and as senior Non-executive Director of Lavendon Group plc and Financial Objects plc. He was Chairman of Reg Vardy plc prior to its recent sale. In a voluntary capacity he is Chairman of the Council of Hull University and a Vice Chairman, and Chairman of the Audit Committee, of Leonard Cheshire. He spent his career in corporate finance and was Chief Executive of BZW Corporate Finance between 1993 and 1995.

Alan Reeve*
Non-executive Director, aged 68
Alan Reeve was appointed to the Board in 1997. Formerly he was an Executive Director of Waddington PLC.

Brian Leckie†
Chief Executive, aged 59
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.

John Biles*
Non-executive Director, aged 58
John Biles was appointed to the Board in 2005. He is a Chartered Accountant and is a Non-executive Director and Chairman of the Audit Committee of ArmorGroup International plc, Charter plc, Hermes Pensions Management Limited and Viridian Group plc. He was previously Finance Director of FKI plc.

Andy Weatherstone
Finance Director, aged 42
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.

* Member of Nomination, Remuneration and Audit Committees

† Member of Nomination Committee

DIRECTORS' REPORT

The Directors present their Annual Report together with the accounts of the Company for the year ended 31 March 2006.

PROFITS AND DIVIDENDS

The loss after taxation for the year ended 31 March 2006 was £1,135,000 (2005: loss of £3,408,000). Ordinary dividends totalling £2,244,000 (2005: £2,244,000) have been or are proposed to be paid (prior to the waiver held by the Chapelthorpe Trust). Following the implementation of International Financial Reporting Standards ("IFRS"), dividends are now recognised in the financial statements in the year in which they are paid, or in the case of a final dividend when approved by shareholders. Consequently the amount recognised in these accounts as described in Note 8 comprises the 2004/05 final dividend and 2005/06 interim dividend. Following the reclassification of preference shares as other financial liabilities under IFRS, with effect from 1 April 2005, preference share dividends are now recorded as a finance cost when paid.

The proposed final ordinary dividend of £1,571,000, if approved, will be payable on 15 August 2006 to shareholders on the register of members at 23 June 2006. 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 7.

DIRECTORS

The Board of Directors is listed on page 12. These Directors have served throughout the year, with the exception of Mr A L Thompson who retired from the Board on 22 July 2005.

In accordance with the Articles of Association of the Company, Mr B Leckie and Mr A P Weatherstone will retire by rotation at the Annual General Meeting ("AGM"). Being eligible, Mr Leckie and Mr Weatherstone will offer themselves for re-election. Both Mr Leckie and Mr Weatherstone have service contracts requiring one year's notice to be given by the Company.

Having been a Director of the Company for nine years Mr A B Reeve will retire from the Board in accordance with best practice (as embodied in the Combined Code) at the 2006 AGM. He will not seek re-election and will consequently retire from the Board on that date.

DIRECTORS' INTERESTS

The interests of the Directors who held office at 31 March 2006, and of their families, in the ordinary shares of the Company are disclosed in the Board Report on Remuneration.

SHARE CAPITAL

Notes 17 and 23 on pages 45 and 51, respectively, provide information concerning share capital for the year ended 31 March 2006.

At 7 June 2006 the Company had been notified that the following were interested in 3% or more of the ordinary share capital:

	Number of shares	%
AXA S. A. Group	33,553,568	16.44
North Atlantic Value LLP	12,454,765	6.10
UBS AG	12,350,000	6.05
Credit Agricole Chevreux International Limited	10,250,000	5.02
Ian Knighton	8,589,664	4.21
Starlight Investments Limited	7,173,860	3.52
Electra Active Management plc	6,179,864	3.03

DIRECTORS' REPORT CONTINUED

DIRECTORS' AUTHORITIES TO ALLOT

The Notice of AGM on pages 76 and 77 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 21 October 2007, 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 (other than a requirement to issue new shares should any of the Group's employees exercise their outstanding share options), 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.

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 21 October 2007, 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. This authority also allows the Directors, within the same aggregate limit, to sell for cash shares that may be held by the Company in treasury.

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 22 July 2005. 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 the higher of (1) 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, and (2) the higher of the price of the last independent trade and the highest current independent bid as derived from the London Stock Exchange Trading System. 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 15 months after the passing of the Resolution if earlier.

As at 7 June 2006 options to subscribe for a total of 1,085,200 ordinary shares were outstanding under the Company's employee share schemes representing 0.53% of the issued share capital of the Company (excluding treasury shares) at that date and 0.63% of the issued share capital of the Company (excluding treasury shares) if the authority sought by this resolution were to be exercised in full. There are currently no outstanding warrants to subscribe for equity shares in the Company and no shares held in treasury.

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.

FIXED ASSETS

Details of the changes in the tangible fixed assets of the Group are shown in Note 11 to the accounts on pages 42 and 43, and of the Company are shown in Note 5 to the accounts on page 72.

RESEARCH AND DEVELOPMENT COSTS

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

Donations to UK charitable organisations amounted to £3,112 (2005: £4,051) for a variety of charities. There were no political contributions (2005: £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 66 days (2005: 72 days). The Company did not have any trade creditors at the year end (2005: Nil).

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.

INDEMNITIES

By virtue of, and subject to, article 184 of the current articles of association of the Company, the Company has granted an indemnity to every Director, alternate Director, secretary or other officer of the Company. Such provisions remain in force at the date of this report. Copies of the articles of association of the Company will be available for inspection at the AGM of the Company on 21 July 2006.

AUDITORS AND DISCLOSURE OF INFORMATION TO 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.

So far as each Director is aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board,

A P WEATHERSTONE
Finance Director and Secretary
7 June 2006

CORPORATE GOVERNANCE

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

The Company has complied throughout the financial year with the provisions of good governance of Section 1 of the Combined Code except that the Code requires that the Nomination Committee should comprise a majority of independent Non-executive Directors. The Board believes that the composition of the Nomination Committee is appropriate for a company of this size. Additionally, the Company's formal "whistleblowing" procedure, whereby employees may, in confidence, raise concerns regarding financial reporting or other matters, was adopted with effect from June 2005.

THE BOARD

The Board of Directors comprises two Executive and three Non-executive Directors. Having been a Director of the Company for nine years Mr A B Reeve will retire from the Board at the 2006 AGM in accordance with best practice as embodied in the Combined Code. He will not seek re-election and it is the Board's present intention not to appoint a replacement Non-executive Director. Whilst this will mean that the Company does not have two independent Non-executive Directors sitting on its Audit and Remuneration Committees after the 2006 AGM, the Board believes its composition is sufficient for a company of this size. Each Director has considerable knowledge and experience from both within and outside the Group's spheres of business. Whilst 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 Reeve is the senior independent Non-executive Director. Following his retirement from the Board at the 2006 AGM this role will be assumed by Mr J A Biles.

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 2005/06 met eleven times with each meeting attended by every Director other than one meeting Mr Reeve was unable to attend. 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 2005/06 the Committee met once, with each Committee member attending, in connection with the retirement from the Board of Mr A L Thompson on 22 July 2005.

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 adoption of IFRS. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2006, that applicable accounting standards have been followed and that the financial statements comply with IFRS.

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. It is chaired by Mr J A Biles who the Board recognises has recent and relevant financial experience. The Committee meets as and when required, and at least twice 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 £106,000 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. Details of all audit and non-audit fees charged by PricewaterhouseCoopers LLP are disclosed in Note 6 to the financial statements on page 37.

During 2005/06 the Committee met twice, with each Committee member attending on each occasion, with the exception of one meeting that Mr J Standen was unable to attend.

CORPORATE GOVERNANCE CONTINUED

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 2006 and up to the date of approval of this Report and Accounts.

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

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

FINANCIAL REPORTING AND MONITORING OF OPERATIONS

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

The Board considers that its Key Financial Performance Indicators ("KPIs") are those that communicate the financial performance and strength of the Group as a whole to its shareholders. These KPIs comprise:

- the level of free cash flow;
- the level of underlying operating profit; and
- the extent of the Group's net bank borrowings.

Management also uses a variety of Other Performance Indicators ("OPIs") in running, and assessing the performance of, individual businesses within the Group. OPIs include indicators such as added value, manufacturing efficiency measures and health and safety statistics.

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

POLICIES AND PROCEDURES

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

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

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

Internal audit

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

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

BOARD REPORT ON REMUNERATION

THE REMUNERATION COMMITTEE

The Remuneration Committee comprises the Group's Non-executive Directors, Mr J Standen, Mr A B Reeve and 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 Committee also sought advice upon pensions matters from the Company's pensions adviser, KPMG LLP.

The constitution and operation of the Committee complied throughout the year with Section 1B of the Combined Code incorporated into the United Kingdom Listing Authority Rules. During 2005/06 the Committee met six times, with each Committee member attending on each occasion.

The only information within the Board Report on Remuneration that is required by Part 3 of Schedule 7A to the Companies Act 1985 to be audited is that as shown on pages 23 and 24.

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 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.

BOARD REPORT ON REMUNERATION CONTINUED

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 and life 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

Mr B Leckie is a member 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, Mr Leckie is subject to the Inland Revenue earnings cap.

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

Mr A L Thompson also remained a member of the Chapelthorpe plc Pension Fund and the FURBS throughout the period during which he was an Executive Director of Chapelthorpe plc.

During the year, the Committee sourced specific advice from KPMG LLP, the Company's pensions adviser, in relation to pension provision for Executive Directors of the Company, given changes to pensions legislation, effective from 6 April 2006. This resulted in a number of changes, as outlined below.

As a consequence of this new legislation relating to the tax simplification of pensions, the Company's contributions to the FURBS have ceased and have been replaced by an annual cash sum payable directly to the individual. At the option of the individual this may be paid into a personal pension arrangement. Under this new arrangement the Company no longer provides any guarantee to Mr Leckie or Mr Thompson as to the value of their pension provision over the Inland Revenue earnings cap (which is deemed to continue after 6 April 2006 for these purposes).

As a further consequence of the Remuneration Committee's review of pension arrangements for the Executive Directors, with effect from 1 February 2006 Mr Weatherstone transferred from the Chapelthorpe plc Pension Fund into a personal pension arrangement to which the Company contributes at a rate of 20% of basic salary, excluding bonuses.

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 30 on pages 57 and 58, 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 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; and

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).

Awards made in 2003 under the 1998 Performance Related Share Plan matured on 31 March 2006. 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 in 2005 under the 1998 Performance Related Share Plan, the Remuneration Committee has determined that the awards will vest after the Performance Period:

i) 0% will vest if the total shareholder return of the Company is equal to or less than that of the FTSE Fledgling Index;

ii) 30% will vest if the total shareholder return of the Company is equal to the FTSE Fledgling Index plus 1% per annum; and

iii) 100% will vest if the total shareholder return of the Company is equal to the FTSE Fledgling Index plus 7.5% per annum.

A straight line pro-rata vesting will exist for performance between the above points.

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 2004 and the award of shares under the Chapelthorpe plc Invested Bonus Share Plan 1997, are not conditional on any performance criteria. To date no options have been granted under the Chapelthorpe plc Savings Related Share Option Scheme 2004.

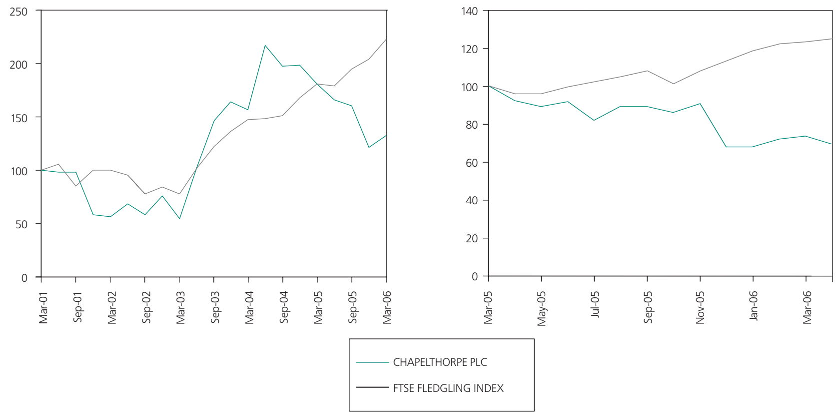
EMPLOYEE BENEFIT TRUST

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 £518,000.

BOARD REPORT ON REMUNERATION CONTINUED

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 2005.

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 2006, and of their families, in the ordinary shares of the Company were:

HOLDINGS

	7 June 2006	**31 March 2006**	1 April 2005
J Standen	**435,000**	**435,000**	435,000
B Leckie	**2,306,398**	**2,306,398**	2,192,361
A P Weatherstone	**347,763**	**347,763**	347,763
A B Reeve	**130,255**	**130,255**	124,614
J A Biles	**75,000**	**75,000**	75,000

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

Corporate governance

DIRECTORS' SHARE INTERESTS CONTINUED
AUDITED INFORMATION
OPTIONS AND AWARDS

	1 April 2005	Lapsed in year	Vested in year	Granted/ awarded in year	**31 March 2006 (or date of retirement)**	Lapsed since 31 March 2006 (or date of retirement)	**7 June 2006**	Category (see Note 30 to the Accounts)
B Leckie								
	36,100				**36,100**		**36,100**	A
	643,803				**643,803**	643,803		G
	599,992				**599,992**		**599,992**	H
				751,523	**751,523**		**751,523**	I
	479,364				**479,364**		**479,364**	L
	352,936				**352,936**		**352,936**	M
	903,291	903,291						
	54,818	54,818						
A P Weatherstone								
	378,788				**378,788**	378,788		G
	373,236				**373,236**		**373,236**	H
				467,500	**467,500**		**467,500**	I
	70,510				**70,510**		**70,510**	L
	207,655				**207,655**		**207,655**	M
A L Thompson								
	31,700				**31,700**			A
	394,391				**394,391**	394,391		G
	373,236				**373,236**			H
	293,660				**293,660**			L
	216,208				**216,208**			M
	553,355	553,355						

Mr Thompson retired as a Director from the Board of Chapelthorpe plc on 22 July 2005, although he continued in the Group's employment thereafter as Managing Director of Drake Extrusion Limited and Chairman of Asota GmbH. Consequently his share options and awards are not disclosed at either 31 March 2006 or 7 June 2006.

The share awards of 903,291 and 553,355 that lapsed in the year for Mr Leckie and Mr Thompson respectively, related to the Performance Related Share Plan. In addition 54,818 of share options under the 1994 Savings Related Scheme lapsed for Mr Leckie during the year.

No other Director, who held office during the year ended 31 March 2006, 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 2006 was 12.25 pence (2005: 18.0 pence). The market price during the year ended 31 March 2006 varied between 18.25 pence and 10.75 pence.

No Directors exercised any options at any time during the year (2005: £Nil).

BOARD REPORT ON REMUNERATION CONTINUED

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 2006 £000**	Total 2005 £000
J Standen	61	–	–	–	**61**	60
B Leckie	227	40	–	–	**267**	273
A P Weatherstone	140	19	–	–	**159**	154
A B Reeve	32	–	–	–	**32**	31
J A Biles (appointed 10 January 2005)	31	–	–	–	**31**	7
A L Thompson (retired 22 July 2005)	44	6	–	–	**50**	167
Aggregate total emoluments	535	65	–	–	**600**	692
Emoluments of highest paid Director					**267**	273

DIRECTORS' PENSIONS

AUDITED INFORMATION

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

	B Leckie £000	A P Weatherstone £000	A L Thompson £000
Accrued pension at 31 March 2006*	38	5	59
Accrued pension at 31 March 2005	34	4	58
Increase in accrued pension (excluding inflation)	3	1	1
Transfer value of increase in accrued pension (less member contribution)	37	4	11
Transfer value of accrued pension at 31 March 2006*	549	41	661
Transfer value of accrued pension at 31 March 2005	491	27	679
Increase (decrease) in transfer value of accrued pension (less member contribution)	50	7	(20)

* or date of leaving membership of the Chapelthorpe plc Pension Fund (31 January 2006 for Mr Weatherstone) or date of ceasing to be a Director of the Company (22 July 2005 for Mr Thompson).

Transfer values are based on advice received from independent, qualified actuaries, in accordance with "Retirement Benefit Schemes – Transfer Values (GN11)" issued by the Institute of Actuaries and the Faculty of Actuaries.

Upon Mr Weatherstone's transfer from the Chapelthorpe plc Pension Fund on 31 January 2006 a transfer of £115,000 was made into Mr Weatherstone's personal pension arrangement comprising the transfer value of the accrued pension as set out in the above table and a further amount funded by the Company in recognition of past contractual rights.

The value of contributions paid or provided by the Company in respect of the year ended 31 March 2006, to the Chapelthorpe plc FURBS, was £Nil (2005: £30,000) in respect of Mr Leckie and £Nil (2005: £20,000) in respect of Mr Thompson.

The value of contributions paid or provided by the Company in respect of the year ended 31 March 2006, to personal pension arrangements, was £85,000 (2005: £Nil) in respect of Mr Leckie, £5,000 (2005: £Nil) in respect of Mr Weatherstone and £11,000 (2005: £Nil) in respect of Mr Thompson (until date of retirement). The commencement of Company contributions into these personal pension arrangements is described in more detail in the Board Report on Remuneration on page 20.

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

On behalf of the Board,

J STANDEN
Chairman, Remuneration Committee
7 June 2006

GROUP ACCOUNTS

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CHAPELTHORPE PLC

We have audited the Group financial statements of Chapelthorpe plc for the year ended 31 March 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related Notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Chapelthorpe plc for the year ended 31 March 2006 and on the information in the Board Report on Remuneration that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 Group financial statements give a true and fair view and whether the Group financial statements and the auditable part of the Board Report on Remuneration have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the Group financial statements, 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 other transactions is not disclosed.

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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Group 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 consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

→ the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its loss and cash flows for the year then ended; and

→ the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
Manchester
7 June 2006

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 MARCH 2006

	Notes	**2006 £000**	2005 £000
Continuing operations			
Revenue	2	**123,658**	121,912
Cost of sales		**(105,616)**	(102,036)
Gross profit		**18,042**	19,876
Operating expenses	3	**(19,131)**	(22,259)
Operating profit (loss)			
Operating profit before exceptional items		**3,235**	5,276
Exceptional items	4	**(4,324)**	(7,659)
Operating loss	2	**(1,089)**	(2,383)
Financial expense		**(1,904)**	(1,770)
Financial income		**92**	285
Net financing costs	5	**(1,812)**	(1,485)
Loss before taxation	6	**(2,901)**	(3,868)
Taxation	7	**1,766**	460
Loss for the period attributable to equity shareholders		**(1,135)**	(3,408)
Loss per share			
Basic and diluted	9	**(0.57)p**	(1.73)p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
YEAR ENDED 31 MARCH 2006

	Notes	**2006 £000**	2005 £000
Actuarial gains (losses) net of deferred tax		**1,476**	(472)
Exchange differences on translation of foreign operations	24	**1,922**	(335)
Loss in fair value of hedging derivatives	24	**(114)**	–
Net income (expense) recognised directly in equity		**3,284**	(807)
Loss for the period		**(1,135)**	(3,408)
Total recognised income and expense for the period (attributable to equity shareholders)		**2,149**	(4,215)
Adjustment in respect of adoption of IAS 32 and IAS 39	32	**(751)**	–
Total gains and losses recognised since last Annual Report		**1,398**	(4,215)

CONSOLIDATED BALANCE SHEET
31 MARCH 2006

	Notes	2006 £000	2005 £000
Non-current assets			
Goodwill	10	**9,274**	12,082
Property, plant and equipment	11	**33,681**	41,255
Other non-current assets	12	**569**	561
Other financial assets	17	**11**	–
Deferred tax assets	20	**–**	1,303
		43,535	55,201
Current assets			
Inventories	13	**15,025**	14,066
Trade and other receivables	14	**25,741**	23,959
Current tax assets		**205**	621
Other financial assets	17	**86**	–
Cash and cash equivalents		**8,133**	5,187
		49,190	43,833
Freehold property held for resale	15	**2,179**	666
		51,369	44,499
Current liabilities			
Trade and other payables	16	**(23,415)**	(23,045)
Current tax liabilities		**(390)**	(355)
Other financial liabilities	17	**(73)**	–
Borrowings and bank overdrafts	18	**(9,303)**	(8,229)
		(33,181)	(31,629)
Net current assets		**18,188**	12,870
Non-current liabilities			
Retirement benefit obligations	29	**(3,391)**	(6,085)
Other financial liabilities	17	**(800)**	–
Borrowings	18	**(14,078)**	(16,671)
Provisions and other liabilities	19	**(1,546)**	(1,317)
Deferred tax liabilities	20	**(5,621)**	(7,019)
		(25,436)	(31,092)
Net assets		**36,287**	36,979
Shareholders' equity			
Called up share capital	23	**10,202**	11,002
Share premium reserve	24	**1,251**	1,251
Other reserves	24	**2,059**	152
Retained earnings	24	**22,775**	24,574
Total shareholders' funds (2005 including non-equity interests)		**36,287**	36,979

The financial statements on pages 27 to 66 were approved by the Directors on 7 June 2006 and signed on its behalf by:

J STANDEN
Chairman

B LECKIE
Director

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2006

	Notes	**2006 £000**	2005 £000
Cash flows from operating activities			
Cash generated from operations	25	**2,511**	8,570
Tax received (paid)		**428**	(628)
Interest received		**83**	215
Interest paid		**(1,643)**	(1,465)
Net cash generated from operating activities		**1,379**	6,692
Cash flows from investing activities			
Purchases of property, plant and equipment		**(1,006)**	(1,830)
Proceeds from sale of property, plant and equipment		**6,214**	810
Payments relating to prior period disposal of businesses and properties		**–**	(94)
Net cash generated from (used in) investing activities		**5,208**	(1,114)
Cash flows from financing activities			
Net proceeds from new bank loans		**–**	2,336
Repayment of borrowings		**(2,667)**	(2,659)
Repayment of capital element of finance leases		**(18)**	(14)
Purchase of own shares by employee benefit trust		**–**	(210)
Dividends paid to ordinary shareholders		**(2,198)**	(2,061)
Net cash used in financing activities		**(4,883)**	(2,608)
Increase in cash and cash equivalents		**1,704**	2,970
Cash and cash equivalents at beginning of the period		**(370)**	(3,100)
Exchange gains (losses) on cash and cash equivalents		**185**	(240)
Cash and cash equivalents at end of the period	27	**1,519**	(370)

NOTES TO THE CONSOLIDATED ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

BASIS OF PREPARATION

In accordance with IFRS as endorsed by the European Union ("EU") regulations, these financial statements have been prepared in accordance with IFRS and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. The Group has early adopted the amendment to IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures" to recognise actuarial gains and losses in full on the deferred benefit pension scheme as they arise. The Company has elected to prepare its Parent Company accounts under UK Generally Accepted Accounting Practices ("GAAP"). The Group had previously reported under UK GAAP. A reconciliation between the figures presented under UK GAAP and IFRS is given in Note 31.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

FIRST-TIME ADOPTION OF IFRS

The Group's financial statements for the year ended 31 March 2006 are the Group's first annual financial statements in compliance with IFRS. Chapelthorpe plc's transition date is 1 April 2004. The Group prepared its opening IFRS balance sheet at that date. The Group's IFRS adoption date is 1 April 2005.

On transition to IFRS, an entity is generally required to apply IFRS retrospectively, except where an exemption is available under IFRS 1 "First-Time Adoption of International Financial Reporting Standards". The Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS. The following is a summary of the key elections from IFRS 1 that were made by the Group:

- business combinations: Business combinations prior to the transition date (1 April 2004) have not been restated to comply with IFRS 3 "Business Combinations";
- freehold and long leasehold properties: The Group has elected to retain previous UK GAAP carrying values in respect of freehold properties and leasehold buildings as deemed cost at 1 April 2004;
- pensions and other post-retirement benefits: All cumulative actuarial gains and losses have been recognised in equity at 1 April 2004;
- cumulative translation differences: The Group has elected to re-set foreign currency cumulative translation reserves to zero on transition to IFRS;
- share-based payments: IFRS 2 "Share-Based Payments" has not been applied to equity based employee compensation schemes in respect of awards granted before 7 November 2002, as permitted; and
- financial instruments: IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" are being adopted in full from 1 April 2005 with no restatement of comparative information.

A summary of the more important Group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

BASIS OF CONSOLIDATION

The Group financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to 31 March 2006.

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies of the entity. A shareholding of more than one half of the voting rights will normally be the basis of such control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus the costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, including all separately identifiable intangible assets, is goodwill which has been recorded as an intangible asset since 1 April 1998 (see Goodwill on page 31).

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

INTANGIBLE ASSETS

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiary acquired. Goodwill arising prior to 1 April 1998 was written off directly to reserves. Goodwill arising in the period 1 April 1998 to 31 March 2004 was capitalised as an intangible asset in relation to subsidiaries or included as part of the carrying value of associates and amortised on a straight line basis over its estimated useful life, a period not exceeding 20 years. Goodwill, represented by the carrying value at 1 April 2004 under the Group's previous accounting policy together with additional amounts arising since that date is no longer amortised and is carried at cost less accumulated impairment losses, and is included in intangible assets.

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 re-translation are taken to reserves.

(b) Research and development

Research expenditure is charged to the income statement in the year in which it is incurred.

Internal development expenditure is charged to income in the year in which it is incurred, unless it meets the recognition criteria of IAS 38 "Intangible Assets", in which case such costs are capitalised and amortised over the estimated useful life of the asset created.

IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Value in use is calculated using cash flows derived from budgets and projections approved by the Board which are discounted at the Group's risk weighted average cost of capital calculated from equity market data and borrowing rates.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in first-out ("FIFO") basis or the average cost basis. Cost includes expenditure which is incurred in the normal course of business in bringing the product to its present location and condition. Net realisable value is the estimated selling price less all costs to be incurred.

Provision is made to reduce cost to net realisable value having regard to the age, saleability and condition of inventory.

TRADE RECEIVABLES

Trade receivables are recognised initially at the amount receivable (discounted if material) and subsequently reduced by any provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Cash balances and overdrafts are offset where the Group has the ability and intention to settle net.

TAXATION

Taxation is that chargeable on the profits for the period, together with deferred taxation. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred taxation is not provided on temporary differences arising on subsidiaries and associates where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

EMPLOYEE BENEFITS

The Group accounts for pensions and similar post-retirement benefits under IAS 19 "Employee Benefits".

In respect of defined benefit pension plans, where the amount of pension benefit that an employee will receive on retirement is defined by the plan, the liability recorded in the balance sheet is the present value of the defined obligation at that date less the fair value of the plan assets. The defined benefit obligation is calculated every three years by independent actuaries using the projected unit credit method and updated by independent actuaries on an annual basis for accounting purposes.

Any actuarial gains and losses are recognised immediately in the statement of recognised income and expenditure.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period, in which case the past service costs are spread over that period.

For defined contribution plans, where the Group pays a fixed contribution into a separate entity and has no legal or constructive obligations to pay further contributions if the fund has insufficient assets to pay all employees the benefits relating to service in the current and prior periods, the contributions are recognised as an expense when they are due.

SHARE-BASED PAYMENTS

The Group operates equity-settled share-based compensation plans.

In the case of equity-settled plans the fair value of the employee service is based on the fair value of the equity instruments at the date of grant. This expense is spread over the vesting period of the instrument based on the Group's estimate of the number of shares or options that will eventually vest. The corresponding entry is credited to equity.

In the case of options granted, fair value is measured by an appropriate pricing model.

As permitted by IFRS 1, the Group has adopted IFRS 2 "Share-Based Payment" retrospectively only to equity-settled awards that were granted on or after 7 November 2002 and had not vested as at 1 April 2005.

PROVISIONS

Provisions for disposal and restructuring costs, warranty and product liability, and legal and environmental liability are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

REVENUE RECOGNITION

Turnover is based on invoice values to external customers for goods and services, and is recorded net of value-added tax, rebates and discounts, and after eliminating intra-group sales.

Turnover is recognised when a Group entity has fulfilled its contractual obligations to a customer and has obtained the right to receive consideration. This is usually on despatch but is dependent upon the contractual terms that have been agreed with a customer.

SEGMENTAL ANALYSIS

The Group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from other business segments. A geographical segment is engaged in providing products within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

LEASES

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in non-current assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

DIVIDENDS

Dividend distribution to the Company's shareholders is recognised in the period in which the dividends are paid or are approved by the Company's shareholders, whichever is earlier.

FOREIGN CURRENCIES

Items included in the financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, the functional currency and presentation currency of Chapelthorpe plc.

Foreign currency transactions are translated into the functional currency of Group entities using the exchange rate at the date of transaction. Foreign currency monetary items are translated at the period end rate of exchange. Foreign exchange gains and losses arising from the settlement of transactions and from the translation at year end exchange rates of monetary assets and liabilities are recognised in the income statement, except where deferred in equity as qualifying cash flow or net investment hedges.

The results and net assets of all Group companies that have a non-Sterling functional currency are included in the consolidated financial statements as follows:

(i) assets and liabilities are translated at the exchange rate at the balance sheet date;

(ii) income and expenses are translated at average exchange rates for the relevant period; and

(iii) all resulting exchange differences arising since 1 April 2004 are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of any borrowings designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences arising since 1 April 2004 are recognised in the income statement as part of the gain or loss on sale.

PROPERTY, PLANT AND EQUIPMENT

The Group's policy is to value property, plant and equipment on a cost less depreciation basis.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method, spreading the difference between cost and residual value over the estimated useful life as follows:

Buildings	–	50 years
Plant, machinery and equipment	–	3 to 15 years
Motor vehicles	–	2 to 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see Impairment of assets on page 31).

FINANCIAL INSTRUMENTS

IAS 32 "Financial Instruments: Disclosure and Presentation", and IAS 39 "Financial Instruments: Recognition and Measurement" have been adopted with effect from 1 April 2005. The comparative information for 2005 has been prepared in accordance with the Group's existing UK GAAP accounting policies for financial instruments applicable up to 31 March 2005. Both policies are set out below.

Policy for the year ended 31 March 2005 under UK GAAP

Where foreign currency borrowings were used to hedge the Group's interest in the net assets of foreign operations, the portion of the gain or loss on the borrowings that was determined to be an effective hedge was recognised in shareholders' equity.

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

The rates under contracts, which relate to a specific asset or liability, are used to record the hedged item. In order to comply with IAS 21, in the 2005 comparative, the hedged item is stated at the closing rate of exchange and the difference between the closing and contract rate of exchange for these items is carried separately on the balance sheet.

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

FINANCIAL INSTRUMENTS CONTINUED

IFRS policy

Derivative financial instruments, principally forward foreign exchange contracts and interest rate swaps, are used as hedges in the financing and financial risk management of the Group and are initially measured at cost on the date a derivative contract is entered into and subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of highly probable forecast transactions (cash flow hedge); or
- hedges of net investments in foreign operations.

For cash flow hedges and net investment hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in shareholders' equity, with any ineffective portion recognised in the income statement. For cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. For net investment hedges gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed.

Any gains or losses arising from changes in fair values of derivative financial instruments not designated as hedges are recognised in the income statement in the period that they arise.

PURCHASE OF OWN SHARES

The cost of purchasing own shares held to satisfy obligations under share schemes for employee and executive remuneration schemes is deducted in arriving at shareholders' funds until these shares vest unconditionally in employees.

REVISIONS TO IFRS NOT APPLICABLE AT 31 MARCH 2006

The Group does not consider that any standards or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the above accounting policies, management has made appropriate estimates in a number of areas and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are:

Post-retirement benefits

The Group's defined benefit pension scheme and similar arrangements are assessed annually in accordance with IAS 19. The accounting valuation, which was based on assumptions determined with independent actuarial advice, resulted in a deficit being recognised on the balance sheet at 31 March 2006. The size of the deficit is sensitive to the market value of the assets held by the schemes and to actuarial assumptions, which include inflation, pension and salary increases, the discount rate used in assessing actuarial liabilities, mortality assumptions and the level of contributions. Further details are included in Note 29.

Goodwill

The impairment tests for goodwill are dependent on forecasts of the cash flows of the cash-generating units that give rise to the goodwill and the discount rate applied. Further details are included in Note 10.

2. SEGMENTAL REPORTING

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

At 31 March 2006, the Group is organised on a worldwide basis into three business segments: Fibres, Specialist Coatings and Umbrella Frames.

Year ended 31 March 2006	Fibres £000	Specialist Coatings £000	Umbrella Frames £000	Unallocated £000	Group £000
Continuing operations					
Revenue	**89,216**	**26,113**	**8,329**	**–**	**123,658**
Operating profit (loss) before exceptional items	**2,743**	**1,254**	**(17)**	**(745)**	**3,235**
Exceptional items	**(2,280)**	**(708)**	**(1,336)**	**–**	**(4,324)**
Operating profit (loss)	**463**	**546**	**(1,353)**	**(745)**	**(1,089)**
Net financial expense				**(1,812)**	**(1,812)**
Loss before taxation	**463**	**546**	**(1,353)**	**(2,557)**	**(2,901)**
Taxation					**1,766**
Loss for the period					**(1,135)**
Segment assets	**58,896**	**17,961**	**8,880**	**9,167**	**94,904**
Segment liabilities	**(17,174)**	**(6,732)**	**(1,560)**	**(33,151)**	**(58,617)**
Other segment items					
Capital expenditure	**594**	**359**	**29**	**37**	**1,019**
Depreciation	**3,133**	**702**	**399**	**77**	**4,311**
Impairment of goodwill	**3,000**	**–**	**–**	**–**	**3,000**

Year ended 31 March 2005	Fibres £000	Specialist Coatings £000	Umbrella Frames £000	Unallocated £000	Group £000
Continuing operations					
Revenue	84,294	27,595	10,023	–	121,912
Operating profit (loss) before exceptional items	3,210	1,807	992	(733)	5,276
Exceptional items	–	(6,840)	(469)	(350)	(7,659)
Operating profit (loss)	3,210	(5,033)	523	(1,083)	(2,383)
Net financial expense				(1,485)	(1,485)
Loss before taxation	3,210	(5,033)	523	(2,568)	(3,868)
Taxation					460
Loss for the period					(3,408)
Segment assets	60,516	20,300	10,327	8,557	99,700
Segment liabilities	(15,665)	(6,532)	(2,055)	(38,469)	(62,721)
Other segment items					
Capital expenditure	848	738	199	3	1,788
Depreciation	3,075	666	503	100	4,344

The taxation credit and finance charges have not been allocated to individual segments.

2. SEGMENTAL REPORTING CONTINUED

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS CONTINUED

In the year ended 31 March 2005 there were exceptional costs of £350,000 relating to the Extraordinary General Meeting ("EGM") held on 18 March 2005 which have not been allocated.

Unallocated assets primarily comprise cash, income tax receivable and deferred tax assets as well as those assets which are used for general head office purposes.

Unallocated liabilities primarily comprise interest bearing loans and borrowings, income tax payable, retirement benefit obligations and preference shares as well as liabilities relating to general head office activities.

SECONDARY FORMAT – GEOGRAPHICAL SEGMENTS

The Group operations are based in two main geographical regions being Europe and North America. The UK is the home of the parent. The sales analysis in the table below is based on the location of the customer. Segment assets and capital expenditure are based on the geographical location of assets.

	Revenue		Segment assets		Capital expenditure	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Continuing operations						
Europe	**76,360**	77,548	**62,775**	64,338	**532**	1,598
North America	**41,951**	40,019	**32,129**	35,362	**487**	190
Australasia and Far East	**3,947**	3,655	**–**	–	**–**	–
Rest of the World	**1,400**	690	**–**	–	**–**	–
	123,658	121,912	**94,904**	99,700	**1,019**	1,788

3. ANALYSIS OF NET OPERATING EXPENSES

	2006 £000	2005 £000
Distribution costs	**9,180**	8,631
Administrative expenses	**6,038**	6,404
Other operating income	**(411)**	(435)
Exceptional items (Note 4)	**4,324**	7,659
Net operating expenses	**19,131**	22,259

Other operating income in 2006 includes £301,000 (2005: £373,000) in respect of royalty income from the Russian venture.

4. EXCEPTIONAL ITEMS

	2006 £000	2005 £000
Continuing operations		
European Fibres restructuring	**1,194**	–
Specialist Coatings restructuring	**353**	5,072
Umbrella Frames restructuring	**762**	402
Profit on sale of properties	**(2,181)**	(397)
Costs incurred in connection with ongoing sale of Umbrella Frames business and assets	**574**	464
Provision for onerous lease in Specialist Coatings operation	**622**	–
Goodwill impairment (Note 10)	**3,000**	–
Bad debts incurred in Specialist Coatings division	**–**	1,768
Costs of EGM held on 18 March 2005	**–**	350
	4,324	7,659

Restructuring costs are primarily employee related costs, relocation costs and impairment losses arising on equipment surplus to current requirements.

5. NET FINANCING COSTS

	2006 £000	2005 £000
Interest payable		
Bank loans, overdrafts and short-term facilities	**1,503**	1,645
Preference share dividends	**46**	–
Other interest	**91**	125
	1,640	1,770
Interest receivable		
Bank and other deposits	**(67)**	(59)
Other interest	**(25)**	(161)
	(92)	(220)
Net borrowing costs	**1,548**	1,550
Interest on pension scheme liabilities	**264**	(65)
Net financing costs	**1,812**	1,485
Interest payable	**1,640**	1,770
Interest payable on pension scheme liabilities	**264**	–
Total financial expense	**1,904**	1,770
Interest receivable	**(92)**	(220)
Interest receivable on pension scheme liabilities	**–**	(65)
Total financial income	**(92)**	(285)
Net financing costs	**1,812**	1,485

6. LOSS BEFORE TAXATION

The following items have been included in arriving at loss before taxation:

	2006 £000	2005 £000
Employee benefits expense (Note 28)	**19,014**	20,981
Depreciation of property, plant and equipment:		
– owned assets	**4,303**	4,319
– leased assets	**8**	25
Impairment of goodwill (included in exceptional items in 2006)	**3,000**	–
Profit on disposal of non-current assets (of which £2,181,000 (2005: £397,000) is included in exceptional items)	**(2,194)**	(537)
Operating lease rentals recognised as an expense:		
– plant and machinery	**433**	451
– property	**303**	206

SERVICES PROVIDED BY THE GROUP'S AUDITOR AND NETWORK FIRMS

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2006 £000	2005 £000
Audit services:		
– statutory audit	**173**	168
– IFRS transition work	**40**	–
Tax services:		
– advisory services	**95**	75
Corporate finance advice	**106**	543

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

ANALYSIS OF CREDIT IN THE YEAR

	2006 £000	2005 £000
Current tax		
Corporation tax at 30%	**–**	133
Overseas tax	**605**	(391)
Taxation (over) provided in previous years:		
– UK	**(272)**	(145)
– Overseas	**(227)**	(553)
Total current tax	**106**	(956)
Deferred taxation:		
– current year	**(1,705)**	254
– relating to prior years	**(167)**	242
Tax credit	**(1,766)**	(460)

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

The tax effect in the income statement relating to exceptional items was a credit of £1,467,000.

The tax effect of actuarial gains and losses recorded in the Statement of Recognised Income and Expense in respect of the UK defined benefit pension scheme is disclosed in Note 24.

FACTORS AFFECTING THE TAX CREDIT FOR THE YEAR

	2006 £000	2005 £000
Loss on ordinary activities before taxation	**(2,901)**	(3,868)
Tax on loss on ordinary activities at standard rate of 30% (2005: 30%)	**(870)**	(1,160)
Factors affecting charge:		
Expenses not deductible for tax purposes	**32**	90
Goodwill amortisation	**911**	1,102
Unrelieved losses arising	**–**	869
Profit on sale of non-current assets	**(1,284)**	(171)
Goodwill reinstated	**–**	(1,054)
Losses utilised in the year	**(21)**	–
Other differences	**120**	271
Differing rates of tax on overseas earnings	**12**	49
Adjustments to tax charge in respect of previous years	**(666)**	(456)
Tax credit	**(1,766)**	(460)

8. DIVIDENDS

DIVIDENDS PAID AND PROPOSED

	2006 £000	2005 £000
Declared and paid during the period		
Equity dividends on ordinary shares:		
Final dividend for 2004/05: 0.77 pence (2003/04: 0.70 pence)	**1,571**	1,428
Interim dividend for 2005/06: 0.33 pence (2004/05: 0.33 pence)	**673**	673
Dividends waived by the Chapelthorpe Trust	**(46)**	(39)
	2,198	2,062
Proposed for approval by shareholders at the AGM		
Final ordinary dividend for 2005/06: 0.77 pence (2004/05: 0.77 pence)	**1,571**	1,571
Dividends paid on preference shares (non-equity shares)	**–**	46

Following the reclassification of preference shares as other financial liabilities with effect from 1 April 2005, preference share dividends are recorded as a finance cost when paid (Note 5).

9. BASIC AND DILUTED (LOSS) EARNINGS PER ORDINARY SHARE

Basic (loss) earnings per share is calculated by dividing the loss or earnings attributable to shareholders by the weighted average number of ordinary shares in issue during the period, excluding those held in the Employee Benefit Trust.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. The potential dilutive ordinary shares relate to those options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares at the balance sheet date. At 31 March 2006 the potential dilutive ordinary shares amounted to Nil (2005: Nil).

	Basic and diluted (loss) per share		Basic and diluted earnings before exceptionals per share	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Loss for the financial year	**(1,135)**	(3,408)	**(1,135)**	(3,408)
Dividends on preference shares	**–**	(46)	**–**	(46)
Exceptional items	**–**	–	**4,324**	7,659
Tax effect of exceptional items	**–**	–	**(1,467)**	(1,244)
(Loss) earnings attributable to ordinary shareholders	**(1,135)**	(3,454)	**1,722**	2,961
Weighted average number of ordinary shares in issue during the year (000's)	**199,776**	199,665	**199,776**	199,665
Basic and diluted (loss) earnings per ordinary share (pence)	**(0.57)**	(1.73)	**0.86**	1.48

The effect of the exceptional items on the earnings per share in 2006 was a loss of 1.43 pence (2005: 3.21 pence).

10. GOODWILL

	£000
Cost	
At 1 April 2005	19,126
Exchange adjustments	192
At 31 March 2006	**19,318**
Amortisation and impairment	
At 1 April 2005	7,044
Impairment charged during the year	3,000
At 31 March 2006	**10,044**
Net book value	
At 31 March 2006	**9,274**
At 31 March 2005	12,082
Cost	
At 1 April 2004	18,929
Exchange adjustments	197
At 31 March 2005	19,126
Amortisation and impairment	
At 1 April 2004	7,044
Impairment charged during the year	—
At 31 March 2005	7,044
Net book value	
At 31 March 2005	12,082
At 31 March 2004	11,885

10. GOODWILL CONTINUED

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGU") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	31 March 2006 £000	31 March 2005 £000
Fibres		
Drake Extrusion Limited (single CGU)	**2,193**	2,193
Asota GmbH (single CGU)	**3,607**	3,512
Drake Extrusion Inc (single CGU)	**901**	804
	6,701	6,509
Specialist Coatings		
Speciality Coatings (Darwen) Limited	**5,573**	5,573
	12,274	12,082

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to gross margins during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based upon approved budgets and management's assessment of each specific market growth rate. Changes in gross margins are based on past experience and expectations of future changes in direct costs (primarily raw materials) and selling prices.

The Group prepares cash flow forecasts derived from the most recent approved budgets and extrapolates these cash flows using estimated growth rates as follows:

Fibres – 3% per annum

Specialist Coatings – no growth

The rate used to discount the forecast cash flows of all activities is 10.3%. The discount rate is based upon the risk free rate for government bonds adjusted for a risk premium to reflect the increased risk of investing in equities and investing in the Group's specific sectors.

At 31 March 2005, before impairment testing, goodwill of £3,512,000 was allocated to Asota GmbH within the Fibres division. Due to a reduction in gross margins following a period of escalating raw material prices, the Group has revised its cash flow forecasts for this CGU. The carrying value of goodwill in respect of the acquisition of Asota GmbH has, therefore, been reduced to its recoverable amount through the recognition of an impairment loss against goodwill of £3,000,000.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 April 2005	19,123	73,861	92,984
Exchange adjustments	552	3,349	3,901
Additions	434	585	1,019
Disposals	(4,623)	(9,408)	(14,031)
Reclassification to current assets	(3,056)	–	(3,056)
At 31 March 2006	**12,430**	**68,387**	**80,817**
Accumulated depreciation and impairment			
At 1 April 2005	4,477	47,252	51,729
Exchange adjustments	97	1,984	2,081
Charge for the year	380	3,931	4,311
Impairment loss recognised in income statement	–	584	584
Disposals	(1,452)	(9,240)	(10,692)
Reclassification to current assets	(877)	–	(877)
At 31 March 2006	**2,625**	**44,511**	**47,136**
Net book value			
At 31 March 2006	**9,805**	**23,876**	**33,681**
At 31 March 2005	14,646	26,609	41,255
Cost			
At 1 April 2004	20,229	73,845	94,074
Exchange adjustments	17	(347)	(330)
Additions	60	1,728	1,788
Disposals	(280)	(1,365)	(1,645)
Reclassification to current assets	(903)	–	(903)
At 31 March 2005	19,123	73,861	92,984
Accumulated depreciation and impairment			
At 1 April 2004	4,329	41,441	45,770
Exchange adjustments	9	(76)	(67)
Charge for the year	466	3,878	4,344
Impairment loss recognised in income statement	–	3,282	3,282
Disposals	(90)	(1,273)	(1,363)
Reclassification to current assets	(237)	–	(237)
At 31 March 2005	4,477	47,252	51,729
Net book value			
At 31 March 2005	14,646	26,609	41,255
At 31 March 2004	15,900	32,404	48,304

The Group's property at Penistone, South Yorkshire, with a net book value of £2,179,000 has been reclassified as an asset held for resale and accordingly is included within current assets (Note 15).

The Group's Canadian property, with a net book value of £666,000, was reclassified as an asset held for resale in the year to 31 March 2005 and accordingly was included within current assets (Note 15) as at 31 March 2005. This asset was subsequently sold in February 2006.

The impairment provision charged in the year to 31 March 2006 relates to the write down to net realisable value of fixed assets included in the restructuring of the Fibres and Umbrella Frames divisions.

The impairment provision charged in the year to 31 March 2005 relates to the write down to net realisable value of fixed assets included in the restructuring within the Specialist Coatings division.

11. PROPERTY, PLANT AND EQUIPMENT CONTINUED

The net book value of land and buildings comprises:

	2006 £000	2005 £000
Freeholds	**9,416**	14,208
Short leaseholds	**389**	438
	9,805	14,646

	2006 £000	2005 £000
Net book value of assets subject to finance leases	**29**	–
Capital expenditure commitments	**148**	6

The Group has pledged all of its land and buildings and plant and equipment, with the exception of those assets subject to finance leases, to secure banking facilities granted to the Group.

12. OTHER NON-CURRENT ASSETS

Other non-current assets relate to a Euro denominated term deposit held by the Austrian subsidiary in line with its statutory requirement to hold a specific proportion of its leaving indemnity liabilities in such funds.

13. INVENTORIES

	2006 £000	2005 £000
Raw materials and consumable stores	**5,535**	5,628
Work in progress	**1,260**	971
Finished products	**8,230**	7,467
	15,025	14,066

Inventories with a carrying amount of £10,164,000 (2005: £10,115,000) have been pledged as security for certain of the Group's bank facilities.

During both the current and previous year, inventory was carried at cost less appropriate provisions as this did not exceed the fair value less cost to sell. Write downs of inventory occur regularly in the general course of business and the amounts are considered insignificant. These are included in cost of sales in the income statement.

14. TRADE AND OTHER RECEIVABLES

	2006 £000	2005 £000
Amounts falling due within one year		
Trade receivables	**25,117**	23,346
Less provision for impairment	**(1,005)**	(1,158)
Trade receivables – net	**24,112**	22,188
Other receivables	**757**	1,092
Prepayments and accrued income	**872**	679
	25,741	23,959

An allowance has been made for estimated irrecoverable amounts from trade receivables. This allowance has been determined by reference to current circumstances and to past default experience.

The Directors consider that the carrying amount of trade receivables approximates their fair value.

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

15. FREEHOLD PROPERTY HELD FOR RESALE

Shareholder approval has been given for the sale of the Penistone property of Hoyland Fox Limited and a conditional sale contract was entered into with Cala Land Investments Limited. However, the property cannot be sold until it has been vacated and the business relocated to new premises. The property, with a net book value of £2,179,000, has therefore been reclassified from non-current assets to current assets.

At 31 March 2005 the Group's Canadian property, with a net book value of £666,000, was classified as a property held for resale. It was subsequently sold in February 2006.

16. TRADE AND OTHER PAYABLES

	2006 £000	2005 £000
Trade payables	**18,968**	18,430
Other taxes and social security costs	**864**	565
Other payables	**718**	785
Accruals and deferred income	**2,865**	3,265
	23,415	23,045

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates their fair value.

17. OTHER FINANCIAL ASSETS AND LIABILITIES

OTHER FINANCIAL INSTRUMENTS

Details of the Group's policies and procedures relating to the use of financial instruments are given in Note 1 in the accounting policies on pages 33 and 34. In accordance with the option allowed by IFRS 1 "First-Time Adoption of International Financial Reporting Standards", the Group has implemented IAS 32 "Financial Instruments: Disclosure and Presentation", and IAS 39 "Financial Instruments: Recognition and Measurement", from 1 April 2005.

The values of other financial assets and liabilities held by the Group at 31 March 2006 are as follows:

	Total £000	Foreign exchange contracts £000	Interest rate contracts £000	Preference shares £000
Non-current assets	11	11	–	–
Current assets	86	78	8	–
Current liabilities	(73)	(65)	(8)	–
Non-current liabilities	(800)	–	–	(800)
	(776)	24	–	(800)

The Group uses various financial instruments to manage its exposure to movements in foreign exchange rates and swaps to manage its exposure to movements in interest rates. Foreign exchange contracts mature over the period to 30 September 2007. Interest rate swaps expire on 29 December 2006.

17. OTHER FINANCIAL ASSETS AND LIABILITIES CONTINUED

OTHER FINANCIAL INSTRUMENTS CONTINUED

The Group has Euro denominated borrowings which it has designated as a hedge of the net investment in its subsidiary in Austria. The fair value of the Euro borrowings at 31 March 2006 was £2,287,000 (2005: £2,256,000). The foreign exchange loss of £31,000 (2005: £76,000) on translation of the borrowings into Sterling has been recognised in the foreign currency translation reserve.

Preference shares

	Authorised		Allotted and fully paid	
	Number	£000	Number	£000
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
At 1 April 2005 and 31 March 2006		800		800

Profits of the Company to be distributed by way of a 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.

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

Holders of the First Preference Shares and 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.

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.

17. OTHER FINANCIAL ASSETS AND LIABILITIES CONTINUED

FINANCIAL INSTRUMENTS

The principal financial risks to which the Group is exposed are foreign currency exchange rate risk and interest rate risk. The Board has approved policies for the management of these risks.

In accordance with the option allowed by IFRS 1 "First-Time Adoption of International Financial Reporting Standards", the Group has implemented IAS 32 "Financial Instruments: Disclosure and Presentation", and IAS 39 "Financial Instruments: Recognition and Measurement", prospectively from 1 April 2005, and consequently information for 2005/06 is provided on this basis. For 2004/05, information has been provided on the previously published basis under UK GAAP.

RISK MANAGEMENT POLICIES AND HEDGING ACTIVITIES

Foreign currency exchange rate risk

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 the Group is subject to the risk of currency fluctuation, particularly the US Dollar.

Interest rate risk

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

Liquidity risk

Borrowing facilities are monitored against the Group's forecast requirements and it is the Group's policy to mitigate risk by staggering the maturity of borrowings and by maintaining undrawn committed facilities, principally overdrafts.

Credit risk

The Group is exposed to credit risk to the extent of non-payment by either its customers or the counterparties of its financial instruments. The Group has credit policies covering both trading and financial exposures.

DERIVATIVE FINANCIAL INSTRUMENTS

Set out below is a comparison by category of book values and fair values of the Group's derivative financial assets and liabilities at 31 March 2006, all of which are designated as cash flow hedges:

	Book value £000	Fair value £000
Non-current assets		
Foreign exchange contracts	11	11
Current assets		
Foreign exchange contracts	78	78
Interest rate contracts	8	8
Current liabilities		
Foreign exchange contracts	(65)	(65)
Interest rate contracts	(8)	(8)
	24	24

17. OTHER FINANCIAL ASSETS AND LIABILITIES 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:

	2006		2005	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Non-current assets				
Investments	**569**	**569**	561	561
Derivative financial assets	**11**	**11**	–	–
Current assets				
Cash at bank and in hand	**8,133**	**8,133**	5,187	5,187
Trade and other receivables	**24,869**	**24,869**	–	–
Derivative financial assets	**86**	**86**	–	–
Current liabilities				
Trade and other payables	**(20,550)**	**(20,550)**	–	–
Borrowings	**(9,303)**	**(9,308)**	(8,229)	(8,254)
Derivative financial liabilities	**(73)**	**(73)**	–	–
Non-current liabilities				
Borrowings	**(14,078)**	**(14,078)**	(16,671)	(16,651)
Preference shares	**(800)**	**(800)**	(800)	(800)
Provisions and other liabilities	**(1,546)**	**(1,546)**	(1,317)	(1,317)

Investments – these comprise Euro denominated term deposits that receive interest based on the Eurozone base rate. Fair value approximates to book value.

Trade and other receivables, trade and other payables – fair values are assumed to approximate to cost due to the short-term maturity of the instruments.

Borrowings and provisions and other liabilities – fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

The book values and fair values of financial instruments at 31 March 2005 are provided on the previously published basis under UK GAAP. Short-term debtors and short-term creditors (except borrowings, overdrafts and finance leases) have been excluded from the disclosure.

The net fair value losses at 31 March 2006 on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales are £15,000. These will be transferred to the income statement when the forecast sales occur over the period to September 2007.

17. OTHER FINANCIAL ASSETS AND LIABILITIES CONTINUED

MATURITY OF FINANCIAL LIABILITIES

The maturity profile of the Group's financial liabilities at 31 March 2006 was as follows:

	Total		Debt		Finance leases		Provisions and other liabilities	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
In one year or less, or on demand	**9,707**	8,577	**9,285**	8,229	**18**	–	**404**	348
In more than one year but not more than two years	**7,298**	2,903	**7,000**	2,671	**–**	–	**298**	232
In more than two years but not more than five years	**7,595**	14,578	**7,078**	14,000	**–**	–	**517**	578
In more than five years	**1,127**	959	**800**	800	**–**	–	**327**	159
	25,727	27,017	**24,163**	25,700	**18**	–	**1,546**	1,317

Debt of £800,000 with a maturity of more than five years represents the Group's preference shares.

BORROWING FACILITIES

The Group has various undrawn committed facilities which are at floating rates of interest. The facilities available at 31 March 2006 in respect of which all conditions precedent had been met were as follows:

	2006 £000	2005 £000
Expiring in one year or less	**10,024**	14,190

The minimum lease payments under finance leases fall due in one year or less.

18. BORROWINGS

	2006 £000	2005 £000
Bank overdrafts (unsecured)	**1,779**	1,235
Bank overdrafts (secured)	**4,835**	4,322
Bank loans (secured)	**16,749**	19,343
Obligations under finance leases	**18**	–
	23,381	24,900
Repayable:		
– on demand or within one year	**9,303**	8,229
– between one and five years	**14,078**	16,671
	23,381	24,900
Less amounts due for settlement within 12 months (shown under current liabilities)	**(9,303)**	(8,229)
Amount due for settlement after 12 months	**14,078**	16,671
The Group has the following loans outstanding:		
UK bank loan repayable by ten semi-annual instalments of £1,000,000 commencing 30 September 2004	**6,000**	8,000
UK revolving bank loan denominated in Sterling, Euro and US Dollar reducing by £5,000,000 on 31 March 2008 and the balance on 31 March 2009	**10,078**	10,000
Austrian bank loans repayable by an instalment of €487,000 on 1 July 2006 and a final instalment of €472,000 on 1 January 2007	**671**	1,343
	16,749	19,343

18. BORROWINGS CONTINUED

In the event of the Group completing the sale of its Penistone site it will be required to repay £8,600,000 first to the UK term loan and then to the revolving bank loan.

The UK loans carry interest at LIBOR, with the exception of the Euro element of the revolving bank loan, which carries interest at EURIBOR. At 31 March 2006, the Euro element of the revolving bank loan amounted to £2,287,000 and the US Dollar element of the revolving bank loan amounted to £1,457,000.

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 7.09% per annum. This agreement was cancelled on 26 October 2005 and replaced by an interest rate swap agreement covering £6,000,000 of the UK loan, commencing on the same date and terminating on 29 December 2006 at a rate of 6.77% per annum. The Group also entered into swap agreements covering €1,400,000 and $4,800,000 of the revolving bank loan to 29 December 2006 at rates of 5.17% and 4.96% respectively. These agreements were cancelled on 26 October 2005 and replaced by an interest rate swap agreement covering €3,270,000 of the revolving bank loan, commencing on the same date and terminating on 29 December 2006 at a rate of 4.65%.

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

Certain bank overdrafts are secured against the assets of the relevant Group companies.

Obligations under finance leases are secured against the related leased assets.

The Austrian loans consist of two loan accounts, one of €320,000 which carries interest based on six month EURIBOR and is secured on the freehold property of Asota GmbH and the other of €639,000 which carries a fixed rate of interest of 4.9% to January 2007 and is secured over certain plant and machinery and buildings of Asota.

The carrying amount of the Group's borrowings is denominated in the following currencies:

	2006 £000	2005 £000
Sterling	**12,794**	14,610
Euro	**9,130**	9,052
US Dollar	**1,457**	1,238
	23,381	24,900

19. PROVISIONS

	Total £000	Provision for vacant lease £000	Provision for environmental liabilities £000
At 1 April 2004	1,717	1,527	190
Exchange adjustment	(4)	—	(4)
Charged during the year	131	131	—
Utilised	(527)	(433)	(94)
At 31 March 2005	1,317	1,225	92
Exchange adjustment	7	—	7
Charged during the year	622	622	—
Utilised	(400)	(377)	(23)
At 31 March 2006	**1,546**	**1,470**	**76**

The provision for the vacant lease relates to a commitment in respect of vacant leasehold premises in the Specialist Coatings division.

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

20. DEFERRED TAXATION

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005: 30%).

	Total		Deferred tax asset		Deferred tax liability	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
At 1 April	**(5,716)**	(5,550)	**1,303**	1,140	**(7,019)**	(6,690)
Amount charged to income statement	**1,872**	(496)	**(9)**	(39)	**1,881**	(457)
Amount credited/charged to statement of recognised income and expense	**(1,294)**	202	**(1,294)**	202	**–**	–
Exchange movements	**(483)**	128	**–**	–	**(483)**	128
At 31 March	**(5,621)**	(5,716)	**–**	1,303	**(5,621)**	(7,019)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

The analysis of the deferred tax position is as follows:

	Potential liability 2006 £000	**Amount provided 2006 £000**	Potential liability 2005 £000	Amount provided 2005 £000
Accelerated capital allowances	**5,750**	**5,750**	7,288	7,288
Other temporary differences	**(258)**	**(258)**	(301)	(301)
Pensions and other post-retirement benefits	**–**	**–**	(1,303)	(1,303)
Losses	**(160)**	**(160)**	(233)	(233)
Unremitted earnings	**289**	**289**	265	265
	5,621	**5,621**	5,716	5,716

Deferred tax assets for unused losses are only recognised to the extent that there is sufficient evidence that these assets will be recoverable. A deferred tax asset of £1,017,000 has not been recognised in relation to the retirement benefit liabilities as there is insufficient evidence that this asset will be recoverable.

Deferred tax asset balances for capital losses in the UK amounting to £1,616,000 have not been recognised but would be available in the event of future capital gains being incurred by the Group. A deferred tax asset of £619,000 has not been recognised in relation to the conditional sale of the Penistone property.

The Group has recognised a £289,000 deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries based upon estimates of the remittances in the foreseeable future.

21. OPERATING LEASE COMMITMENTS

At the balance sheet date, future minimum commitments under non-cancellable operating leases due over the life of the lease are as follows:

	Land and buildings		Other	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Leases which expire:				
– within 1 year	**10**	45	**50**	99
– within 2 to 5 years	**84**	–	**817**	673
– after 5 years	**8,715**	2,662	**–**	–
	8,809	2,707	**867**	772

22. CONTINGENT LIABILITIES

At 31 March 2006 Group guarantees to third parties and other contingent liabilities amounted to £143,000 (2005: £141,000). The Group was released from this guarantee on 19 April 2006.

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 2006 amounted to £14,341,000 (2005: £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 18.

23. 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
At 31 March 2006		**12,900**		**10,202**
At 31 March 2005		12,900		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
At 31 March 2005		800		800
Total share capital at 31 March 2006		**12,900**		**10,202**
Total share capital at 31 March 2005		13,700		11,002

Preference shares were reclassified as other financial liabilities with effect from 1 April 2005.

24. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £000	Share premium reserve £000	Cash flow hedging reserve £000	Foreign currency translation reserve £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance at 1 April 2004	11,002	1,251	–	–	487	30,737	43,477
Loss for the period	–	–	–	–	–	(3,408)	(3,408)
Currency translation adjustments	–	–	–	(335)	–	–	(335)
Acquisition of own shares by employee benefit trust	–	–	–	–	–	(210)	(210)
Employee share schemes	–	–	–	–	–	35	35
Actuarial losses on pension scheme	–	–	–	–	–	(674)	(674)
Deferred tax on actuarial losses	–	–	–	–	–	202	202
Dividends	–	–	–	–	–	(2,108)	(2,108)
Balance at 31 March 2005	11,002	1,251	–	(335)	487	24,574	36,979
Adjustment in respect of adoption of IAS 32 and IAS 39 (Note 32)	(800)	–	99	–	–	(50)	(751)
Balance at 1 April 2005	10,202	1,251	99	(335)	487	24,524	36,228
Loss for the period	–	–	–	–	–	(1,135)	(1,135)
Hedging reserve transfers	–	–	(114)	–	–	–	(114)
Currency translation adjustments	–	–	–	1,922	–	–	1,922
Employee share schemes	–	–	–	–	–	108	108
Actuarial gains on pension scheme	–	–	–	–	–	2,770	2,770
Deferred tax on actuarial gains	–	–	–	–	–	(1,294)	(1,294)
Ordinary dividends	–	–	–	–	–	(2,198)	(2,198)
Balance at 31 March 2006	**10,202**	**1,251**	**(15)**	**1,587**	**487**	**22,775**	**36,287**

Goodwill arising prior to 1998/99 of £36,887,000 in aggregate has been charged against Group reserves.

24. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY CONTINUED

CASH FLOW HEDGING RESERVE

The cash flow hedging reserve is used to record the portion of the gains or losses on hedging instruments used as cash flow hedges that are determined to be effective.

FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

CAPITAL REDEMPTION RESERVE

The capital redemption reserve was created in the year ended 31 March 2001 in connection with a purchase of own shares by the Company.

25. CASH GENERATED FROM OPERATIONS

		2006 £000	2005 £000
Operating loss		**(1,089)**	(2,383)
Depreciation		**4,311**	4,344
Charge in respect of employee share scheme		**108**	35
Profit on sale of fixed assets (excluding properties)		**(13)**	(140)
Working capital:			
– increase in inventories		**(619)**	(367)
– (increase) decrease in debtors		**(1,274)**	3,453
– increase (decrease) in creditors		**193**	(2,092)
(Decrease) increase in provisions		**(23)**	23
(Decrease) increase in retirement benefit obligations		**(216)**	34
Cash generated from operations before exceptional items		**1,378**	2,907
Exceptional items:			
– Restructuring	– amount recognised in period	**2,309**	5,474
	– amount paid in period	**(1,559)**	(1,363)
– Bad debts suffered	– amount recognised in period	**–**	1,768
– Costs of EGM held on 18 March 2005			
	– amount recognised in period	**–**	350
	– amount paid in period	**(350)**	–
– Profit on sale of properties	– amount recognised in period	**(2,181)**	(397)
– Future costs of vacant leasehold property			
	– amount recognised in period	**622**	–
	– amount paid in period	**(474)**	(433)
– Impairment of goodwill in European Fibres			
	– amount recognised in period	**3,000**	–
– Costs incurred in connection with ongoing sale of Umbrella Frames business and assets			
	– amount recognised in period	**574**	464
	– amount paid in period	**(808)**	(200)
Cash generated from operations		**2,511**	8,570

26. RECONCILIATION TO NET DEBT

	2006 £000	2005 £000
Increase in cash in the year	**1,704**	2,970
Decrease in debt and finance leasing	**2,649**	337
Change in net debt from cash flows	**4,353**	3,307
Exchange adjustments	**112**	(354)
Movement in net debt in the year	**4,465**	2,953
Net debt at 1 April	**(19,713)**	(22,666)
Net debt at 31 March	**(15,248)**	(19,713)

27. ANALYSIS OF NET DEBT

	1 April 2005 £000	Cash flow £000	Other non-cash £000	Exchange movement £000	**31 March 2006 £000**
Cash at bank and in hand	5,187	2,685	–	261	**8,133**
Overdrafts and short-term facilities	(5,557)	(981)	–	(76)	**(6,614)**
	(370)	1,704	–	185	**1,519**
Debt due after 1 year	(16,671)	–	2,670	(77)	**(14,078)**
Debt due within 1 year	(2,672)	2,667	(2,670)	4	**(2,671)**
Finance leases	–	18	(36)	–	**(18)**
	(19,343)	2,685	(36)	(73)	**(16,767)**
Total	(19,713)	4,389	(36)	112	**(15,248)**

28. EMPLOYEES

	2006 £000	2005 £000
Employee costs (including Directors):		
Wages and salaries	**15,135**	16,973
Social security costs	**2,736**	2,823
Other pension costs	**1,143**	1,185
	19,014	20,981

KEY MANAGEMENT COMPENSATION

	2006 £000	2005 £000
Salaries	**535**	626
Social security costs	**65**	77
Pension contributions	**215**	104
	815	807

Salaries include pension bonuses paid to two Directors (total £29,000) in the year ending 31 March 2005. Key management compensation includes the emoluments of the Executive and Non-executive Directors (which are disclosed separately in the Board Report on Remuneration).

28. EMPLOYEES CONTINUED

The average number of employees during the year was:

	2006 Number	2005 Number
Fibres	**435**	467
Specialist Coatings	**76**	104
Umbrella Frames	**136**	224
	647	795

29. RETIREMENT BENEFIT OBLIGATIONS

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. In addition, in Austria, there are leaving indemnities which represent a defined benefit on retirement. All other pension schemes operated by the Group are of the defined contribution type and consist of schemes in the UK, Austria and the US. The assets of all the schemes are held in separate trustee-administered funds.

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. A full actuarial valuation was carried out at 5 April 2005 and updated to 31 March 2006.

PRINCIPAL ACTUARIAL ASSUMPTIONS

UK Scheme

The principal actuarial assumptions used at the balance sheet date were as follows:

	2006	2005
Discount rate	**5.05%**	5.50%
Expected return on assets	**5.60%**	6.07%
Inflation rate	**2.95%**	2.90%
Increases to deferred benefits during deferment	**2.95%**	2.90%
Future pensions increases	**2.50%**	2.60%
Salary increases	**3.45%**	3.40%
Mortality assumptions:		
Current male pensioners	**PMA92**	PMA80c2002
Current female pensioners	**PFA92**	PFA80c2002
Non-pensioner males	**PMA92c2020**	PMA80c2012
Non-pensioner females	**PFA92c2020**	PFA80c2012

Where investments are held in bonds and cash, the expected long-term rate of return is taken to be the yields generally prevailing on such assets at the balance sheet date. A higher rate of return is expected on equity investments, which is based more on realistic future expectations than on the returns that have been available historically. The overall expected long-term rate of return on assets is then the average of these rates taking into account the underlying asset portfolio of the pension plan.

It was recommended that employer contributions should be 13.0% of gross earnings, plus one payment of £20,000 followed by 23 monthly payments of £10,000 commencing in April 2006.

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.

Austrian Scheme

The principal actuarial assumptions used at the balance sheet date were as follows:

	2006 % per annum	2005 % per annum
Discount rate	**4.75**	5.50
Salary increases	**2.50**	2.50

29. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

CATEGORIES OF SCHEME ASSETS

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2006 %	2005 %
UK Scheme		
Equities	**36.3**	35.6
Bonds	**63.6**	64.4
Cash	**0.1**	–

AMOUNTS RECOGNISED IN THE BALANCE SHEET

	2006 £000	2005 £000	2004 £000
UK Scheme			
Present value of pension obligation	**52,184**	50,343	48,500
Fair value of scheme assets	**50,641**	46,000	44,700
Net liability	**(1,543)**	(4,343)	(3,800)
Austrian Scheme			
Gross liability	**(1,848)**	(1,742)	(1,614)
Total	**(3,391)**	(6,085)	(5,414)

The Group also holds £569,000 (2005: £561,000) of term deposits included in other non-current assets (Note 12) in relation to the Austrian Scheme gross liability.

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	UK Scheme 2006 £000	UK Scheme 2005 £000
Current service cost	**482**	694
Interest on pension scheme liabilities	**2,681**	2,612
Expected return on pension scheme assets	**(2,505)**	(2,677)
Past service cost	**332**	–
Curtailment gains	**(46)**	–
Total included in the income statement	**944**	629

The net of "interest on pension scheme liabilities" and "expected return on pension scheme assets" in the above table amounting to a charge of £176,000 (2005: credit of £65,000) has been included within "interest on pension scheme liabilities" in net financing costs (Note 5). All other amounts are included in operating costs.

The actual return on the UK Scheme assets was £7,770,000 (2005: £3,469,000).

AMOUNTS RECOGNISED IN THE STATEMENT OF RECOGNISED INCOME AND EXPENSE

The total amount of actuarial gains (losses) recognised in the Statement of Recognised Income and Expense in the year in respect of the UK Scheme was a gain of £2,770,000 (2005: loss of £674,000).

The cumulative amount of actuarial gains (losses) recognised in the Statement of Recognised Income and Expense at the year end in respect of the UK Scheme was a gain of £2,096,000 (2005: loss of £674,000).

29. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION

	UK Scheme 2006 £000	UK Scheme 2005 £000
Defined benefit obligation at start of year	**50,343**	48,500
Current service cost	**482**	694
Contributions by employees	**251**	314
Interest cost	**2,681**	2,612
Actuarial gains	**(3,863)**	–
Benefits paid	**(4,163)**	(3,243)
Curtailment gains	**(46)**	–
Past service cost	**332**	–
Changes in assumptions	**6,167**	1,466
Defined benefit obligation at end of year	**52,184**	50,343

CHANGES IN THE FAIR VALUE OF SCHEME ASSETS

	UK Scheme 2006 £000	UK Scheme 2005 £000
Fair value of assets at start of year	**46,000**	44,700
Expected return on assets	**2,505**	2,677
Actuarial gains	**5,074**	792
Contributions by employer	**974**	760
Contributions by employees	**251**	314
Benefits paid	**(4,163)**	(3,243)
Fair value of assets at end of year	**50,641**	46,000

None of the UK Scheme's assets were invested in Chapelthorpe plc or property occupied by Chapelthorpe plc.

AMOUNTS FOR THE CURRENT AND PREVIOUS TWO PERIODS

UK Scheme	**2006 £000**	2005 £000	2004 £000
Defined benefit obligation	**(52,184)**	(50,343)	(48,500)
Scheme assets	**50,641**	46,000	44,700
Deficit	**(1,543)**	(4,343)	(3,800)
Experience gains on plan liabilities	**3,863**	–	–
Experience gains on plan assets	**5,074**	792	3,900

30. SHARE-BASED PAYMENTS

The Group operated the following share-based payment plans during the year.

1998 PERFORMANCE RELATED SHARE PLAN

This plan involves the award of shares to participants subject to performance conditions. Vesting of the shares is based on the achievement of certain specified performance criteria, which are detailed in the Board Report on Remuneration.

INVESTED BONUS SHARE PLAN 1997

Awards made under this plan require employees to invest half of their post-tax bonus in ordinary shares of Chapelthorpe plc. The vesting of the award shares is not dependent on the achievement of performance conditions other than that the participant remains an employee of the Group throughout the vesting period and that he retains his invested shares throughout that period. Half of the award shares vest three years after the date of the award and the remaining award shares vest five years after the date of the award.

EXECUTIVE SHARE OPTION SCHEME 1994 AND 1996 PARALLEL EXECUTIVE SHARE OPTION SCHEME

No new options can be granted under these schemes. Remaining options are exercisable in the event that certain performance criteria are achieved over a relevant three year performance period, as described in the Board Report on Remuneration.

EXECUTIVE SHARE OPTION PLAN 2004

No options have been granted under this scheme to date. The performance criteria that will attach to such options are described in the Board Report on Remuneration.

SAVINGS RELATED SHARE OPTION SCHEME 1994 AND SAVINGS RELATED SHARE OPTION SCHEME 2004

The final options under the 1994 scheme expired in the year and no options have yet been granted under the 2004 scheme.

Under the 2004 scheme eligible employees may be granted share options with an exercise price of up to 20% below the share price when the three or five year savings contract is entered into. Vesting of the option is not subject to the achievement of a performance target.

The following options and awards were outstanding at 31 March 2006:

Category		Date of grant	Number of options/ awards	Exercise price (pence)	Exercise period
Options					
	1994 Executive Scheme				
A		03/06/96	166,200	61.00	June 1999 – June 2006
B		21/06/99	240,000	34.50	June 2002 – June 2009
C		16/09/99	74,000	40.50	September 2002 – September 2009
D		26/06/00	253,000	30.75	June 2003 – June 2010
	Parallel Scheme				
E		21/06/99	110,000	34.50	June 2002 – June 2006
F		26/06/00	242,000	30.75	June 2003 – June 2007
Awards					
	1998 Performance Related Share Plan				
G		23/12/03	1,416,982	Nil	From April 2006
H		11/06/04	1,346,464	Nil	From April 2007
I		22/12/05	1,686,523	Nil	From April 2008
	Invested Bonus Share Plan 1997				
J		16/07/01	116,672	Nil	From July 2004
K		26/07/02	17,742	Nil	From July 2005
L		31/07/03	1,325,203	Nil	From July 2006
M		28/06/04	993,215	Nil	From June 2007

In accordance with the transitional provisions of IFRS 2 the Group has recognised an expense in respect of all grants under the above plans made after 7 November 2002 and unvested at 1 April 2005. The expense recognised by the Group in the year ended 31 March 2006 was £108,000 (2005: £35,000).

30. SHARE-BASED PAYMENTS CONTINUED

The movement in options and awards under the Group's various share plans in the year was as follows:

	Number of options/awards 2006	2005
1994 Executive Scheme		
Outstanding at beginning of year	**800,600**	800,600
Expired during the year	**(67,400)**	–
Outstanding at end of year	**733,200**	800,600
1994 Savings Related Scheme		
Outstanding at beginning of year	**278,721**	566,574
Expired during the year	**(278,721)**	(287,853)
Outstanding at end of year	**–**	278,721
Parallel Scheme		
Outstanding at beginning of year	**762,000**	762,000
Forfeited during the year	**(25,000)**	–
Expired during the year	**(385,000)**	–
Outstanding at end of year	**352,000**	762,000
1998 Performance Related Share Plan		
Outstanding at beginning of year	**4,220,092**	3,752,375
Granted during the year	**1,686,523**	1,346,464
Expired during the year	**(1,456,646)**	(878,747)
Outstanding at end of year	**4,449,969**	4,220,092
Invested Bonus Share Plan 1997		
Outstanding at beginning of year	**2,596,287**	2,058,553
Granted during the year	**–**	993,215
Vested during the year	**(143,455)**	(455,481)
Outstanding at end of year	**2,452,832**	2,596,287

Options granted under the 1994 Executive Scheme, 1994 Savings Related Scheme and the Parallel Scheme were all made prior to 7 November 2002 and consequently under the transitional provisions of IFRS 2 no expense has been recognised in the profit and loss account. No fair value of these options has therefore been assessed.

The fair values of shares awarded under the 1998 Performance Related Share Plan and the Invested Bonus Share Plan 1997 are calculated using the market value of shares at the time of the award. An estimate is made of the number of shares that will eventually vest and the expense is spread on a straight line basis over the vesting period of the award.

The assumptions used in the calculation are as follows:

	1998 Performance Related Share Plan			Invested Bonus Share Plan 1997			
Grant date	23/12/03	11/06/04	22/12/05	16/07/01	26/07/02	31/07/03	28/06/04
Share price at grant date	17.25p	19.75p	12.0p	12.0p	8.25p	11.00p	19.75p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Shares awarded and outstanding	1,416,982	1,346,464	1,686,523	116,672	17,742	1,325,203	993,215
Vesting period (years)	3	3	3	5	5	5	5
Possibility of ceasing employment before vesting	0%	0%	0%	0%	0%	0%	0%
Expectations of meeting performance criteria	0%	0%	30%	100%	100%	100%	100%

31. IFRS ADJUSTMENTS

As stated in Note 1 the Group adopted IFRS from 1 April 2004 and restated its financial statements for the year ended 31 March 2005, which were reported under UK Generally Accepted Accounting Practices ("GAAP"). An analysis of the impact of implementing IFRS was published in a press release on 11 November 2005, available on the Investor Information Section of the Group's website www.chapelthorpe.com.

The analysis below shows a reconciliation of net assets and profit as previously reported under UK GAAP as at 31 March 2005 to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for this Company, being 1 April 2004. There are no IFRS adjustments to the cash flow statement for the year ended 31 March 2005.

Details of transitional arrangements on adoption of IFRS are included in the Accounting Policies on page 30.

RECONCILIATION OF THE INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	UK GAAP £000	IAS 38 Ref (ii) Goodwill £000	IAS 1 Ref (ii) Exceptional item £000	IAS 10 Ref (v) Dividends £000	IAS 19 Ref (i) Pensions £000	IAS 12 Ref (iii) Taxation £000	IAS 12 Ref (iv) Unremitted earnings £000	IAS 21 Ref (vi) Foreign currency reserve £000	**IFRS £000**
Revenue	121,912								**121,912**
Cost of sales	(102,036)								**(102,036)**
Gross profit	19,876								**19,876**
Other income	435								**435**
Distribution costs	(8,631)								**(8,631)**
Administrative expenses	(6,370)				(34)				**(6,404)**
Exceptional items	(2,118)		(5,613)					72	**(7,659)**
Goodwill amortisation	(794)	794							**–**
Operating profit	2,398	794	(5,613)		(34)			72	**(2,383)**
Non-operating exceptional items	(9,126)		9,126						**–**
Finance costs	(1,550)				65				**(1,485)**
Loss before tax	(8,278)	794	3,513		31			72	**(3,868)**
Taxation	491					(39)	8		**460**
Loss after taxation	(7,787)	794	3,513		31	(39)	8	72	**(3,408)**
Dividends	(2,250)			142					**(2,108)**
Loss for the period attributable to equity holders of the Company	(10,037)	794	3,513	142	31	(39)	8	72	**(5,516)**

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

31. IFRS ADJUSTMENTS CONTINUED

RECONCILIATION OF NET ASSETS AND EQUITY AT 31 MARCH 2005

	UK GAAP £000	IAS 38 Ref (ii) Goodwill £000	IAS 10 Ref (v) Dividends £000	IAS 19 Ref (i) UK Pensions £000	IAS 19 Ref (i) Austrian leaving indemnities £000	IAS 12 Ref (iv) Unremitted earnings £000	**IFRS £000**
ASSETS							
Non-current assets							
Property, plant and equipment	41,255						**41,255**
Goodwill	11,288	794					**12,082**
Deferred income tax assets				1,303			**1,303**
Other non-current assets	561						**561**
Total non-current assets	53,104	794		1,303			**55,201**
Current assets							
Inventories	14,066						**14,066**
Trade and other receivables	23,959						**23,959**
Current tax assets	621						**621**
Cash and cash equivalents	5,187						**5,187**
	43,833						**43,833**
Non-current assets classified as held for resale	666						**666**
Total current assets	44,499						**44,499**
TOTAL ASSETS	97,603	794		1,303			**99,700**
LIABILITIES							
Current liabilities							
Borrowings	8,229						**8,229**
Trade and other payables	26,258		(1,571)		(1,642)		**23,045**
Current tax liabilities	355						**355**
Total current liabilities	34,842		(1,571)		(1,642)		**31,629**
Non-current liabilities							
Borrowings	16,671						**16,671**
Deferred tax liabilities	6,755					264	**7,019**
Retirement benefit obligations				4,343	1,742		**6,085**
Other provisions	1,317						**1,317**
Total non-current liabilities	24,743			4,343	1,742	264	**31,092**
TOTAL LIABILITIES	59,585		(1,571)	4,343	100	264	**62,721**
NET ASSETS	38,018	794	1,571	(3,040)	(100)	(264)	**36,979**
Shareholders' funds							
Share capital	11,002						**11,002**
Share premium	1,251						**1,251**
Other reserves	487						**487**
Profit and loss account	25,278	794	1,571	(3,040)	(100)	(264)	**24,239**
TOTAL	38,018	794	1,571	(3,040)	(100)	(264)	**36,979**

31. IFRS ADJUSTMENTS CONTINUED

RECONCILIATION OF NET ASSETS AND EQUITY AT 1 APRIL 2004

	UK GAAP £000	IAS 10 Ref (v) Dividends £000	IAS 19 Ref (i) UK Pensions £000	IAS 19 Ref (i) Austrian leaving indemnities £000	IAS 12 Ref (iv) Unremitted earnings £000	**IFRS £000**
ASSETS						
Non-current assets						
Property, plant and equipment	48,304					**48,304**
Goodwill	11,885					**11,885**
Deferred income tax assets			1,140			**1,140**
Other non-current assets	542					**542**
Total non-current assets	60,731		1,140			**61,871**
Current assets						
Inventories	13,650					**13,650**
Trade and other receivables	29,483					**29,483**
Current tax assets	422					**422**
Cash and cash equivalents	3,183					**3,183**
Total current assets	46,738					**46,738**
TOTAL ASSETS	107,469		1,140			**108,609**
LIABILITIES						
Current liabilities						
Borrowings	8,946					**8,946**
Trade and other payables	26,759	(1,429)		(1,614)		**23,716**
Current tax liabilities	1,746					**1,746**
Total current liabilities	37,451	(1,429)		(1,614)		**34,408**
Non-current liabilities						
Borrowings	16,903					**16,903**
Deferred tax liabilities	6,418				272	**6,690**
Retirement benefit obligations			3,800	1,614		**5,414**
Other provisions	1,717					**1,717**
Total non-current liabilities	25,038		3,800	1,614	272	**30,724**
TOTAL LIABILITIES	62,489	(1,429)	3,800		272	**65,132**
NET ASSETS	44,980	1,429	(2,660)		(272)	**43,477**
Shareholders' funds						
Share capital	11,002					**11,002**
Share premium	1,251					**1,251**
Other reserves	487					**487**
Profit and loss account	32,240	1,429	(2,660)		(272)	**30,737**
TOTAL	44,980	1,429	(2,660)		(272)	**43,477**

Financial statements

31. IFRS ADJUSTMENTS CONTINUED

The above adjustments arising on the adoption of IFRS are explained below.

(I) POST-RETIREMENT BENEFITS

Under UK GAAP, the Group has previously accounted for its defined benefit pension scheme in accordance with SSAP 24 "Accounting for Pension Costs", which required defined benefit scheme costs to be included within operating costs, with variations from the regular cost spread over the expected remaining service lives of employees. FRS 17 "Retirement Benefits" disclosures were provided in the financial statements in respect of the Group's defined benefit pension scheme.

IAS 19 "Employee Benefits" is broadly similar to FRS 17 "Retirement Benefits".

IAS 19 requires separate recognition of the operating and financing costs of defined benefit schemes in the income statement and permits a number of options for the recognition of actuarial gains and losses. The Group has adopted the IFRS 1 transitional exemption and recognised the full actuarial deficit, which includes all cumulative actuarial gains and losses, in shareholders' equity at 1 April 2004.

In addition, during the year ended 31 March 2005 the Group has recognised all actuarial gains and losses immediately in the statement of recognised income and expense.

The impact of this policy is to recognise an additional pension liability of £3.8m in the Group's IFRS opening balance sheet at 1 April 2004 and £4.3m at 31 March 2005.

The impact on operating profit for the year ended 31 March 2005 is an increase of £0.1m, with an immaterial change in finance charges.

Also, the Group's Austrian subsidiary has leaving indemnities which are of a defined benefit nature and have previously been recognised in accruals. Under IFRS the value of the liability has been revised resulting in an additional charge of £0.1m for the year to 31 March 2005.

(II) GOODWILL

Under UK GAAP, capitalised goodwill was amortised over its useful economic life and goodwill previously written off to shareholders' equity was recycled in the income statement as part of the profit or loss on disposal of a business. The useful economic life assumed by the Group was 20 years.

Under IFRS, the net book value of goodwill is not amortised but is instead tested at least annually for impairment.

The amortisation charged under UK GAAP of £0.8m for the year to 31 March 2005 has been reversed and accordingly added back to profit and net assets. Impairment reviews were performed as at 31 March 2004 and 31 March 2005 and no impairments were recorded.

Similarly the Group has £36.9m of goodwill that had been written off to reserves on business combinations on or before 31 March 1998. Under IFRS, this goodwill will not be recycled through the income statement if there is a subsequent disposal of the related business. During the first half of the year ended 31 March 2005, £3.5m of goodwill relating to the closure of the North American Specialist Coatings operation was recycled through the profit and loss account. This has been reversed under IFRS leading to a reduction of £3.5m in the loss for that period.

As permitted by IFRS 1, the Group has chosen to apply IFRS 3 "Business Combinations" prospectively from 1 April 2004 and has not restated previous business combinations. Goodwill is therefore stated at 1 April 2004 at its UK GAAP carrying value of £11.9m.

(III) DEFERRED TAX – POST-RETIREMENT BENEFIT

A deferred tax asset of £1.1m has been recognised at 1 April 2004, and £1.3m at 31 March 2005 in respect of the UK pension liability recognised as a result of adopting IAS 19.

The tax effects of the other reconciling items from UK GAAP to IFRS have been included in the taxation charge in the income statement. The impact of these adjustments is not material.

31. IFRS ADJUSTMENTS CONTINUED

(IV) DEFERRED TAX – FOREIGN ENTITY DISTRIBUTABLE RESERVES

Both the US and Austrian subsidiaries have unremitted earnings. Chapelthorpe plc has control over the timing of any distribution and it is intended to remit some of the US earnings to the UK in the foreseeable future. Consequently, a deferred tax liability of £0.3m has been recognised at 1 April 2004 and 31 March 2005 in respect of unremitted US earnings.

(V) DIVIDENDS

Under UK GAAP, proposed dividends were recognised as an adjusting post balance sheet event. Under IFRS a dividend is only recognised when the shareholders' right to receive the payment is established, which, in the case of the final ordinary dividend, is not until they have been approved by shareholders at the Annual General Meeting and, in the case of the interim dividend, when paid.

Under IFRS, therefore, the Group will no longer accrue unapproved dividends at period ends. This has resulted in an increase in net assets of £1.4m at 1 April 2004 and £1.6m at 31 March 2005.

(VI) FOREIGN CURRENCY TRANSLATION RESERVE

Under IAS 21 " The Effects of Changes in Foreign Exchange Rates", a net exchange difference is recognised in a foreign currency translation reserve in respect of the difference between the opening exchange rate and the closing exchange rate when applied to the opening net assets of an overseas subsidiary. A net exchange difference is also recognised in respect of the difference between the average exchange rate and the closing exchange rate when applied to that subsidiary's profit and loss for the period.

Under IAS 21, where a foreign subsidiary is sold or liquidated, the cumulative net exchange difference should be recycled through the income statement. As a result, a £0.1m exchange gain previously recognised in reserves relating to the North American Specialist Coatings operation has been taken to the income statement in respect of the year ended 31 March 2005.

32. IFRS TRANSITION ADJUSTMENTS – FIRST-TIME ADOPTION OF IAS 32 AND IAS 39

The adoption of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 April 2005 results in a change in the Group's accounting policy for financial instruments. The impact of these standards on the Group's opening balance sheet is shown below.

The principal impact of IAS 32 and IAS 39 on the Group's financial statements relates to the recognition of derivative financial instruments at fair value. Financial assets and financial liabilities that arise on derivatives that do not qualify for hedge accounting are held on the balance sheet at fair value with the changes in value reflected through the income statement. The accounting treatment of derivatives that qualify for hedge accounting depends on how they are designated. The varying accounting treatments are explained below.

CASH FLOW HEDGES

The Group hedges the foreign currency exposure on certain revenue and purchase contracts and the interest rate exposure on certain borrowings. Under UK GAAP, these derivatives were held off balance sheet. Under IAS 39, derivative financial instruments that qualify for cash flow hedging are recognised on the balance sheet at fair value with corresponding fair value changes deferred in equity in a separate hedging reserve.

NET INVESTMENT HEDGES

The gains or losses on the translation of currency borrowings used to hedge the Group's net investments in foreign entities are recognised in equity. Provided the hedging requirements of IAS 39 are met and the hedging relationship is fully effective, this treatment does not differ from UK GAAP.

32. IFRS TRANSITION ADJUSTMENTS – FIRST-TIME ADOPTION OF IAS 32 AND IAS 39 CONTINUED

PREFERENCE SHARES

Preference shares are reclassified as other financial liabilities rather than share capital. The dividends on preference shares are shown as a finance cost.

The adjustments to the opening balance sheet at 1 April 2005 are as follows:

	Effect of transition to IFRS £000
Current assets	
Trade and other receivables	(49)
Derivative financial instruments	177
Current liabilities	
Trade and other payables	3
Derivative financial instruments	(82)
Non-current liabilities	
Other financial liabilities	(800)
Net assets	**(751)**
Shareholders' funds	
Share capital	(800)
Hedging reserve	99
Profit and loss account	(50)
Total equity	**(751)**

PRINCIPAL GROUP COMPANIES

Company	Country of incorporation	Business activity
Chapelthorpe plc	England	Holding and management company
Fibres		
Asota GmbH*	Austria	
Drake Extrusion, Inc.*	USA	
Drake Extrusion Limited	England	Producers of polypropylene staple fibre and filament
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

	IFRS 2006 £000	IFRS 2005 £000	UK GAAP 2004 £000	UK GAAP 2003 £000	UK GAAP 2002 £000
Turnover	**123,658**	121,912	121,460	121,803	127,048
Operating (loss) profit	**(1,089)**	(2,383)	7,142	5,891	2,365
Exceptional items	**–**	–	–	(1,136)	–
Interest	**(1,812)**	(1,485)	(1,782)	(2,454)	(2,805)
(Loss) profit before taxation	**(2,901)**	(3,868)	5,360	2,301	(440)
Taxation on (loss) profit	**1,766**	460	(1,766)	(2,092)	266
(Loss) profit for the financial year	**(1,135)**	(3,408)	3,594	209	(174)
Basic and diluted (loss) earnings per ordinary share (pence)	**(0.57)**	(1.73)	1.82	0.08	(0.11)
Underlying earnings per ordinary share (pence)	**0.86**	1.48	2.21	1.69	1.11
Dividends in respect of the financial year per ordinary share (pence)	**1.10**	1.10	1.00	0.75	0.50

BALANCE SHEET
31 MARCH

	2006 £000	2005 £000	2004 £000	2003 £000	2002 £000
Fixed assets	**43,535**	55,201	60,189	68,942	75,257
Net current assets less amounts due after more than one year	**(81)**	(9,886)	(7,074)	(11,772)	(15,181)
Provisions for liabilities and charges	**(7,167)**	(8,336)	(8,135)	(9,293)	(8,672)
Total shareholders' funds	**36,287**	36,979	44,980	47,877	51,404

PARENT COMPANY ACCOUNTS

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CHAPELTHORPE PLC

We have audited the Parent Company financial statements of Chapelthorpe plc for the year ended 31 March 2006 which comprise the Balance Sheet and the related Notes. These Parent Company financial statements have been prepared under the Accounting Policies set out therein. We have also audited the information in the Board Report on Remuneration that is described as having been audited.

We have reported separately on the Group financial statements of Chapelthorpe plc for the year ended 31 March 2006.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Board Report on Remuneration and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements and the part of the Board Report on Remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 Parent Company financial statements give a true and fair view and whether the Parent Company financial statements and the part of the Board Report on Remuneration to be audited 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 Parent Company 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company 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 consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements and the part of the Board Report on Remuneration to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Parent Company 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 Parent Company financial statements and the part of the Board Report on Remuneration to be audited 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 Parent Company financial statements and the part of the Board Report on Remuneration to be audited.

OPINION

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006; and
- the Parent Company financial statements and the part of the Board Report on Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
Manchester
7 June 2006

PARENT COMPANY BALANCE SHEET
31 MARCH 2006

	Notes	2006 £000	2005 (restated) £000
Fixed assets			
Tangible assets	5	**429**	469
Investments	11	**55,905**	65,010
		56,334	65,479
Current assets			
Debtors	6	**7,078**	7,976
Cash at bank and in hand		**6,340**	2,328
		13,418	10,304
Creditors			
Amounts falling due within one year (2006 including non-equity preference shares)	7	**(15,841)**	(22,792)
Net current liabilities		**(2,423)**	(12,488)
Total assets less current liabilities		**53,911**	52,991
Creditors			
Amounts falling due after more than one year	7	**(14,878)**	(16,000)
Net assets		**39,033**	36,991
Capital and reserves			
Called up share capital (2005 including non-equity preference shares)	12	**10,202**	11,002
Share premium account		**1,251**	1,251
Capital redemption reserve		**487**	487
Capital reserve		**9,204**	9,204
Merger reserve	10	**3,593**	6,545
Profit and loss account	10	**14,296**	8,502
Total shareholders' funds (2005 including non-equity interests)		**39,033**	36,991

The financial statements on pages 69 to 75 were approved by the Directors on 7 June 2006 and were signed on behalf of the Board by:

J STANDEN
Chairman

B LECKIE
Director

NOTES TO THE PARENT COMPANY ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

BASIS OF ACCOUNTING

These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards.

The Company has adopted FRS 17 "Retirement Benefits", FRS 20 "Share-Based Payments", FRS 21 "Events After the Balance Sheet Date", FRS 23 "The Effects of Changes in Foreign Exchange Rates", FRS 25 "Financial Instruments: Disclosure and Presentation", FRS 26 "Financial Instruments: Measurement", and FRS 28 "Corresponding Amounts" in these financial statements. The adoption of each of these standards represents a change in accounting policy and the comparative figures have been restated where applicable. Details of the effect of the prior year adjustment are given in Note 10.

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

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.

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.

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.

1. STATEMENT OF ACCOUNTING POLICIES CONTINUED

PENSIONS

The Company and other subsidiaries of the Group participate in a multi-employer defined benefit pension plan. This plan is operated on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities and in accordance with FRS 17 the Company accounts for its contributions to the plan as if it were a defined contribution plan.

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

EMPLOYEE SHARE OWNERSHIP PLANS

The Company operates equity-settled, share-based compensation plans.

In the case of equity-settled plans the fair value of the employee service is based on the fair value of the equity instruments at the date of grant. This expense is spread over the vesting period of the instrument based on the Group's estimate of the number of shares or options that will eventually vest. The corresponding entry is credited to equity.

FINANCIAL INSTRUMENTS

FRS 25 "Financial Instruments: Disclosure and Presentation" and FRS 26 "Financial Instruments: Measurement" have been adopted with effect from 1 April 2005.

The Company uses interest rate swaps to manage interest rate exposure.

The Company does not hold or issue derivatives for speculative or trading purposes. Under previous UK GAAP, such derivative contracts are not recognised as assets or liabilities on the balance sheet and gains or losses arising on them are not recognised until the hedged item is itself recognised in the financial statements.

From 1 April 2005 onwards derivative financial instruments have been recognised as assets and liabilities measured at their fair value at the balance sheet date. The fair value of interest rate swaps is calculated by reference to the market value. Changes in their fair values have been recognised in shareholders' equity. The gains and losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

2. OPERATING PROFIT

Operating profit is after charging the following items:

	2006 £000	2005 £000
Auditor's remuneration:		
– audit services	**35**	35
– IFRS transition work	**40**	–
– tax services	**41**	41
– corporate finance advice	**106**	543

3. EMPLOYEES

The average number of employees employed by the Company during the year was 14 (2005: 16).

Details of Directors' remuneration, pension benefits and share options are included in the Board Report on Remuneration on pages 19 to 24.

4. DIVIDENDS

Details of the dividends in the year are shown in Note 8 to the consolidated accounts.

NOTES TO THE PARENT COMPANY ACCOUNTS CONTINUED

5. TANGIBLE ASSETS

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 April 2005	733	306	1,039
Additions	–	37	37
At 31 March 2006	**733**	**343**	**1,076**
Depreciation			
At 1 April 2005	295	275	570
Charge for the year	49	28	77
At 31 March 2006	**344**	**303**	**647**
Net book value			
At 31 March 2006	**389**	**40**	**429**
At 31 March 2005	438	31	469

The net book value of land and buildings comprises:

	2006 £000	2005 £000
Freeholds	**–**	–
Short leaseholds	**389**	438
	389	438

	2006 £000	2005 £000
Net book value of assets subject to finance leases	**29**	–
Capital expenditure commitments	**–**	–

6. DEBTORS

	2006 £000	2005 £000
Amounts falling due within one year		
Subsidiary companies	**6,413**	7,078
Other debtors	**100**	63
Prepayments and accrued income	**271**	394
Taxation recoverable	**294**	441
	7,078	7,976

7. CREDITORS

	2006 £000	2005 £000
Amounts falling due within one year		
Bank overdrafts, loans and other borrowings	**2,000**	2,000
Subsidiary companies	**12,559**	18,916
Other taxes and social security costs	**80**	70
Finance leases	**18**	–
Other creditors	**375**	521
Accruals and deferred income	**809**	1,285
	15,841	22,792

	2006 £000	2005 £000
Amounts falling due after more than one year		
Loans falling due:		
– within 1 – 2 years	**7,000**	2,000
– within 2 – 5 years	**7,078**	14,000
	14,078	16,000
Preference shares	**800**	–
	14,878	16,000

NOTES TO THE PARENT COMPANY ACCOUNTS CONTINUED

8. LOANS

	2006 £000	2005 £000
UK bank loan repayable by ten semi-annual instalments of £1,000,000 commencing 30 September 2004	**6,000**	8,000
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	**10,078**	10,000
Total	**16,078**	18,000
Repayment of bank loans:		
– in 1 year or less or on demand	**2,000**	2,000
– in more than 1 year but not more than 2 years	**2,000**	2,000
– In more than 2 years but not more than 5 years	**12,078**	14,000
Total	**16,078**	18,000

9. PROVISIONS FOR LIABILITIES AND CHARGES

MOVEMENTS DURING THE YEAR

	Deferred taxation £000
At 1 April 2005	(43)
Credited during the year	(5)
At 31 March 2006	**(48)**

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

	Potential liability 2006 £000	**Amount provided 2006 £000**	Potential liability 2005 £000	Amount provided 2005 £000
Accelerated tax allowances on plant, equipment and buildings	**(9)**	**(9)**	(7)	(7)
Other timing differences	**(39)**	**(39)**	(36)	(36)
Losses	**(191)**	**–**	–	–
	(239)	**(48)**	(43)	(43)

The deferred tax asset of the Parent Company at 31 March 2006 is included within other debtors in Note 6.

Deferred tax assets for unused losses are only recognised to the extent that there is sufficient evidence that these assets will be recoverable.

Deferred tax asset balances for capital losses in the UK amounting to £1,616,000 have not been recognised but would be available in the event of future capital gains being incurred by the Group.

10. RESERVES

	Merger reserve £000	Profit and loss account £000
At 1 April 2005 – as previously reported	6,545	6,931
Prior year adjustment:		
– FRS 21	–	1,571
At 1 April 2005 – as restated	6,545	8,502
Exchange adjustments	–	62
Profit for the year	–	4,870
Dividends paid	–	(2,198)
Adjustment in respect of employee share scheme	–	108
Transfer from merger reserve	(2,952)	2,952
At 31 March 2006	**3,593**	**14,296**

As permitted by Section 230 (1) of the Companies Act 1985, the Parent Company has not presented its own profit and loss account.

The profit after taxation for the year of the Parent Company was £4,870,000 (2005: loss of £36,885,000).

11. INVESTMENTS

	Shares £000	Loans £000	Total £000
Cost			
At 1 April 2005	59,686	55,789	115,475
Exchange adjustments	94	–	94
Additions	25,000	–	25,000
Repayments	–	(36,368)	(36,368)
At 31 March 2006	**84,780**	**19,421**	**104,201**
Amount provided			
At 1 April 2005	36,591	13,874	50,465
Provided during the year	3,000	–	3,000
Release of provision	–	(5,169)	(5,169)
At 31 March 2006	**39,591**	**8,705**	**48,296**
Net book value			
At 31 March 2006	**45,189**	**10,716**	**55,905**
At 31 March 2005	23,095	41,915	65,010

During the year the Company purchased the entire share capital of Chapelthorpe (UK) Limited from a subsidiary undertaking.

12. SHARE CAPITAL

Details of share capital and share options are shown in Notes 17, 23 and 30 to the consolidated accounts.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

A description of the Group's financial risk management objectives and policies is provided in the Financial Review on page 10. These objectives and policies also apply to the Company.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the fifty seventh AGM of the Company will be held at Eversheds LLP, Cloth Hall Court, Infirmary Street, Leeds LS1 2JB at 2.00pm on 21 July 2006 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 2006.
2. To approve the Board Report on Remuneration for the year ended 31 March 2006.
3 To declare a dividend.
4. To re-elect Mr B Leckie as a Director.
5. To re-elect Mr A P Weatherstone as a Director.
6. To re-appoint 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 in substitution for any existing authority to allot relevant securities, 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 21 October 2007 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) for cash pursuant to the authority conferred by the said Ordinary Resolution and sell relevant shares (as defined in section 94 of that Act) held by the Company as treasury shares (as defined in section 162A of that Act) for cash, as if sub-section (1) of Section 89 of that Act did not apply to any such allotment or sale provided that this power shall be limited:

   (a) to the allotment of equity securities and the sale of treasury shares 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 and the sale of treasury shares up to an aggregate nominal value of £510,000

   and shall expire on 21 October 2007 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 or treasury shares to be sold after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired.

AS SPECIAL BUSINESS CONTINUED

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 the higher of (1) 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, and (2) the higher of the price of the last independent trade and the highest current independent bid as derived from the London Stock Exchange Trading System;

    (d) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next AGM of the Company, or 15 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
22 June 2006

Chapelthorpe Hall
Church Lane
Chapelthorpe
Wakefield
West Yorkshire
WF4 3JB

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 19 July 2006. 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 19 July 2006.

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

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

b) copies of Directors' service contracts; and

c) a copy of the current articles of association of the Company, which include (at Article 184), subject to the terms thereof, an indemnity in favour of every Director, alternate Director, secretary or other officer of the Company.

ADVISERS

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

REGISTERED NUMBER
468624

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PRICEWATERHOUSECOOPERS LLP
101 Barbirolli Square
Lower Mosley Street
Manchester M2 3PW

BANKERS
BARCLAYS BANK PLC
1 Park Row
Leeds LS1 5WU

FINANCIAL ADVISERS
N. M. ROTHSCHILD & SONS
1 Park Row
Leeds LS1 5NR

PENSIONS ADVISERS
KPMG LLP
St James Square
Manchester M2 6DS

SOLICITORS
EVERSHEDS LLP
Cloth Hall Court
Infirmary Street
Leeds LS1 2JB

STOCKBROKERS
BELL LAWRIE WHITE
(A division of Brewin Dolphin Securities Ltd)
48 St Vincent Street
Glasgow G2 5TS

REGISTRAR
COMPUTERSHARE INVESTOR SERVICES PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

FINANCIAL PUBLIC RELATIONS
WEBER SHANDWICK SQUARE MILE
Fox Court
14 Gray's Inn Road
London WC1X 8WS

REMUNERATION CONSULTANTS
NEW BRIDGE STREET CONSULTANTS LLP
20 Little Britain
London EC1A 7DH

SHAREHOLDER INFORMATION

INTERNET

The Company operates a website which can be found at www.chapelthorpe.com. 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 2006 will be payable to shareholders on the register at 23 June 2006.

DIVIDEND REINVESTMENT PLAN

Shareholders have the opportunity to reinvest their cash dividend in existing shares through the Dividend Reinvestment Plan. All applications to join that plan or to amend existing instructions under it must be received by the Company's Registrar by 5.00pm on 25 July 2006. 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

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www.flathillplc.com

Chapelthorpe's commitment to environmental issues is reflected in this annual report which has been printed on Revive Uncoated, a recycled paper stock. It contains 75% de-inked post consumer waste and 25% combination mill broke and virgin fibres. The paper mill is registered to ISO 14001.

CHAPELTHORPE
plc

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