Annual Report and Accounts

2007

Contents

Financial Highlights

	2007	2006
Turnover £m	**184.3**	191.5
Operating profit/(loss) £m	**15.7**	(11.6)
Trading profit* £m	**7.0**	5.4
Profit/(loss) before tax £m	**12.9**	(14.5)
Trading profit before tax* £m	**4.2**	2.5
Earnings/(loss) per share (p)	**9.2**	(10.6)
Headline earnings/(loss) per share* (p)	**1.1**	(0.1)

* Figures shown here and elsewhere in the report and accounts as 'trading' exclude the profit on disposals of businesses of £11.9m (2006: nil), exceptional charges of £0.3m (2006: £3.3m) and impairments of assets and goodwill of £2.9m (2006: £13.7m). The headline earnings per share adjusts for the exceptional element of the tax credit (£3.0m in 2007, £1.9m in 2006). Other figures are prepared under International Financial Reporting Standards (IFRS) and include impairments and exceptional charges, except for the parent company financial statements which are prepared under UK Generally Accepted Accounting Principles (GAAP). Trading figures are presented to provide a more meaningful indication of underlying business performance and trends. These are the primary performance figures used by management.

Comparative figures are shown in brackets.

Chairman's Statement

Scapa made major progress in 2006/07 with a 30% increase in trading profit (operating profit before profit on business disposals, impairments and exceptional costs) over the previous year. This was due in the main to cost savings from the rationalisation plans put into place over the last two years. Business disposals during the year and the effect of a weaker US Dollar reduced sales by £14.1m and £3.9m respectively, leaving sales turnover for the year at £184.3m (2006: £191.5m). On an underlying basis (adjusting for these items) sales grew by 6% due to the strong performance of our European business.

Trading profit of £7.0m was £1.6m up on last year, despite the reduction in profit from businesses sold during the year (£0.6m), foreign exchange translation (£0.6m) and financial instruments (£0.6m). On an underlying basis (adjusting for these items) trading profit was a substantial £3.4m up on prior year.

Profit on business disposals amounted to £11.9m and more than offset goodwill and asset impairments of £2.9m (2006: £13.7m) and exceptional costs of £0.3m (2006: £3.3m). The operating profit for the year was £15.7m (2006: £11.6m loss). Profit before tax amounted to £12.9m (2006: loss of £14.5m) with the increase due primarily to the profit on business disposals and the impact of impairments in 2006. The headline EPS was 1.1p per share compared to a loss of 0.1p per share in 2005/06. As last year, no final dividend is proposed.

Portfolio

As outlined in our last annual report a key strategy is to reduce the spread of our business by selling peripheral operations. Three disposals were made during the financial year comprising of our small loss-making Irish distribution business, our Megolon compounding business and our Lymington sealants business. Total net proceeds, including working capital released of £2.0m, amounted to £23.0m with the total profit on disposal amounting to £11.9m. Whilst these disposals transformed the financial position of our Group we nevertheless intend to keep the role of all our businesses within the Group under review.

Business performance

During the year we implemented the third phase of the major rationalisation programme at a cost of £1.5m with annual savings of £1.2m. This brought the total cost of the three phases to date to £4.1m with annual savings in ongoing businesses of £3.5m. Profitability in our North American operations was maintained at its high historical level with significant progress made in our European operations.

Finance

Strict cash management has remained a key objective throughout the year. Substantial cash payments continued on legacy issues with a further £3.8m paid into our pension funds. Underlying trading working capital increased by £0.2m due to the impact of rising sales volumes in the last quarter. Cash inflow from operations was £6.9m (2006: £2.1m) before capital investment of £2.8m (2006: £2.7m). Net cash excluding the remaining US$10m in the Waycross deposit was £11.2m (31 March 2006 £13.2m debt). The elimination of our borrowings was primarily due to the sale of peripheral businesses during the year.

Asbestos litigation

The Company continues to defend itself from personal injury claims in the USA arising from alleged exposure to asbestos that relate to a business we sold in 1999. During the year over 12,500 plaintiffs' claims were dismissed with the total now down to under 20,000 from a peak of 34,000 in 2004. In addition, agreement was reached with our insurance carriers to reduce our share of litigation costs from approximately 50% to 25% for the three years commencing 1 April 2006. This change gave rise to a reduction in the litigation reserve resulting in a credit of £0.9m to exceptional costs. We currently have one jury trial in progress in New Jersey, where a verdict is expected in the next day or so.

Pensions

The IAS 19 pension deficit as at 31 March 2007 was £58.3m, some £5.1m down from 31 March 2006 due to a slightly higher discount rate and change in actuarial assumptions, including the closure of the schemes to future accrual, together with the cash contributions made during the year. Discussions on the future funding of our pension deficits are currently underway with both the Scheme Trustees and Pensions Regulator. Once these discussions are concluded we will give a market update.

The Board

Michael Baughan and Sarkis Kalyandjian retired from the Board after the Annual General Meeting on 25 July 2006. We wish them a long and healthy retirement. Colin White resigned as a Director on 29 November 2006. I would like to thank him for his service over the last five years and wish him well for the future. As announced in April, I am pleased to say that Brian Tenner will join the Board as Finance Director later this month. In the first quarter, I announced my intention to retire from the Company and the recruitment of a new Chairman is currently underway.

Employees

I would like to thank, on behalf of the Board, all of our staff for their commitment and hard work over the last twelve months during a period of substantial change for our Group.

Outlook

As we start our new financial year the US Dollar remains weak and raw material prices remain relatively high. Demand in North America has strengthened a little in recent months with Europe continuing to show the positive volume trend experienced over the last year.

Trading in April and May has been in line with expectations. This reinforces confidence that key business issues are being actively addressed with continued emphasis on areas of under-performance and narrowing of our business spread. While last year has seen good overall progress against our strategic objectives, the next stages of our planned programme, to be completed over the next two to three years, will improve Group performance further and enhance shareholder returns.

Keith Hopkins

K G G Hopkins
Chairman

Business Review

Operations

Scapa's Business

Scapa is one of the leading technical adhesive tapes and film manufacturers in the world with manufacturing and sales operations in eleven countries across North America, Europe and Asia. Within Scapa there is a depth of technical competence and manufacturing expertise derived from tape manufacturing experience over many years. The business is managed and structured around its three principal regions: Europe, North America and Asia.

Strategy

During 2005/06 we completed a major review of the business and developed a series of strategic and operational initiatives to address the major under-performance seen in recent years. The first outcome of the review was the decision to dispose of peripheral operations, three of which have been sold during the year. On 19 June 2006 we completed the sale of our small £4.4m turnover, loss-making Irish distribution business for £1.0m, including £0.4m of deferred consideration. The loss on disposal after transaction costs was £0.1m. Following shareholder approval on 23 August 2006, we completed the sale of our Megolon compounding business for £16.75m on 13 October 2006. The profit on disposal after transaction costs was £9.4m. On 9 February 2007 we completed the sale of our £7.0m turnover Lymington sealants business for £4.9m. The profit on disposal after transaction costs was £2.6m. The total profit on disposal was £11.9m and gave rise to a substantial improvement in the annual reported profit for 2006/07, together with the much needed improvement in Group finances.

The second outcome of the 2005/06 review was an extension of our major operating cost reduction programme, the third stage of which was implemented during the year at a cost of £1.5m with additional annual savings of £1.2m. Total expenditure over the three phases of the programme amounts to £4.1m, with estimated total annual savings of £3.5m in ongoing businesses. This rationalisation programme has been the main driver behind performance improvement in Europe. Relentless cost reduction will continue to be the way of life at Scapa and will take a further two to three years to complete.

The final outcome from the 2005/06 review was the need to find a more equitable balance for the business in relation to the cash legacy costs of the asbestos litigation and pension deficit. Major progress has been made on asbestos litigation with a step reduction in plaintiff claims and legal costs following the negotiation of a new three-year cost apportionment agreement from the start of 2006/07. On pensions an initial reduction has been made in the deficit including the closure of the Southern Scheme to future accrual. Discussions continue with the Trustees of all three Schemes and the Pensions Regulator to finalise future funding of the deficits.

2006/07 Performance

Overview

Sales in 2006/07 reduced by 4% to £184.3m (2006: £191.5m) due to the impact of business disposals (£14.1m) and £3.9m from a weaker US Dollar despite strong growth in Europe. Trading profit increased by £1.6m to £7.0m, with an operating margin of 3.8%. The improvement here was again impacted by business disposals (£0.6m), foreign currency translation (£0.6m) and financial instruments (£0.6m). At constant exchange rates, underlying sales adjusting for disposals increased by 6% and underlying trading profit by £3.4m. Raw material and energy price increases continued to be a challenge to margins in 2006/07. Sales price increases were implemented throughout the year across most market sectors and recovered the majority of our raw material cost increase although there was a time lag in a number of areas. Reorganisation costs of £1.5m were incurred in the year primarily to reduce our cost base in the UK with annual savings of £1.2m. The total number of Group employees fell by 199 during the financial year as a result of the three business disposals together with the major rationalisation programme.

Europe

Sales in 2006/07 reduced by 5% to £111.2m due to the sale of the three peripheral operations mentioned earlier. Underlying sales in the continuing tape businesses rose by 8% with continued improvement in delivery performance and overall customer service in the period. Trading profit improved by a further £1.4m and has moved from a loss of £0.4m in 2004/05 to a profit of £0.7m in 2005/06 followed by a profit of £2.1m in 2006/07 despite the loss of £0.6m of profit from peripheral operations following their sale part way through the current year. The key driver behind the performance improvement has been the three-phased rationalisation plan with an additional benefit from this arising in the year of £2.1m.

All market sectors experienced underlying sales growth during the year. The most significant gains were in the automotive, construction and the printing and graphics markets. Targeted sales price increases were achieved across all market sectors, largely offsetting increases in raw material prices in the year albeit that some lag was experienced in a number of market areas. Utility costs were again high but had moderated somewhat following last year's severe hikes.

Following the sale of our Megolon and Lymington businesses the third phase of the major cost reduction plan was implemented with anticipated annual savings of £1.2m. Despite the major rationalisation plan, performance has been modest in a number of areas and, as a result of this, asset carrying values in the UK and Switzerland were reduced at the end of March by a total of £2.8m.

Working capital was higher at March 2007 due largely to the higher sales volume in the last quarter, which was 7% ahead of the prior year. Capital investment was focused primarily on health and safety and quick payback projects including automatic conversion equipment in France and Switzerland.

European sales will be increasingly focused on exploiting niche geographic and end-user opportunities. New product development has been restructured and managed to support these objectives, following a number of years of under-performance. Overall Group co-ordination is now led by our senior North American technical, research and development management team. The pressure of raw material price increases throughout 2006/07 and the resulting impact on margins remains an area of emphasis with the business committed to continued restoration of margins over the course of 2007/08.

North America

North American sales of £65.3m were £1.4m down on the prior year due to the translation impact of a weaker US Dollar. At constant exchange rates sales were 3% up, due to growth in the medical and industrial markets. Trading profit was £0.1m down on 2005/06, at £7.6m, due to a £0.5m detriment from the weaker US Dollar. The underlying trading profit was £0.4m up on prior year with margins also slightly up at 11.6%.

Medical sales returned to their previous growth trend with a strong increase of 9% over prior year. Industrial sales grew by 4% year on year due to the strength in the sports and entertainment markets with the construction performance flat. Sales of water swellable tapes grew due to increased demand from the telecommunications industry. Automotive sales declined with the US domestic manufacturers having a poor year.

On average, raw material prices remained firm although both selective increases and decreases were experienced in the period. Utility costs moderated after the substantial price hikes experienced in the last financial year. Previous sales price increases helped to mitigate the impact of cost increases. Operational cost control remained tight throughout the year although performance was disrupted by a fire at our Carlstadt facility in January which interrupted normal production in the final quarter and gave rise to an exceptional cost of £0.2m in the period.

Trading working capital levels remained consistent with the prior year whilst capital investment was again managed tightly, with investment focused on health and safety and short-term cost reduction projects. Operating cash generation continued to be strong.

Excellent delivery performance and inventory control accuracy levels contributed to high levels of customer satisfaction and service. With these in place we remain confident that underlying organic sales growth will continue, further leveraging the fixed cost base.

Asia

Sales in Asia were slightly up on prior year at £7.8m. On a constant exchange basis sales increased by 3%. Trading profit for the year was £0.2m compared to a loss of £0.1m in 2005/06. The strength of the Korean Won does, however, still continue to hamper profitability in the region. The second half of the year showed a welcome return to profit after the disappointing first half loss of £0.1m. Following the disposal of our Megolon business the £1.0m p.a. distribution agreement in Asia was terminated at the end of the year, which will result after cost savings in a profit reduction of some £0.1m p.a. Goodwill arising on our Chinese acquisition of £0.1m was written off in the period due to modest ongoing performance. Regional focus remains towards profitable growth rather than just higher volume.

Corporate

Corporate costs in the year reduced by £0.6m on an underlying basis following the closure of the corporate headquarters in Blackburn and consolidation of the corporate team into the Ashton site at the end of 2005/06. The lease of the headquarters was subsequently assigned to a third party which gave rise to a credit of £0.2m to exceptional costs. During the year we terminated currency swaps that had historically been used to partially hedge the Balance Sheet at a loss of £0.1m (£0.5m benefit in 2005/06). Following shareholder approval, the move to AIM was completed in August 2006 and gave rise to an exceptional cost of £0.1m. In December we concluded the sale of several residual properties for £0.5m resulting in an exceptional profit on disposal of £0.5m (2006: £0.1m).

Asbestos litigation

The Group continues to be involved in a number of cases in the USA arising from the alleged exposure of papermill workers to asbestos in a product that was part of a business sold to J M Voith AG in July 1999. Prior to 2003 the Company had either won all cases, or had been dismissed, or the case had been abandoned before going to court. In October 2003, a jury in Baltimore, Maryland, USA, returned an award of US$3.0m against Scapa Dryer Fabrics Inc. This wholly unexpected judgement was subsequently reversed on appeal in November 2005 and the plaintiff's further appeal has been denied. The plaintiff has, however, applied for a retrial with a provisional court hearing date set for January 2008. Another adverse verdict was entered in Louisiana in February 2005 awarding in total US$162,500 plus costs and interest to seven plaintiffs. The Company has appealed against the judgement but the judicial process in Louisiana is still being disrupted by the effects of Hurricane Katrina and it is not yet known when the appeal will be heard.

During the year over 12,500 plaintiffs' claims were dismissed by the District Court for the Eastern District of Pennsylvania with the total number of claims at 31 March 2007 now below 20,000 (the lowest level since 2002). In addition, major progress was made on renegotiating the apportionment of legal costs with our insurance carriers. Agreement was reached for the three years commencing 1 April 2006 that our share of litigation costs would be reduced from approximately 50% to 25%. This change gave rise to a credit to exceptional costs of £0.9m in the period.

Business risk

There are a variety of business risks that can affect international manufacturing companies like Scapa. International businesses routinely manage risks associated with foreign currency fluctuations and can be affected by cost pressures associated with raw material pricing and availability, customer relocations, developments in international tariffs and legislation and changes in the overall geo-political climate, including the development of competitors from within low cost economies. Scapa is not dependent on any single customer and in 2006/07 the largest single customer represented less than 3% of total Group sales.

The Registration, Evaluation and Authorisation of Chemicals (REACH) legislation was adopted by the European Commission in December 2006 and came into force on 1 June 2007. This legislation requires specific hazard testing for all chemicals manufactured or imported into the EU, placing the responsibility on the manufacturer or importer, to satisfy standardised testing protocols in relation to any long-term health risks relating to that chemical. In our view, we believe that the REACH legislation will have a limited impact on Scapa over the next three to five years. However the legislation will be monitored carefully to ensure the Group is compliant with the standards that are eventually set.

As described earlier Scapa continues to be involved in cases arising from alleged exposure to asbestos. In over ten years of successful defence in the USA no Scapa Group company, nor any of its insurance carriers, has admitted liability nor made any payment to any plaintiff under our policies. Accordingly, our insurance coverage remains intact and the Board will continue to defend vigorously the outstanding claims. However this litigation still poses a potential risk to the Group. Appropriate advice is continually being sought to ensure that these risks are managed in an appropriate manner.

Business Review

The Group operates three defined benefit pension schemes with significant funding deficits. The three schemes were revalued during 2006 based on the position as at 1 April 2006, and new contribution funding levels are in the process of negotiation with the trustees. The Pensions Regulator has provided general guidance to trustees regarding the period over which deficits should be paid down, and recent legislation has given additional powers to pension trustees to strengthen their negotiating position.

We have continued to adopt a detailed review process at all levels of the business to monitor and control business risks. Principal risks to the business are reviewed on a regular basis by the senior management team and the Group Board and remedial action plans are developed as and when appropriate. Overall we continue to consider that the policies and monitoring systems which are in place and which have been reviewed regularly throughout the year remain sufficient to effectively manage the risks associated with our business.

Finance

Operating results

Sales were 4% down at £184.3m (2006: £191.5m) but 6% ahead on constant currency basis after adjusting for business disposals.

Trading profit was £7.0m (2006: £5.4m), an increase of £1.6m, despite an impact of £0.6m due to business disposals, £0.6m due to foreign exchange translation and £0.6m due to financial instruments. Operating cost savings were the main contributors to the improvement in profit. The operating profit for the year was £15.7m (2006: £11.6m loss) after profit on disposal of businesses of £11.9m (2006: nil), impairments of £2.9m (2006: £13.7m) and other exceptional items of £0.3m (2006: £3.3m).

Exceptional costs

Reorganisation costs and other exceptional items totalled £0.3m (2006: £3.3m). Of this, £1.5m (2006: £2.4m) was in connection with redundancies across the Group with a £0.2m credit (2006: cost of £1.0m) on dilapidations and onerous lease provisions. In the year £0.9m was released from the asbestos litigation provision following the new legal agreement effective from 1 April 2006. Sale of residual properties gave rise to a further credit of £0.5m (2006: £0.1m) with the move to AIM costing £0.1m and a small fire at Carlstadt a further £0.2m.

Goodwill and asset impairments

Arising from the IAS 36, 'Impairment of Assets' annual review the residual goodwill on the Chinese operations of £0.1m was written off (2006: £10.9m write-off on the Lusa, CCL, Medifix and Boldscope acquisitions).

In addition the carrying values of certain fixed assets at two sites have been written down as estimates of prospective cash flows are considered to be insufficient to justify the current value of the business's assets. The total amount of the writedown was £2.8m (2006: £2.8m) and related to our UK site at Ashton, and to Rorschach in Switzerland.

Interest

Net interest payable was £0.5m, (2006: £1.0m) with major benefit from lower average levels of debt following the sale of peripheral businesses in the year despite the impact of the higher interest rates. Interest cover, being trading profit before finance costs and tax as a multiple of interest paid on net borrowings, was 14 times.

The IAS 19, 'Employee Benefits' pensions finance charge was £1.9m (2006: £1.4m). The accounting discount on long-term provisions was £0.4m (2006: £0.5m).

Profit before tax and taxation charge

Statutory profit before tax was £12.9m. This was a substantial improvement on last year's loss of £14.5m due to the improvement in underlying business performance, profit on business disposals and reduced impairments/exceptional costs. Trading profit before tax after all finance charges increased by £1.7m to £4.2m (2006: £2.5m).

The tax credit of £0.4m includes a current year tax charge payable of £0.6m plus deferred tax of £2.9m less a prior year tax credit of £0.9m and an exceptional tax credit of £3.0m. No benefit has been recognised for potential future tax credits for loss-making entities (mainly in the UK), as there is little expectation of recovery within the foreseeable future. The IAS 19 pensions deficit has an associated tax asset of £16.8m which has not been recognised in the accounts, as there is little expectation of this being utilised in the near term.

Earnings per share were 9.2p (2006: loss of 10.6p per share). The earnings per share after eliminating profit on business disposals, impairment charges and exceptional items including taxation were 1.1p (2006: loss of 0.1p per share).

Cash flow and Balance Sheet

The Group generated a net cash inflow from operating activities (before reorganisation and movements in exceptional provisions) of £9.1m (2006: £6.3m). Trading working capital increased by £0.2m (before exchange movements) in the year to 31 March 2007 due primarily to an increase in sales volumes in the last quarter. Payments into the pension funds in excess of the charge to profit totalled £3.8m (2006: £3.3m) and reorganisation spend was £1.4m (2006: £2.4m). Asbestos litigation defence spend reduced substantially to £0.5m (2006: £1.4m) due to lower legal activity together with the benefit of the new legal cost apportionment agreement. Capital investment was in line with the prior year at £2.8m (2006: £2.7m) and reflected tight management of expenditure. The net cash flow from operating activities, after all investing activities, was an inflow of £23.8m (2006: £2.9m outflow).

Net proceeds from business disposals in the period, including the resulting reduction in working capital and excluding £0.4m of deferred consideration, amounted to £22.6m (2006: nil).

In September 2005 an agreement was reached with J M Voith AG to make a release of US$10m from the Waycross deposit and gave rise to a substantial improvement in the 2005/06 cash flow. The remaining balance of US$10m (£5.1m) will now be held for an additional two years until 31 December 2011.

The Group's net cash movement for the year was an inflow of £23.8m (2006: £2.8m), which after adjusting for the effects of foreign exchange translation, resulted in the elimination of net debt and establishment of a cash balance, net of debt, of £11.2m at 31 March 2007 (excluding the remaining Waycross deposit of £5.1m).

The IAS 19 pensions deficit as at 31 March 2007 was £58.3m (31 March 2006 £63.4m). This reduction was a consequence of a slightly higher discount rate, change in actuarial assumptions including the closure of the Southern Scheme to future accrual and cash contributions made during the year.

The profit for the year together with the decrease in the pension deficit increased shareholder funds at 31 March 2007 to £19.4m (31 March 2006 £8.2m). Currency translation at the year end had a £5.2m unfavourable impact on shareholder funds (2006: £2.3m favourable).

Treasury policies
Treasury operations are managed as part of the worldwide finance function and are subject to policies and procedures approved by the Group Board. Corporate Treasury co-ordinates treasury activities throughout the Group and seeks to reduce financial risk, ensure sufficient liquidity is available to the operations and invest surplus cash. Corporate Treasury does not operate as a profit centre and does not take speculative financial positions. Very limited use is made of derivative financial instruments. Corporate Treasury advises operational management on financial risks and executes all major transactions in financial instruments, except for forward exchange contracts to hedge transactional exposures on overseas operations, which are locally arranged.

Funding requirements
At 31 March 2007 the Group had committed unsecured facilities of US$15.0m, none of which was utilised. The Group also had uncommitted short-term and overdraft facilities of up to £11.4m in the UK and overseas, of which £1.3m were utilised at 31 March 2007. Further details on the Group's debt maturity profile are shown in note 19 to the accounts. These facilities are projected to more than cover peak forecast borrowings for at least a twelve-month forward period. All bank covenants were complied with during the year. The Group's £25m secured committed facility was terminated during the year following the receipt of business disposal proceeds.

Currency risk management
Most of Scapa's assets and currency flows are denominated in currencies other than Sterling. In general terms it is Group policy to match, where cost effective and practicable, the currencies of costs to revenues and the currencies of liabilities to assets. The majority of borrowings taken out by the Group are denominated in currencies other than Sterling, thus reducing part of the translation exposure on the Balance Sheet. As these borrowings are serviced by local cash flows reflecting local profits, so in turn the profit and loss account is partially and internally hedged against currency movements. The Group does not hedge directly the translation exposure of the profit and loss account, whether by use of options or other derivatives. The Group does not create or maintain any speculative risk exposures.

Foreign currency transaction exposures are dealt with individually by the operating businesses in accordance with Group policies and procedures using forward foreign exchange contracts and currency overdrafts.

Interest rate management
Given the historically low rates that have been available in recent years, management of the Group's exposure to interest rates has been largely weighted towards floating rate debt. In accordance with Board approved policy, this exposure is regularly reviewed in order to maintain an appropriate mix of fixed and floating rate borrowings. In August 2004 the Group took out an interest rate cap covering a principal of US$10m for a three-year term, with US Dollar three-month LIBOR interest cap fixed at 3.5%. As Group borrowings were eliminated following the receipt of proceeds from business disposals, this cap was sold in the autumn of 2006 realising a net gain of £0.1m.

Counterparty credit risk management
Counterparty credit risk arises from the investment of surplus cash and the use of financial instruments. The Group restricts transactions to banks that have a defined minimum credit rating and limits the individual and aggregate exposure to each bank.

Contingencies and legal proceedings risk management
The Group monitors all material contingent liabilities including matters relating to the environment, through a process of consultation and evaluation which includes senior management, and internal and external advisers. This process results in an evaluation of potential exposure and provisions are made or adjusted accordingly by reference to accounting principles. By this methodology the Group has provided for contingencies which are anticipated to be more likely than not to become payable in the future.

Various Group companies, along with many other non-Scapa Group businesses, are named as defendants in claims in which damages are being sought for personal injury arising from alleged exposure to asbestos. Based on advice from legal counsel the Company believes that it has strong defences to the claims asserted in these proceedings and intends to vigorously defend such claims. The Directors believe, having taken advice from legal counsel, that it is unlikely that significant uninsured liabilities will arise from this litigation.

Environment and Health and Safety

Policy Statement
Scapa has a clear policy on environmental care and health and safety and it continuously strives to:

- introduce and integrate Product Life Cycle analysis into our Design and Manufacturing processes through the new product development process;
- minimise our impact on the world's natural resources through a continual programme to reduce the amount of material and the level of energy consumed by our manufacturing processes;
- reduce to a minimum the amount of waste material, such as packaging and paper, generated within the plant's administrative and manufacturing processes;
- maximise the amount of process waste material reused or recycled in order to minimise the amount sent to landfill;
- implement our environmental policy, principles and attitudes throughout the total supply chain;
- consider existing environmental legislation as the minimum standard to be achieved and as the foundation for continuous improvement programmes;
- educate, train and motivate employees to understand the need to conduct their activities in an environmentally responsible manner;
- publicly communicate our Environmental policies and our performance against the Environmental objectives and targets set by Scapa;
- provide a safe and healthy working environment for its employees.

Business Review

2006/07 performance
Scapa as a Group recognises the importance of managing the consumption of the world's natural resources as well as providing a safe and healthy working environment for its employees. This initiative starts with the commitment of the Group management to set targets, provide training and awareness programmes and assign responsibility and targets across each regional management team.

During 2006/07 Scapa demonstrated strong commitment to reducing their ecological footprint through more efficient use of energy, reduction of waste, increased re-use of waste materials, and upgrading of environmental protection equipment.

To measure progress of Scapa's environmental and health and safety programmes, the Group has employed a third party internal audit system (Marsh Trendtracker) on a semi-annual basis. Each site is audited by a trained individual with results reported to all management levels up to and including the Board of Directors. This audit process is now coming to the end of its natural use as we have maximised most of the benefits and plan to upgrade the system this year. In Europe this year we introduced a further internal improvement process with external spot safety and environmental audits using an external risk assessor and three audits have been completed.

General progress is achieved through the co-operative effort of all employees with leadership by site management, local specialists, outside support groups and corporate experts. Further to this, each site has established a group of Key Performance Indicators (KPI) to track and report progress of environmental and health and safety programmes on an ongoing basis. KPI results are reported on a monthly basis with metrics openly posted within each facility.

Progress on these key measures has been as follows:

Environment

Air emissions
Objective: to continue with our programme to reduce the release of Volatile Organic Compounds (VOCs) to the atmosphere.

2006/07 Target: To maintain current level of performance and implement programmes to reduce a further 10% from 2005/06 levels by 2010 (adjusted for sales volume).

Scapa Group maintained its levels of solvent emissions to the same percentage as previous year despite an overall Global sales growth of 6%. Since detailed measurement began in 1999 Scapa has reduced air emissions by 65%.

The very significant improvement over the past six years has been achieved through major investment in modern thermal oxidiser equipment at all major sites which use solvents. This process has continued in the current year with the installation of a further new oxidiser costing US$870,000 at our facility in Carlstadt, New Jersey. At this point, we have maximised potential with this approach and currently exceed all legislated requirements. Scapa's 2007/08 goal will be to maintain these high efficiencies.

Solvent purchases
Objective: to continue with our programme to reduce the volumes of solvent used across the Group.

The target set in 2005/06 was to reduce the volume of solvent purchases by a further 5% by 2006/07 on a like-for-like basis. Due to the increase in sales of 6% globally and strong growth in some of our automotive harness tapes (solvent based adhesives) our solvent purchases increased by 7% of which the majority of increase came from our French and Italian sites which both increased their reliance on solvent based materials. Scapa has a very large product portfolio and due to the nature of the application and the demands from our market we continually work with our customers and suppliers to source alternatives.

Oil consumption
Objective: to continue with our programme to reduce the consumption of oil across the Group and accordingly reduce our impact on fossil fuel demands.

The target set in 2005/06 was to reduce the volume of oil consumption by a further 3% by 2006/07. With the disposal of our Polymerics business and the continued focus on the reduction of oil based systems we reduced oil consumption by a further 27%. Assuming like-for-like processes and volumes the improvements are relative and with the sales growth exceeded our targets by an estimated 5%.

Gas and electricity consumption
Objective: to reduce the impact the Group has on energy demands by promoting energy efficient processes and energy conservation.

2006/07 target was to reduce gas and electricity consumption by 5% from 2005/06 levels adjusted for increased sales volume. Our Gas consumption has reduced by a further 2% despite an additional 6% of sales growth and Scapa is now at a base consumption rate relative to the size of the business. Electricity consumption has reduced by 17% this year due to the disposal of the energy intensive Polymerics business plus a small portion of energy reduction from the disposal of the Lymington facility.

In the last year Scapa re-configured its European server architecture and upgraded to more energy efficient servers and reduced the total number of core servers by 25%. When all the legacy servers are decommissioned we estimate that this will result in a reduction in direct power consumption by our servers of more than 28%. In France the majority of our desktop PCs will be changed from CRT to LCD displays with a consequent reduction in energy consumption of 60%. Finally, we are changing the current desktop support model so that our PCs no longer need to be left switched on overnight and at weekends. For most PCs this will result in a reduction in related power consumption of more than 66%.

The North American businesses continue to invest heavily in energy efficient equipment such as VAC motor control systems, variable speed air compressors, low energy lighting, and process heat reclaim systems. 16% (US$450K) of the Capital Spending Budget for 2007/08 is targeted for equipment that will reduce energy consumption.

Packaging materials
Objective: to develop new protocols which will achieve reductions in packaging waste.

The target set for 2006/07 was to continue to develop packaging rationalisation programmes so as to achieve a further reduction in utilisation of 5% after taking into account sales volumes. This objective has been achieved even with the sales volume increases which were achieved during the year and is a very positive outcome with an overall 5% reduction on previous year including the Polymerics and Lymington businesses.

Manufacturing waste
Waste reduction is under continual focus, some examples of current initiatives include:

- The Windsor site identified a US company that converts manufacturing and other biomass wastes into zero mercury, low sulphur, clean burning fuel cubes used for electricity generation and process boilers. Combining this with other waste re-use programmes, Windsor diverted 280 tonnes of material destined for landfill into valuable products.
- The Renfrew, Canada, site re-works process waste products to manufacture pipeline protection tapes. As a result of this programme, 225 tonnes of waste were converted into high value tape products in the past 12 months.
- For the eighth consecutive year the Inglewood, California, site received a WRAP Award (Waste Reduction Awards Program) from the California Integrated Waste Management Board. Due to recycling and re-use efforts, Inglewood found alternate uses for 78 tonnes of waste or 49.5% of their total waste volume.

Site improvements
In addition to our continual focus on waste reduction, we also look to improve the environmental position on all of our manufacturing sites, some examples being:

- At Ashton in the UK a bunded chemical container has been installed on site to improve chemical storage and reduce risk of spillage.
- Scapa France implemented a significant ground de-pollution process after results of contaminates from a previous occupant of the site were identified. The process of air sparge and soil vapour extraction, installed during the early part of the year, has already reduced pollutants below the required limits with the process scheduled to complete later in the year.

Reach
Scapa continues to follow the development of the Registration, Evaluation and Authorisation of Chemicals Directive of the EU legislation although until the defined specification is agreed it is not possible to plan any changes which may be required. Our current view is that our exposure to detailed process and products changes will be limited.

Health and Safety
Scapa Group is committed to reinforcing and improving health and safety activities within all sites to ensure the constant well-being of our employees. Standards of performance are set by the Scapa Executive Team (SET) and are monitored by the Group Board. The SET is responsible for providing guidance, focusing on best practices and overseeing auditing of our manufacturing sites and processes. Scapa continues to invest significantly in human resource training and development for safety management. Equally important has been the high level of capital expenditure in projects focused on eliminating risk for employees and reducing the impact of our products and processes on the environment.

The Group Board set challenging but achievable targets for the year of 2006/07 with a minimum 10% reduction in all KPIs to ensure the entire organisation focused on employee safety and welfare. This priority is strongly reinforced by the Group Board and Executive Officers who remain directly involved in monitoring performance on a regular basis. To mitigate risk to employees the organisation demands continuous improvement in all areas with particular emphasis on the following:

- Operational housekeeping and business audits
- Proper and improved use of Personal Protective Equipment
- Machine guarding
- Ergonomics
- Material handling and storage
- Counter balance and fork truck improvements
- Employee training
- Auditing of H&S policies and practices

All sites within the Group report Key Performance results monthly and are audited a minimum of twice a year against a standard audit template to ensure a consistently high level of compliance and continuous improvement. Our internal accident investigation process has undergone a step change this year and every serious incident or accident has been reviewed by the Operations Directors, local management teams, and in the most serious cases the Group Board.

Over 10% of our capital expenditure this year was dedicated to projects related to improved safety.

Key metrics monitored by the Board include:

Lost time accidents: 2006/07 objective: a reduction of 10% over 2006 results – North America achieved a 42% reduction and Europe a 30% reduction. Asia had no lost time accidents.

Accidents greater than 4 days off work: 2006/07 objective: a reduction of 10% over 2006 results – North America achieved a 17% reduction and Europe a 32% reduction. Asia had no lost time accidents.

Lost time days: 2006/07 objective: a reduction of 10% over 2006 results – In 2005/06, North America reduced lost time days by 80%. In 2006/07 the number increased due to a single accident involving an extended recovery period. In addition, there was a 2% increase in Europe which was attributable again to a single lost time accident at our Swiss facility. Asia had no lost time days.

Reportable accidents: 2006/07 objective: a reduction of 10% over 2006 results – North America had only one reportable accident. There was, however, an 8% increase in Europe attributable to French legislative changes. On a like-for-like basis, adjusting for this, Europe achieved a 3% reduction. Asia again had no accidents.

Scapa also implemented a full incident and dangerous occurrence system during the year and reporting will include this in subsequent years.

2007/08 goals:
The focused goal for all Scapa sites remains to be zero accidents and zero lost days. We believe strongly that establishing goals any less than this target would send the message that some level of injury due to work-related accidents is acceptable.

The Board

C J O'Connor Age 54
Chief Executive

Calvin O'Connor joined the Board as Group Chief Executive in October 2005. He has extensive industrial experience covering a wide range of international markets, products and manufacturing processes. Calvin's initial career was with Courtaulds plc before joining the Board of British Vita PLC in 1996. From 2001 to 2005 he was Managing Director of Vita's £400m Industrial Polymers business.

S D Lennon Age 56
Chief Operating Officer

Steve Lennon joined Scapa in 1990 and was appointed to the Board on 1 February 2005 as Chief Operating Officer with responsibility for all commercial and operational activities in the European, North American and Asian regions of Scapa. Steve was President of Scapa Tapes North America and previously worked for Touche Ross & Co where he held a variety of general management, operational and financial positions.

M R Stirzaker Age 51
Company Secretary and General Counsel

Mark Stirzaker is a UK qualified solicitor and joined Scapa in January 2006 with responsibility for its company secretarial and legal affairs worldwide. He has extensive experience of commercial legal matters in manufacturing industry, having previously been Head of Legal at British Vita PLC for over 20 years.

K G G Hopkins * § ° Age 62
Non-Executive Chairman

Dr Keith Hopkins joined the Board on 7 January 2002 after a distinguished career of over 30 years in the global chemical industry. He became Chairman of Scapa on 31 March 2002. He was previously Group Chairman of Croda International plc, Group Chairman of Ellis & Everard plc and a Non-Executive Director of Tate & Lyle plc.

R J Perry * § ° Age 57
Non-Executive Director

Richard Perry is currently Group Finance Director of Fenner plc to which position he was appointed in 1994. He was formerly a senior audit partner with PricewaterhouseCoopers. Richard was appointed to the Scapa Board on 1 June 2005.

Board Committees

* Audit Committee
§ Remuneration Committee
° Nominations Committee

Accounts

Contents

Report of the Directors

The Directors present their Annual Report and Accounts for the year ended 31 March 2007.

Principal activities and business review
Scapa Group plc is the holding company for a group of companies operating in the manufacture and supply of technical adhesive tapes and film. A review of the development of the Group's business is contained on pages 2 to 7 and forms part of this report and complies with the Companies Act 1985.

Results and proposed final dividend
A profit before tax of £12.9m (2006: loss of £14.5m) was recorded for the year ended 31 March 2007, with basic and diluted profit per share of 9.2p (2006: diluted loss per share of 10.6p).

Trading profit, before tax and exceptional items of £8.7m (2006: £17.0m), was £7.0m (2006: £5.4m) with profit per share before exceptional items of 1.1p (2006: loss of 0.1p). No interim dividend was paid to shareholders (2006: nil). The Directors do not recommend the payment of a final dividend (2006: nil).

Post Balance Sheet events are discussed in note 27 to the Accounts.

Annual General Meeting
The Annual General Meeting will be held on 31 July 2007 at 150 Aldersgate Street, London, EC1A 4EJ. Details of the business to be considered at the Annual General Meeting and the Notice of Meeting are included in a separate document, enclosed with this report.

Purchase of own shares
At the forthcoming Annual General Meeting the Directors will once again seek shareholders' approval, by way of special resolution, for the grant of an authority for the Company to make market purchases of its own shares. The authority sought will relate to up to approximately 10% of the issued share capital and will continue until the Company's next Annual General Meeting. The Directors consider that the grant of the power for the Company to make market purchases of the Company's shares would be beneficial for the Company and accordingly they recommend this special resolution to shareholders. The Directors would only exercise the authority sought if they believed such purchase was likely to result in an increase in earnings per share and it would be in the interests of shareholders generally. The minimum price to be paid will be the shares' nominal value and the maximum price will be no more than 5% above average middle market quotations for the shares on the five days before the shares are purchased.

Board of Directors
The names of the present Directors and their biographical details are shown on page 8.

The Articles of Association require each Director to retire and offer himself for re-election by shareholders at least every three years, and also require a minimum of one-third of the Directors to retire by rotation each year.

There are no Directors who are required to retire under the three-year rule. The Director retiring in satisfaction of the rotation rule is Mr Lennon. Mr Tenner will be appointed as Finance Director on 14 June 2007 and under the Articles of Association will be required to retire as a Director at the Annual General Meeting and seek re-election by shareholders. The Board has evaluated the performance and effectiveness of Mr Lennon and will evaluate the performance of Mr Tenner during the current financial year. The Board recommends them both for re-election.

The interests of the Directors in the shares of the Company as at 31 March 2006 and 31 March 2007 are shown in the Directors' Remuneration Report as are details of the Directors' service contracts or letters of appointment.

Employees and employment policies
Scapa is committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee receives less favourable treatment on the grounds of gender, marital status, age, race, colour, nationality, ethnic or national origin, religion, disability, sexuality or unrelated criminal convictions.

Scapa applies employment policies which are believed to be fair and equitable and which ensure that entry into, and progression within, the Company is determined solely by application of job criteria and personal ability and competency.

Scapa aims to give full and fair consideration to the possibility of employing disabled persons wherever suitable opportunities exist. Employees who become disabled are given every opportunity and assistance to continue in their positions or be trained for other suitable positions.

Scapa recognises the importance of good communications with employees and acknowledges that there should be clear channels of communication and opportunities for consultation and dialogue on issues which affect both business performance and employees' working lives. As a global business, the mechanisms for achieving this aim vary between different countries and between different businesses within the Group but include in-house newsletters, bulletins and briefing sessions.

A European Forum exists which enables employee representatives in the UK and continental Europe to discuss overall business issues with senior management of the Group. The Forum holds at least one meeting a year, which is attended by members of the Scapa Executive Teams.

Scapa has a combination of unionised and non-unionised operations across the world and is committed to fostering positive employee relations at all of its locations.

Training and links with the educational sector reinforce Scapa's commitment to employee involvement and development. Employees are also represented on the trustee boards of the Company's pension arrangements.

The Sharesave share option plan continues to give the opportunity to all UK employees with qualifying service to participate in the equity of the Company. As at 31 March 2007, 74 employees were members of the scheme with 868,249 options over shares.

Supplier payment policy
The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The Company had no trade creditors at 31 March 2007.

Research and Development
The Group's spend on research and development is disclosed in note 3 and is focused on developing new derivative product applications for addressing and resolving customer and market requirements.

Health and Safety
One of Scapa's primary objectives is to achieve high standards of safety for its employees. Health and Safety is a standing item on Group Board Meetings and Scapa Executive Team Agendas. Appropriate senior executives, managers and supervisors have defined responsibilities for health and safety and are expected to ensure that the Company's health and safety policy is adhered to. These responsibilities are reviewed regularly on a national and regional basis to ensure appropriate policy development.

Scapa continues to implement a programme of regular health and safety audits. These audits are undertaken across Scapa's manufacturing sites. The purpose of the audit programme is to ensure compliance with health and safety legislation, best safety practices and to aim to secure the well-being of everyone affected by Scapa's manufacturing operations. The health and safety audit was developed in conjunction with Marsh, the Company's former insurance brokers and risk management advisers, using the bespoke Trendtracker software. The software allows Scapa to continually improve the audit standard and benchmark compliance.

Business ethics
The Company requires compliance by its companies and employees with the laws and standards of conduct of the countries in which it does business. This includes legislation implementing anti-corruption conventions. Employees are required to avoid conflicts of interest regarding Company business, to act lawfully and ethically, and to be responsible for communicating in good faith non-compliance issues of which they become aware.

Political and charitable donations
It is not corporate policy to make any political donations and, accordingly, no political donations were made during this year. Charitable donations made during this year amounted to £21,472 (2006: £6,632). The majority of charitable donations made, on a discretionary basis, are to organisations based in the vicinity of Scapa sites, especially organisations which support health, educational and performing arts causes.

Share options
Details of the Company's share capital and options over the Company's shares under the Company's employee share plans are given in note 22 of the accounts on page 59.

Report of the Directors

Major shareholders

The Company has been notified that the following have an interest of 3% or more in the issued share capital of the Company, as at 1 June 2007:

	%
Third Advance Value Realisation Co Ltd	14.06
Silchester International Investors Ltd	12.61
Cazenove Capital Management	10.08
Rights & Issues Investment Trust	7.20
UBS Global Asset Management	6.68
Investec Asset Management	6.58
Wellcome Trust	3.63
M&G Investment Management	3.58

Auditors and disclosure of information to auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors will propose a resolution at the Annual General Meeting re-appointing PricewaterhouseCoopers LLP as auditors to the Company.

By order of the Board
M R Stirzaker, BA, Solicitor
Company Secretary
6 June 2007

Registered Office:
Manchester Road
Ashton-under-Lyne
Greater Manchester
OL7 0ED

Directors' Remuneration Report

This report describes the role and composition of the Remuneration Committee ('the Committee'), the Company's remuneration policy and the arrangements currently applicable for the remuneration of both Executive and Non-Executive Directors. The report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, although the Regulations do not strictly apply to an AIM listed company. A resolution to approve the report will be proposed at the Annual General Meeting 2007.

The parts of the report which are subject to audit by PricewaterhouseCoopers LLP are indicated with an asterisk.

Remuneration Committee
The Committee is comprised of the Non-Executive Directors of the Company, namely Dr Hopkins (Chairman of the Committee) and Mr Perry. The members of the Committee have no personal financial interest in the Company other than as shareholders and the fees paid to them as Non-Executive Directors. The Company Secretary acts as secretary to the Committee.

The Chief Executive is not a member of the Committee but is invited to attend meetings if appropriate. The Committee liaises with the Chief Executive regarding proposals concerning the remuneration of the Chief Operating Officer, the Group Finance Director and other specified senior executives. The Chief Executive is not present when the Committee considers issues relating to his remuneration.

The Committee determines, on behalf of the Board, the Company's policy on the remuneration of the Executive Directors. The Committee determines the total remuneration packages for these individuals, including the recruitment terms, remuneration benefits, employment conditions, pension rights and any compensation payments on termination of office. The Committee also determines the remuneration framework for other specified senior executives. The Committee met four times in the year to 31 March 2007 and all members of the Committee attended each of the meetings.

Advisers
The Committee takes professional advice from within and outside the Company when it feels it to be appropriate to do so.

Remuneration policy
The Committee's policy for the remuneration of Executive Directors aims to:

- pay basic salaries which equate with those paid by other comparator companies of similar market capitalisation and business sector;
- provide executives with opportunities to increase their remuneration by the attainment of key short-term and longer-term objectives;
- encourage the holding of shares in the Company (including the retention of shares acquired via company share based plans);
- provide incentives which aim to align the interests of executives and shareholders and promote the creation of long-term value.

Components of remuneration
The components of the remuneration packages for Executive Directors are as follows:

Basic salaries
This is a fixed cash sum, payable monthly. Salaries are reviewed annually by the Committee in the light of individual performance and market comparisons for similar jobs. Factors considered for comparison purposes include company type and sector, measures of company size and degree of international scope. Any changes made to the Executive Directors' salaries normally take effect from 1 April. The basic salaries of the Executive Directors for the year ending 31 March 2007 are set out in the table on page 14.

Annual bonus
The Company operates a bonus scheme for the Executive Directors and senior executives. Bonus payments are not pensionable. The basis of the Executive Directors' bonus scheme and the targets to be attained are reviewed annually by the Committee.

For the year ended 31 March 2007 the bonus scheme was based on year-on-year improvement in operating profit plus an element relating to improvement in trading working capital. Accordingly, a sliding scale was fixed based on an increment pool for each £550,000 improvement on operating profit for 2005/06. No payment would be made for achievement below that figure, and the scale was targeted to provide a bonus entitlement as a percentage of basic salary as at 1 April 2006. In respect of Mr O'Connor the profit-related element was capped at 57.5% and the working capital related element was capped at 17.5%. In respect of Mr White and Mr Lennon these elements were capped at 45% and 15% respectively.

In respect of 2007/08 the Committee has decided that the focus of the bonus scheme should remain year-on-year improvement in operating profit plus an element relating to improvement in trading working capital. Accordingly, a sliding scale has been fixed based on an increment pool for each £400,000 improvement in operating profit for 2006/07. No payment would be made for achievement below that figure, and the

Directors' Remuneration Report

scale is targeted to provide a bonus entitlement as a percentage of basic salary as at 1 April 2007. In respect of Mr O'Connor the profit-related element is capped at 57.5% and the working capital related element is capped at 17.5%. In respect of Mr Lennon these elements are capped at 45% and 15% respectively, and on appointment Mr Tenner will be entitled to the same levels of bonus on a time apportioned basis from the date of his appointment.

Benefits in kind

In addition to pension provisions, Executive Directors are also entitled to Company car benefits, private medical insurance, permanent health cover and life assurance.

Directors' emoluments*

The elements of Executive Directors' remuneration for the year ended 31 March 2007 are set out in the following table:

	Basic salary (excluding pensions) £	Annual bonus (payable June 2007) £	Benefits in kind (excluding pensions) £	Total emoluments 2007 £	Total emoluments 2006 £
C J O'Connor	237,000	99,770[1]	14,441	351,212	117,043
S D Lennon[§]	191,596	31,422	18,910	241,928	213,551
C M White (resigned 29 November 2006)	97,124	15,525	8,218	120,867	150,041
	525,720	146,717	41,569	714,007	480,635

§ Based in the USA

1 The bonus paid to Mr O'Connor included a discretionary element of £50,000 which the Remuneration Committee agreed to be appropriate to reward his significant contribution in negotiating the terms of the business disposals which took place during the year, and the consequent strengthening of the financial position of the Company.

Dollar/Sterling exchange rates used are the average prevailing for the relevant year.

Mr White was also paid the sum of £90,500 during the year (equating to six months' total remuneration) as compensation for loss of office in accordance with the terms of a compromise agreement dated 5 February 2007. A further sum up to a maximum of £91,248 will be paid to Mr White under the terms of the compromise agreement during the period from 1 June 2007 to 30 November 2007 depending upon his employment status.

Aggregate emoluments for all Executive and Non-Executive Directors for the year ended 31 March 2007 were £847,677 (excluding compensation for loss of office). Aggregate emoluments for all Executive and Non-Executive Directors for the year ended 31 March 2006 were £726,000.

Pension arrangements*

Mr O'Connor is not a member and Mr White was not a member of a Group pension scheme and have made their own independent pension arrangements into which the Company paid contributions totalling £84,700 and £18,936 respectively for the year to 31 March 2007. Company contributions to the defined contribution plans in which Mr Lennon participates totalled £20,790 for the year to 31 March 2007.

Defined Benefit Scheme – USA

	Accrued pension at 31.03.07 £ p.a.	Increase in accrued pension during the year £ p.a.	Accrued pension at 31.03.06 £	Value of net increase in accrual in the year (net of contributions) £	Transfer value of accrued pension at 31.03.07 £	Transfer value of accrued pension at 31.03.06 £	Increase in transfer value in the year (less director's contributions) £
S D Lennon	47,948	9,818	38,130	77,625	379,098	284,969	94,129

Notes

(1) Mr Lennon is eligible to receive benefits under three separate defined benefit plans in the US: one qualified plan and two non-qualified plans. The results shown above are the sum total of these three plans and are shown at the average prevailing Dollar/Sterling exchange rates for the relevant year. These plans do not allow the participant to make contributions to the plan.

(2) The accrued pensions are the amounts which would be paid if the Director left service at the relevant date, but ignoring any vesting or eligibility requirements under the plan.

(3) Inflation imbedded in the accrued benefit amounts has been assumed to be zero for the purpose of calculating the increase in accrued pension net of inflation.

(4) The employer makes contributions to the qualified plan, but these contributions are not allocated to any specific plan participant. The two non-qualified plans are unfunded from the plan's perspective. However, a rabbi trust does exist for these two plans and Scapa has made contributions to the rabbi trust. These contributions belong to the Company and not the participant.

(5) The concept of transfer values does not exist in US defined benefit plans. However, these three defined benefit plans do allow the participant to receive a lump sum benefit if they meet certain eligibility requirements. The lump sum benefits under these three plans have been calculated using the provisions outlined under each plan, but ignoring these eligibility requirements. The calculation of lump sum benefits is regulated by the IRS for qualified plans. The Scapa non-qualified plans use the same provisions for calculating lump sum benefits as the qualified plan.

Executive Share Options

The Scapa Group 1994 Executive Share Option Plan is an approved Inland Revenue scheme, for options granted to UK residents with an aggregate value not exceeding £30,000. All other grants of options over and above the £30,000 threshold and those made to overseas employees are granted under the unapproved part of the scheme. Options granted only become exercisable, in normal circumstances, three years after the date of grant and then may only be exercised if certain performance criteria are met. Options remain exercisable until the tenth anniversary of their date of grant, after which time they lapse. None of the terms and conditions of the executive share options plans were varied during the year.

Under the 1994 US Stock Option Plan, options may be granted over shares at the prevailing market price and are exercisable between the third and tenth anniversary of grant, provided certain criteria have been met. Options granted prior to 22 July 1999 are exercisable if a performance target of improved earnings per share being 2% greater than the change in the RPI over a three-year consecutive period is met.

Options granted since 1999 under the 1994 Executive Share Option Plan and 1994 US Stock Option Plan are only exercisable if the following criterion is satisfied: an option may only be exercised on any particular day (and to the extent specified) that the Company's ranking compared to the ranking of FTSE Small Cap companies (excluding investment trusts) in terms of total shareholder return (TSR) over the previous three-year period is at least in line with the following table:

Position of the Company compared to FTSE Small Cap Companies in terms of TSR increase	Percentage of Option which may be exercised
Median	40%
Between 51st and 74th percentiles	Pro rata on a straight line basis between 42.4% and 97.6%
75th percentile and above	100%

Mr Lennon has been awarded options as shown below in accordance with the 1994 US Stock Option Plan.

Mr White has been awarded options as shown below in accordance with the rules of the 1994 Executive Share Option Plan.

	Year	Options as at 1 April 2006	**Options as at 31 March 2007**	**Exercise price £**	**Dates exercisable**
S D Lennon	1997	10,000	**10,000**	**1.955**	07.08.00 to 06.08.07
	1999	80,000	**80,000**	**1.71**	10.08.02 to 09.08.09
	2000	80,000	**80,000**	**1.39**	07.06.03 to 06.06.10
	2001	8,000	**8,000**	**0.945**	16.07.04 to 15.07.11
	2002	17,500	**17,500**	**0.49**	21.06.05 to 20.06.12
		195,500	**195,500**		
C M White	2002	30,000	**30,000**	**0.49**	21.06.05 to 20.06.12

All of the options held by Mr White remain capable of exercise during the period of 12 months following his departure from the Company on 30 November 2006 (and whether or not the performance condition referred to above has been satisfied).

No options were either exercised or lapsed during the year.

The 1994 Executive Share Option Plan and 1994 US Stock Option Plan expired on 21 July 2004 and, as replacements, a Long Term Incentive Plan and a new Executive Share Option Plan were introduced, each of which is described below. All new executive incentive schemes are subject to shareholder approval.

Directors' Remuneration Report

Executive Share Options (2004 Plan)

The Company operates an additional Executive Share Option plan for senior executives in the UK and overseas, namely the Scapa Group plc 2004 Executive Share Option Plan which was approved by shareholders at the Company's Annual General Meeting on 22 July 2004.

The 2004 Plan provides a potential reward in shares for improvement in Company performance reflected in the share price. The option provides the opportunity to purchase shares at a fixed exercise price dependent on achievement of predetermined performance targets.

The 2004 Plan has two parts; an Unapproved Discretionary Share Option Plan (the 'Unapproved Part') and an addendum containing an Inland Revenue approved Discretionary Share Option Plan (the 'Approved Part'). The Approved Part of the 2004 Plan can be used to grant options to UK residents with an aggregate value not exceeding £30,000. All other grants of options over and above the £30,000 threshold and those made to overseas employees are granted under the Unapproved Part of the 2004 Plan. Options only become exercisable, in normal circumstances, three years after the date of grant and then may only be exercised if certain performance criteria are met. Options remain exercisable until the tenth anniversary of their date of grant, after which they lapse.

The ability to exercise the option is dependent upon the achievement of predetermined performance targets based on growth in earnings per share (EPS) over changes in the retail price index (RPI). The current target set by the Committee is compound annual growth of RPI plus 4% per annum at which 50% of the options will vest. At RPI plus 5% per annum 75% of the options will vest and at RPI plus 6% per annum 100% of the options will vest.

Under the 2004 Plan, the Committee has the discretion to grant awards up to a maximum of 150% of salary per annum. Options may be granted under the Executive Share Option Plan in the same year as awards under the Performance Share Plan subject to a review of the overall expected value.

Awards made under the 2004 Plan are as follows:

	Year	Options as at 1 April 2006	**Options as at 31 March 2007**	**Exercise price £**	**Dates exercisable**
C J O'Connor	2006	–	**500,000**	**0.2225**	01.09.09 to 31.08.16
S D Lennon	2006	–	**150,000**	**0.2225**	01.09.09 to 31.08.16
			650,000		

Long Term Incentive Plan

The Company has a long term incentive plan that operates internationally known as the Scapa Group plc 2004 Performance Share Plan, which was approved by shareholders at the Annual General Meeting on 22 July 2004 with the first awards made shortly thereafter. The plan has been designed to provide progressive levels of reward in the form of Company shares for the achievement of challenging levels of performance.

Executive Directors and selected senior executives are invited by the Committee to participate in the Plan. Awards under the Plan take the form of either an annual allocation of ordinary shares or a grant of Nil Cost Options over shares with a market value at the time of grant equivalent to a maximum of 100% of basic salary at that time with vesting taking place at the expiry of the three-year performance period of the Plan, subject to attainment of the performance targets.

Awards in the form of an allocation of ordinary shares lapse at the end of the three-year performance period to the extent that the performance conditions have not been met. Awards in the form of a Nil Cost Option remain exercisable until their tenth anniversary of the date of grant, subject to achievement of the performance conditions, after which they lapse.

The Committee is responsible for setting the performance criteria and targets and takes independent advice in doing so. The Committee considers total shareholder return (TSR) to be one of the key performance measures over which the financial value of the Company is assessed over the medium to long-term. The use of TSR measured against the constituents of the FTSE All Share Index is considered a suitably challenging criterion in the current market. The Committee believes that this method of calculating performance provides an independent and verifiable measure of the Company's performance.

A minimum level of performance must be achieved for any award to vest. The performance target for the awards made in 2004 requires the Company's TSR performance when measured against the FTSE All Share Index to be at least at the median level for any portion of the award to vest, at which level 25% of the award will vest. 75% of the award will vest for top quartile performance, and 100% of the award will vest for top decile performance. Awards vest on a straight line basis for performance between these levels.

Awards made under the 2004 Long Term Incentive Plan are as follows:

	Shares under option as at 1 April 2006	**Shares under option as at 31 March 2007**	**Exercise price £**	**Dates exercisable**
C J O'Connor	–	**500,000**	**Nil**	01.09.09 to 31.08.16
S D Lennon	150,000	**150,000**	**Nil**	16.08.07 to 15.08.14
	–	**250,000**	**Nil**	01.09.09 to 31.08.16
		400,000		
C M White	250,000§	**–**	**Nil**	16.08.07 to 15.08.14
	400,000	**900,000**		

§ The Award in favour of Mr White lapsed upon his departure from the Company on 30 November 2006.

Sharesave

The Scapa Group 2001 Sharesave Scheme and Scapa Group 1991 Sharesave Scheme are Inland Revenue approved Save-As-You-Earn share option schemes. Options have usually been offered annually, subject to approval by the Group Board, following the publication of the Company's preliminary results to eligible employees (including Executive Directors) in the United Kingdom who have worked a minimum six month qualifying period and agree to save a fixed amount for five years under an approved savings contract. Inland Revenue rules limit the maximum amount that can be saved by a participant to £250 per month. In normal circumstances options are exercisable for six months following the completion of a savings contract using the proceeds from that contract. The exercise price is based on the market value of the shares as of the date of grant, less a discount of 20%.

Details of the sharesave options subscribed for by each Executive Director under the schemes are set out below:

	Year	Options as at 1 April 2006	**Options as at 31 March 2007**	**Exercise price £**	**Dates exercisable**
C M White	2002	35,212	**35,212**	**0.47**	01.09.07 to 29.02.08

All of the options held by Mr White remained capable of exercise during the period of 6 months following his departure from the Company on 30 November 2006.

No sharesave options were granted to any Directors during the financial year 2006/07. No sharesave options were either exercised or lapsed during the year.

Non-Executive Directors' remuneration*

The remuneration policy for Non-Executive Directors is determined by the Board. Remuneration comprises an annual fee for acting as a Non-Executive Director of the Company and an additional fee for acting as the Chairman of a Board Committee. Non-Executive Directors are not eligible to participate in the Company pension schemes nor any incentive plans.

Non-Executive Directors' remuneration for the year to 31 March 2007 is set out in the following table:

	Total Fees £	
	2007	2006
K G G Hopkins	**80,004**	115,002[1]
R J Perry	**33,667**	25,000
M C Baughan (retired 25 July 2006)	**10,000**	32,083
S Kalyandjian (retired 25 July 2006)	**10,000**	29,583
	133,671	201,668

[1] The underlying remuneration of Dr Hopkins as Non-Executive Chairman remained at the rate of £80,000 throughout the period. The additional payment of £35,002 relates to the period between 1 June 2005 and 10 October 2005, during which period Dr Hopkins acted as Executive Chairman of the Company.

The Non-Executive Directors may not participate in annual bonus arrangements, healthcare arrangements, company share option or pension schemes. The Company repays the reasonable expenses they incur in carrying out their duties as Directors.

Directors' Remuneration Report

Directors' interests

As of 31 March 2007 the Directors and their immediate families had the following beneficial interests in the Company's shares and options to subscribe for shares:

	31 March 2007				31 March 2006			
	Shares	**Executive share options**	**Performance Share Plan**	**SAYE share options**	Shares	Executive share options	Performance Share Plan	SAYE share options
C J O'Connor	**100,000**	**500,000**	**500,000**	**–**	50,000	–	–	–
S D Lennon	**50,900**	**345,500**	**400,000**	**–**	900	195,500	150,000	–
K G G Hopkins	**100,000**	**–**	**–**	**–**	100,000	–	–	–
R J Perry	**25,000**	**–**	**–**	**–**	–	–	–	–
	275,900	**845,500**	**900,000**	**–**	150,900	195,500	150,000	–

From the end of the financial year until 6 June 2007 there have been no changes in the above interests.

The market price of the Company's shares at the end of the financial year was 25.25p and the range of market prices during the year was between 17.75p and 29.0p.

Individual Service Contracts

Mr O'Connor has a service agreement with the Company on a rolling one-year term basis, effective from 10 October 2005, which is terminable by twelve months' notice in writing by either party.

Mr Lennon has a service agreement with the Company on a rolling one-year term basis, effective from 1 February 2005, which is terminable on twelve months' notice in writing by either party.

Mr Tenner will have a service agreement on a rolling one-year basis, effective from 14 June 2007, which will be terminable on twelve months' notice in writing by either party.

In addition to the normal notice provisions, the Company may also terminate service agreements of Mr O'Connor and Mr Lennon at any time with immediate effect on payment in lieu of notice equivalent to twelve months' gross basic salary. The service agreement of Mr Tenner will contain a similar provision.

There are no express provisions for compensation payable upon early termination of an Executive Director's contract as at the date of termination other than as detailed above.

It is Company policy that all executive appointments to the Board will have contract notice periods of no longer than twelve months.

Non-Executive Directors, other than the Chairman, are appointed for an initial three-year term which may be renewed for two further three-year terms thereafter. The Non-Executive Directors do not have contracts of service and are not entitled to compensation in the event of early termination, for whatever reason. The appointment of the Non-Executive Directors may be terminated by either party by twelve months' notice in writing.

Details of the appointments of the Non-Executive Directors are as follows:

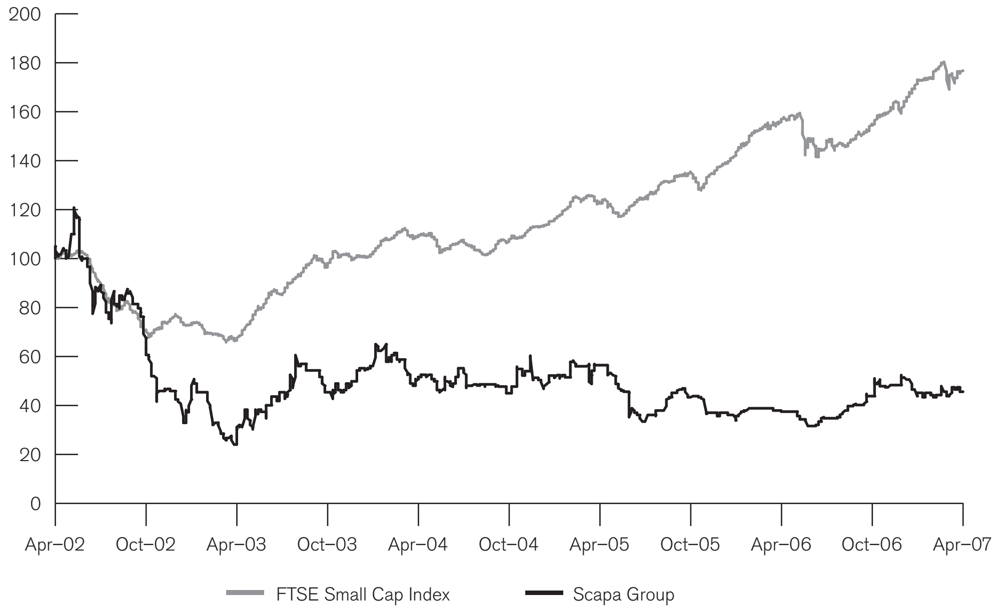
Pursuant to a letter dated 29 November 2001 issued by the Company, Dr Hopkins was appointed a Non-Executive Director of the Company with effect from 7 January 2002. Pursuant to an agreement dated 31 March 2002 Dr Hopkins became Chairman of the Company. His appointment was initially for a fixed term of three years but this was extended to a rolling one-year term basis with effect from 31 March 2005. The appointment is terminable on twelve months' notice in writing by either party.

Pursuant to a letter dated 5 May 2005 Mr Perry was appointed a Non-Executive Director of the Company with effect from 2 June 2005. His appointment is for an initial term of three years. The unexpired term of the appointment is therefore one year and two months as of 31 March 2007.

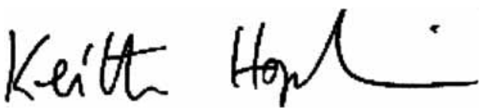
Performance Graph

The graph below shows the Company's TSR (Total Shareholder Return) compared to the FTSE Small Cap Index over the last five years. TSR is defined as share price growth plus reinvested dividends. In the opinion of the Directors, the FTSE Small Cap Index is the most appropriate index against which the TSR of Scapa Group plc should be measured because it is an index of similar sized companies to Scapa Group plc.

Relative Returns Analysis of Scapa versus Sector (rebased to 100)



Source Thomson Datastream



K G G Hopkins
Chairman, Remuneration Committee
6 June 2007

Corporate Governance

On 23 August 2006, the listing of the Company's shares on the Official List of the UK Listing Authority was cancelled and the shares were admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange. As a result, the Company is no longer bound to observe the Combined Code. It is the Company's policy, however, to adhere to the principles of good governance. As a minimum, the Company aims to comply with the Code of Best Practice of the Quoted Companies Alliance and, where appropriate for a company of its size and resources, with the provisions of the Combined Code.

The Board
The Group is controlled through its Board of Directors. The Board's main roles are to create value for shareholders, to provide entrepreneurial leadership of the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable those objectives to be met. The Board, which meets at least six times a year, has a schedule of matters reserved for its approval. The full Board met eight times during 2006/07 and each member attended all of the meetings during the term of his appointment, except Mr Kalyandjian and Mr Baughan who were both unable to attend one meeting.

The specific responsibilities reserved to the Board include setting Group strategy and approving an annual budget and medium-term projections; reviewing operational and financial performance; approving major acquisitions, divestments and capital expenditure; reviewing the Group's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place and reviewing the environmental, health and safety performance of the Group. The Board delegates matters not reserved to the Board concerning the management of the business to the Scapa Executive Teams.

The roles of the Chairman and Chief Executive
The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is a Non-Executive Director and has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors, ensures Directors receive accurate, timely and clear information and facilitates effective communication with shareholders. As was announced on 31 January 2007, Dr Hopkins has confirmed his intention to retire as Chairman during the course of 2007. The Board has initiated a search process through the use of external consultants to identify a suitable successor. The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Senior Independent Director
Following the retirement of Mr Baughan, Mr Perry is currently the Senior Independent Director. The Senior Independent Director is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for investor communication.

Directors and Directors' independence
As at 31 March 2007 the Board comprised the Non-Executive Chairman, one independent Non-Executive Director and two Executive Directors. The names of the Directors together with their biographical details and any other directorships are set out on page 8. All the Directors served throughout the period under review. The Non-Executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

The Non-Executive Directors meet formally, at least once a year, without the Executive Directors and also meet informally on other occasions.

The Directors are given access to independent professional advice at the Group's expense, when the Directors deem it is necessary in order for them to carry out their responsibilities.

The Group maintains, for its Directors and officers, liability insurance for any claims or series of claims against them in that capacity.

The Board considers all its Non-Executive Directors to be independent in character and judgement. No Non-Executive Director has been an employee of the Group within the last five years*; has or has had within the last three years, a material business relationship with the Group; receives remuneration other than a Director's fee; has close family ties with any of the Group's advisers, Directors or senior employees; holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies; or represents a significant shareholder.

* During the period between the resignation of Mr Watson as Chief Executive on 1 June 2005 to the appointment of Mr O'Connor on 10 October 2005, Dr Hopkins acted as Executive Chairman of the Company but did not have a contract of employment.

Professional development
On appointment each Director takes part in an induction programme when they receive comprehensive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the Board and Committees, and the powers delegated to those Committees, the Group's corporate governance practices and procedures, including the powers reserved to the Group's most senior executives, and the latest financial information about the Group. This is supplemented by visits to key locations and meetings with key senior executives. Throughout their period in office the Directors are updated on the Group's business, the competitive environments in which it operates, corporate social responsibility matters and other changes affecting the Group and the industry it operates in as a whole. The Directors are also required to update their skills and knowledge by attending appropriate external courses and are required to inform the Company in writing of courses attended during the year.

Performance evaluation
The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its Committees and individual Directors. The Directors are made aware on appointment that their performance will be subject to an evaluation.

Each year every Board member is obliged to complete a performance evaluation questionnaire. This questionnaire provides a framework for the evaluation process, and provides the Chairman with a means of making year-to-year comparisons. The questionnaire covers the Board; the Remuneration Committee; the Nominations Committee and the Audit Committee. The questionnaire includes specific references to the objectives of the Board and Committees and the effectiveness of the individual Directors. The Chairman collates the results from the completed questionnaire and the results are discussed at Board/Committee level and objectives are agreed for the following year.

Led by the Senior Independent Director the Directors meet annually, without the presence of the Chairman, to conduct a performance evaluation of the Chairman. A similar method to that described above is employed.

Re-election
Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance evaluation, Non-Executive Directors are appointed for an initial period of three years. Before the third and sixth anniversary of the Non-Executive Director's appointment, the Director discusses with the Board whether it is appropriate for a further three-year term to be served. The reappointment of Directors who have served for more than nine years (if any) is subject to annual review. The Directors who are subject to re-election at the 2007 Annual General Meeting are listed in the Board of Directors paragraph in the Report of the Directors.

The Company Secretary
The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The Directors have access to the advice and services of the Company Secretary. The Company's Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Information
Board reports and papers are circulated to the Directors five days in advance of the relevant Board or Committee meeting. These papers are supplemented by information specifically requested by the Directors from time to time. Minutes of Board and Committee meetings are circulated to all Board members.

The Non-Executive Directors receive monthly management accounts and regular management reports and information which enables them to scrutinise the Group's and management's performance against agreed objectives.

Relations with shareholders
The Chairman gives feedback to the Board on issues raised with him by major shareholders. This is supplemented by twice-yearly feedback to the Board on meetings between management and investors and external brokers' reports on the Group are circulated to all Directors. The Annual General Meeting is normally attended by all Directors and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended.

The Group maintains a corporate web site (www.scapa.com) which contains information on company activities, financial information and published financial results. The Group has discussions with institutional shareholders on a range of issues affecting its performance. These include meetings following the announcement of the annual and interim results with the Group's largest institutional shareholders on an individual basis. In addition, the Group responds to individual ad hoc requests for discussions from institutional shareholders. The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate.

Corporate Governance

All shareholders, including private investors, have an opportunity at the Annual General Meeting to put questions to members of the Board on matters relating to the Group's operation and performance. The Notice calling the Annual General Meeting is despatched at least 20 working days before the meeting. Separate resolutions are proposed at the Annual General Meeting on each substantially separate issue. The Chairman discloses to the meeting the number of proxy votes received for and against each resolution following the show of hands on that resolution.

Going concern

In presenting the annual and interim financial statements, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group continues to adopt the going concern basis in preparing the financial statements.

Internal control system

In accordance with the Turnbull Guidance on internal control, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks to the achievement of the Group's strategic objectives. The process has been reviewed regularly throughout the period by the Audit Committee up to the date of this report, and accords with the requirements of the 2003 Code relating to internal control as set out in the September 1999 'Internal Control Guidance for Directors on the Combined Code' produced by the Institute of Chartered Accountants in England and Wales. The effectiveness of this process has been reviewed regularly throughout the period by the Audit Committee, which reports its findings for consideration by the Board.

The Board has carried out a review of the effectiveness of the system of internal controls, and that review covered all material controls (financial, operational, risk management and compliance).

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

- review of potential risk areas and action plans to address these issues, as provided by senior management;
- the review of internal and external audit plans;
- the review of any significant issues arising from internal and external audits;
- annual compliance statements from each business region.

The Scapa Executive Teams meet regularly to review and identify potential areas of business risk, and action plans have been established to address these areas. Progress against these plans is monitored on a regular basis by the senior management team, the Audit Committee and the Board.

The Board has overall responsibility for maintaining and reviewing the effectiveness of the Group's system of internal controls. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed. They are designed to manage rather than eliminate the risk to the achievement of business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Control environment and risk assessment

The processes used to identify and manage the key risks to the success of the Group are an integral part of the internal control environment. Such processes include strategic planning, the appointment of senior managers and a clear organisational structure in which levels of authority and accountability are well defined, and regularly reviewed. There is a recognition of personal responsibility and accountability by members of the management teams of the individual operating units.

Wherever practical, duties are segregated and a high degree of management control is exercised through review by executives of historical and forecast financial information. In addition, the Group has reporting systems that identify major financial and other business risks within the Group.

Financial and business performance is regularly monitored, and operating units are responsible for meeting the defined reporting timetables and compliance with the Group accounting and Treasury manuals which set out accounting policies, controls and definitions. Financial reporting follows generally accepted accounting practice in all areas.

Central review and approval procedures are in place in respect of major areas of risk such as acquisitions and disposals, major contracts, capital expenditure, litigation, treasury management, taxation and environmental issues. Compliance with legislation is closely monitored and reviewed regularly to ensure any new legislation is taken into account, including compliance with environmental legislation. High standards and defined targets are set for safety, health and environmental performance.

Information systems

Comprehensive information systems are maintained at Group and operating unit levels, and are subject to scrutiny by the Board. These include:

- detailed budgeting and forecasting procedures, with an annual budget approval process;
- monthly consideration of actual results compared with budgets and forecasts;
- regular review of the Group's capital expenditure, with detailed appraisal and review procedures, defined authority levels and post-investment performance reviews;

Regular executive and Board meetings, combined with ongoing regional based operational reviews are held with a view to ensuring variances and discrepancies are identified and investigated on a timely basis. The Company also reports to shareholders half-yearly.

Internal audit

The internal audit function has been outsourced to KPMG throughout the financial year. This provides a strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures.

The internal audit function reviews internal controls in all key activities of the Group, typically over a three-year cycle. It also acts as a service to the businesses by assisting with the continuous improvement of controls and procedures. Actions are agreed in response to its recommendations and these are reviewed by the Board and are followed up regularly to ensure that satisfactory control is maintained.

An audit programme is approved by the Audit Committee each year, and is targeted to focus on the most significant areas of risk exposure to ensure that key control objectives remain in place.

Whistle-blowing policy

The Group has a whistle-blowing policy, copies of which are made available to employees, to enable and encourage employees, regardless of seniority, to bring matters which cause them concern to the attention of the Board.

Nominations Committee

The Nominations Committee comprises Dr Hopkins and Mr Perry. Dr Hopkins acts as Chairman of the Committee. The Nominations Committee met four times during the year. All members of the Committee attended each meeting. When necessary, non-Committee members were also invited to attend. The Nominations Committee's terms of reference can be found on the Group's web site (www.scapa.com).

The Nominations Committee considers the mix of skills and experiences that the Board requires and seeks the appointment of Directors to meet its assessment of what is required to ensure that the Board is effective in discharging its responsibilities.

During the year, the Nominations Committee initiated the search for a successor to Mr White. The Committee began the process by identifying the core competencies required of the candidate to carry out the role. A search process was initiated via external recruitment agents as a result of which several potentially suitable candidates were identified, including Mr Tenner who was interviewed initially by the Chief Executive and then by the Non-Executive Directors before a final selection was made and, as a result, he will join the Board on 14 June 2007.

Corporate Governance

Remuneration Committee
During the year the Remuneration Committee comprised Mr Kalyandjian and Mr Baughan (until they retired) and Mr Perry. Dr Hopkins was appointed to the Committee upon the retirement of Mr Kalyandjian and Mr Baughan, and has subsequently acted as Chairman of the Committee. The Remuneration Committee met four times during the year. When necessary non-Committee members were also invited to attend. Except Mr Kalyandjian and Mr Baughan who were unable to attend the meeting held on 5 June 2006, all members of the Remuneration Committee attended all of the meetings.

The Committee's principal responsibilities are:

- setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- setting, reviewing and approving individual remuneration packages for Executive Directors including terms and conditions of employment and any changes to the packages;
- reviewing the salary structure and terms, conditions and benefits of employment of other specified senior executives;
- approving the rules, and launch, of any Group share, share option or cash based incentive scheme and the grant, award, allocation or issue of shares, share options or payments under such scheme.

In addition the Committee regularly reviews the Group's remuneration policy in relation to its competitors and industry norms, compensation commitment and contract periods.

From time to time the Board employs Remuneration consultants. The Remuneration Committee's terms of reference are available on the Group's web site (www.scapa.com).

Audit Committee
During the year the Audit Committee comprised Dr Hopkins and Mr Perry, along with Mr Baughan and Mr Kalyandjian until their retirement. Mr Perry acted as Chairman of the Committee throughout the year. The members of the Committee are the independent Non-Executive Directors.

The Audit Committee met four times during the year and all members attended each of the meetings.

Mr Perry is Group Finance Director of Fenner plc, a listed company, and can therefore be considered to possess recent and relevant financial experience.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. It also reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group. The Committee also reviews the effectiveness of the internal audit function. The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review.

The Committee meets with Executive Directors and management, as well as privately with both the external and internal auditors. The Committee's terms of reference are displayed on the Group's web site (www.scapa.com).

In 2007 the Audit Committee discharged its responsibilities by: reviewing the Group's draft annual financial statements and interim results statement prior to Board approval and reviewing the external auditor's detailed reports thereon; reviewing the appropriateness of the Group's accounting policies; reviewing regularly the potential impact in the Group's financial statements of certain matters such as impairments of fixed asset values and proposed International Accounting Standards; reviewing and approving the audit fee and reviewing non-audit fees payable to the Group's external auditors; reviewing the external auditor's plan for the audit of the Group's accounts, which included key areas of extended scope work, key risks on the accounts, confirmation of auditor independence and the proposed audit fee and approving the terms of engagement for the audit; reviewing reports on the Group's systems of internal control and its effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control; and reviewing the internal audit function, provided by KPMG, terms of reference, its work programme and reports on its work during the year.

The Audit Committee also monitors the Group's whistle-blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action.

Auditors' independence and objectivity

The Audit Committee monitors regularly the non-audit services being provided to the Group by its external auditors to check these services do not impair their independence or objectivity, and that the Group maintains a sufficient choice of appropriately qualified audit firms. Prior approval of the Audit Committee is required for any services provided by the external auditors where the fee is likely to be in excess of £10,000. In any case activities that may be perceived to be in conflict with the role of the external auditor must be submitted to the Committee for approval prior to engagement, regardless of the amounts involved.

The Audit Committee reviews all services being provided by the external auditors in order to review the independence and objectivity of the external auditors, taking into consideration relevant professional and regulatory requirements, so that these are not impaired by the provision of permissible non-audit services.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in note 3 to the financial statements.

By order of the Board
M R Stirzaker
Company Secretary
6 June 2007

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and the Parent Company financial statement in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Parent Company financial statements and the Director's Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRS as adopted by the European Union, and with regard to the Parent Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the Group and Parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Parent Company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's web site. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
M R Stirzaker
Company Secretary
6 June 2007

Independent Auditors' Report to the Members of Scapa Group plc

We have audited the Group financial statements of Scapa Group plc for the year ended 31 March 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, the Group Accounting Policies 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 Scapa Group plc for the year ended 31 March 2007 and on the information in the Directors' Remuneration Report 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 (IFRSs) 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 have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the Group financial statements. The information given in the Report of the Directors includes that specific information presented in the Business Review that is cross referred from the principal activities and business review section of the Report of the Directors.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's 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 Group financial statements. The other information comprises only the Report of the Directors, the Chairman's Statement, the Business 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
6 June 2007

Consolidated Income Statement

For the year ended 31 March 2007

All on continuing operations	note	**Year ended 31 March 2007 £m**	Year ended 31 March 2006 £m
Turnover	1	**184.3**	191.5
Operating profit/(loss)	1, 3	**15.7**	(11.6)
Trading profit*		**7.0**	5.4
Exceptional items and movements in exceptional provisions:			
– Business disposals	4	**11.9**	–
– Reorganisation costs and exceptional provision movements	4	**(1.3)**	(3.4)
– Movement in asbestos litigation costs provision	4	**0.9**	–
– Property, plant and equipment and goodwill impairment	4, 11	**(2.9)**	(13.7)
– Other	4	**0.1**	0.1
Operating profit/(loss)		**15.7**	(11.6)
Interest payable	7	**(1.2)**	(1.3)
Interest receivable	7	**0.7**	0.3
		(0.5)	(1.0)
Discount on provisions	7	**(0.4)**	(0.5)
IAS 19 finance costs	7	**(1.9)**	(1.4)
Net finance costs		**(2.8)**	(2.9)
Profit/(loss) on ordinary activities before taxation		**12.9**	(14.5)
Taxation on operating activities	8	**(2.6)**	(2.7)
Exceptional tax credit	8	**3.0**	1.9
Taxation credit/(charge)	8	**0.4**	(0.8)
Retained profit/(loss) for the year		**13.3**	(15.3)
Weighted average number of shares	22	**144.8**	144.8
Basic and diluted earnings/(loss) per share (p)	9	**9.2**	(10.6)

Consolidated Statement of Recognised Income and Expense

For the year ended 31 March 2007

All on continuing operations	note	**Year ended 31 March 2007 £m**	Year ended 31 March 2006 £m
Retained profit/(loss) for the year		**13.3**	(15.3)
Exchange differences on translating foreign operations	23	**(5.2)**	2.3
Actuarial gains/(losses)	23	**3.1**	(19.3)
Total recognised income/(expense) for the year		**11.2**	(32.3)
IFRS transition adjustment (IAS 32 and IAS 39)		**–**	0.2
Total recognised income/(expense)		**11.2**	(32.1)

The notes on pages 31 to 62 form part of these accounts.

*Operating profit before business disposals, impairments, reorganisation costs and exceptional provision increases.

Consolidated Balance Sheet

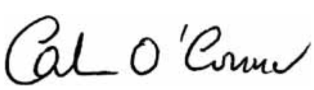
As at 31 March 2007

	note	31 March 2007 £m	31 March 2006 £m
Assets			
Non-current assets			
Goodwill	11, 12	**9.8**	11.2
Property, plant and equipment	11, 13	**33.5**	46.9
Deferred tax asset	8	**6.2**	9.4
		49.5	67.5
Current assets			
Inventory	15	**18.5**	21.6
Trade and other receivables	14	**38.6**	46.5
Financial assets – derivative financial instruments		**–**	0.2
Current asset investments	16	**5.1**	5.7
Current tax asset		**0.1**	–
Cash and cash equivalents	17	**12.5**	3.4
		74.8	77.4
Liabilities			
Current liabilities			
Financial liabilities:			
– Borrowings and other financial liabilities	19	**(0.8)**	(3.0)
– Derivative financial instruments	23	**(0.1)**	(0.1)
Trade and other payables	18	**(29.0)**	(33.6)
Current tax liabilities		**(0.1)**	(0.6)
Provisions	20	**(1.6)**	(2.7)
		(31.6)	(40.0)
Net current assets		**43.2**	37.4
Non-current liabilities			
Financial liabilities:			
– Borrowings and other financial liabilities	19	**(0.5)**	(13.6)
Other non-current liabilities	18	**(2.0)**	(2.1)
Deferred tax liabilities	8	**(0.9)**	(5.0)
Other tax liabilities		**(3.2)**	(2.7)
Retirement benefit obligations	21	**(58.3)**	(63.4)
Provisions	20	**(8.4)**	(9.9)
		(73.3)	(96.7)
Net assets		**19.4**	8.2
Shareholders' equity			
Ordinary shares	22	**7.2**	7.2
Retained earnings	23	**13.9**	(2.6)
Translation reserve	23	**(1.7)**	3.6
Total shareholders' equity		**19.4**	8.2

The notes on pages 31 to 62 form part of these accounts.

These accounts were approved by the Directors on 6 June 2007.

C J O'Connor
Chief Executive Officer



Consolidated Cash Flow Statement

For the year ended 31 March 2007

All on continuing operations	note	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Cash flows from operating activities			
Net cash flow from operations	24	**6.9**	2.1
Cash generated from operations before reorganisation and movements in exceptional provisions	24	**9.1**	6.3
Cash outflows from reorganisation and movements in exceptional provisions	24	**(2.2)**	(4.2)
Net cash flow from operations		**6.9**	2.1
Net interest paid		**(0.5)**	(1.1)
Income tax paid		**(1.3)**	(1.0)
Net cash generated from operating activities		**5.1**	–
Cash flows from investing activities			
Proceeds from business disposals		**21.2**	–
Purchase of property, plant and equipment		**(2.8)**	(2.7)
Proceeds from sale of property, plant and equipment		**0.5**	0.1
Repayment of government grant		**(0.2)**	–
Proceeds from release of $10m Waycross deposit	16	**–**	5.7
Net payments in respect of forward contracts		**–**	(0.3)
Net cash generated from investing activities		**18.7**	2.8
Cash flows from financing activities			
Repayment of borrowings		**(12.4)**	(8.0)
Net cash used in financing activities		**(12.4)**	(8.0)
Net increase/(decrease) in cash and cash equivalents		**11.4**	(5.2)
Cash and cash equivalents at beginning of the year	17	**0.9**	5.7
Exchange (losses)/gains on cash and cash equivalents		**(0.3)**	0.4
Cash and cash equivalents at end of the year	17	**12.0**	0.9

Group Accounting Policies

Scapa Group plc (the Company) and its subsidiaries (together the Group) manufacture and sell technical adhesive tapes. The Group has manufacturing plants around the world and sells mainly in countries within Europe, North America and Asia.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is 997 Manchester Road, Ashton-under-Lyne, Manchester, OL7 0ED. The Company has its listing on the Alternative Investment Market.

These consolidated financial statements have been approved for issue by the Board of Directors on 6 June 2007.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation

The consolidated financial statements of Scapa Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as endorsed for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. A summary of the more important Group accounting policies is set out below; these have been applied consistently throughout the year.

Early adoption of standards

In 2006 the Group early adopted the amended version of IAS 19 'Employee Benefits' issued by the IASB in December 2004 and endorsed by the EU in December 2005. This enables the Group to recognise actuarial gains and losses relating to its defined benefit pension scheme liabilities immediately in full in the Statement of Recognised Income and Expense. The Group has not early adopted any other standards.

New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. The Group has assessed the impact of these new standards and interpretations and it is anticipated that they will have no impact on the Group's financial statements.

Consolidation

The consolidated financial statements include those of the parent company and its subsidiary undertakings up to 31 March in each year prepared under IFRS. The results of subsidiary undertakings acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal respectively.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Segmental reporting

A geographical segment is a group of assets and operations engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group has only one business segment.

Costs are allocated to segments based on the nature of the expense, the activities conducted by the segment and the relative autonomy of the segment.

Exceptional items

Items which are both material and non-recurring in nature are presented as exceptional items so as to provide a better indication of the Group's underlying business performance and are shown separately on the face of the Income Statement.

Deferred consideration

Deferred consideration balances are not discounted in line with Group policy.

Group Accounting Policies

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying net investment hedges.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the translation reserve within shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the Income Statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Land and buildings comprise mainly factories and offices. All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

- Freehold buildings: 40 years
- Leasehold buildings: life of the lease
- Plant and machinery: 5-20 years
- Furniture, fittings and equipment: 5-20 years
- IT systems and software: 3-8 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 estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement within operating profit.

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 acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment, or when an indication of impairment is identified, and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each site.

Intangible assets

Research expenditure is expensed as incurred. Costs associated with developing or enhancing existing product lines are recognised as an expense as incurred.

Development costs are assessed as to whether they meet the IAS 36 criteria for capitalisation. No costs have been incurred by the Group which meet those criteria.

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 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 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 determined based on the estimated future cash inflows and outflows derived from the continued use of the asset and from its ultimate disposal. These cash flows are discounted using the Group's pre-tax weighted average cost of capital, adjusted to reflect any risks specific to the asset for which the estimated future cash flows have not been adjusted.

Forecasts of future cash flows are based on the best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other available information. These estimates are adjusted by a risk premium where appropriate and are reviewed and approved by the Audit Committee.

Financial instruments

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss and loans, receivables and payables. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets and liabilities measured at fair value through profit and loss
Financial assets and liabilities are measured at fair value. Instruments in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the Balance Sheet date. Hedge accounting is only applied for net investment hedges, with changes in fair value being taken directly to the translation reserve where hedge accounting is achieved. Changes in fair values of cash flow hedges are taken through the Income Statement, including currency swaps relating to bank borrowings.

(b) Loans, receivables and payables
Loans, receivables and payables are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor or creditor with no intention of trading the receivable or payable. They are included in current assets or liabilities, except for maturities greater than 12 months after the Balance Sheet date. These are classified as non-current assets or liabilities. Loans and receivables are included in trade and other receivables or trade and other payables in the Balance Sheet. Loans, receivables and payables are measured at invoice or historic cost less any impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) allocated on a systematic basis. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for obsolete, slow moving and defective inventory on a line by line basis, or by grouping similar or related items.

Trade receivables

Trade receivables are recognised initially at invoice value, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Income Statement.

Cash and cash equivalents

Cash and cash equivalents include 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.

Group Accounting Policies

Share capital

Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or in respect of interim dividends when approved by Directors.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost.

Borrowings are classified as current liabilities unless the Group has a right to defer settlement of the liability for at least 12 months after the Balance Sheet date.

Borrowings are subsequently stated at amortised cost with interest being recognised in the income statement over the period of the borrowings, using the effective interest method.

Deferred taxation

The charge for taxation, comprising both UK and non-UK taxation, is based on the taxable profits for the year and also takes into account deferred taxation. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated biannually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' equity.

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 of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation
The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is calculated using the Binomial model and is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable.

It recognises the impact of the revision of original estimates, if any, in the Income Statement, and a corresponding adjustment to equity, over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Holiday pay
The Group recognises an asset or liability relating to holiday pay obligations at the Balance Sheet date. Movements in the period are taken to the Income Statement.

(d) Bonus plans
The Group recognises a liability and an expense for bonuses based on a pre-determined formula for key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions
Provisions for environmental restoration, restructuring costs and legal claims 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 has been reliably estimated.

Where the effect is material, provisions are discounted in line with IAS 37 using a pre-tax discount rate. The discount rate does not reflect risks for which the estimated future outflows have already been adjusted.

Revenue recognition
Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods
Sales of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, and when the Group entity has no continuing managerial involvement nor effective control over the goods. Hence sales are recognised at the point of despatch, when the Group entity has no continuing managerial involvement.

Where items are sold with a right of return, accumulated experience is used to estimate and provide for such returns at the time of sale.

(b) Interest income
Interest income is recognised on an accruals basis.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

Leases in which substantially all of the risks and rewards of ownership are transferred to the Group are classified as finance leases. Finance leases are recognised as assets and liabilities in the Balance Sheet at the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount rate in calculating the present value of the cash outflows. Where the Group does not obtain ownership of the asset at the end of the lease period, the asset is depreciated over the shorter of its useful life and the lease term. Where ownership does pass to the Group at the end of the lease period, the policy for depreciating the asset is consistent with that for depreciable assets that are owned.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is calculated based on the amount of borrowing outstanding, and is charged against profits over the primary lease period.

Government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relate to tangible fixed assets and are treated as deferred income and are credited to the Income Statement over the expected useful lives of the assets concerned.

Group Accounting Policies

Financial risk management

Financial risk factors
The Group's activities expose it to a variety of financial risks: currency risk, interest-rate risk, credit risk, and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group finance department (in close co-operation with the operating units) under policies approved by the Board of Directors.

– Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Canadian Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage its foreign exchange risk the Group uses forward contracts, foreign currency borrowings and foreign currency bank balances. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

– Interest-rate risk

The Group has no significant exposure to interest-rate risk following the repayment of long-term borrowings during the financial year ended 31 March 2007.

– Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

– Liquidity risk

The Group maintains a mixture of committed long-term and short-term facilities designed to ensure that the Group has sufficient cash funds available for operations and planned investment.

Critical accounting estimates and judgements
The Group's accounting policies have been set by management and approved by the Audit Committee. The application of these accounting policies to specific scenarios requires estimates and assumptions to be made concerning the future. These are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Under IFRS estimates or judgements are considered critical where they involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities from period to period. This may be because the estimate or judgement involves matters which are highly uncertain, or because different estimation methods or assumptions could reasonably have been used.

Critical judgements have been made in the following areas when preparing the Group's accounts:

1. Impairment of goodwill and property, plant and equipment – see note 11.
2. Calculation of provisions – see note 20.
3. Retirement benefit liabilities – see note 21.
4. Contingent liabilities – see note 26.

Notes on the Accounts

1. Segmental reporting

Primary Reporting Format – Geographical Segments

The Group operates in three main geographical areas: Europe, North America and Asia. All inter-segment transactions are made on an arms length basis.

The home country of the Company is the United Kingdom.

Segment results

The segment results for the year ended 31 March 2007 are as follows:

	Europe £m	N America £m	Asia £m	Eliminations £m	Corporate £m	Group £m
External sales	111.2	65.3	7.8	–	–	184.3
Inter-segment sales	4.3	2.9	1.6	(8.8)	–	–
Total revenue	115.5	68.2	9.4	(8.8)	–	184.3
Segment result (before exceptional costs)	2.1	7.6	0.2	–	(2.9)	7.0
Exceptional items and movements in exceptional provisions:						
– Business disposals	11.9	–	–	–	–	11.9
– Property, plant and equipment and goodwill impairment	(2.8)	–	(0.1)	–	–	(2.9)
– Movement in asbestos litigation costs provision	–	–	–	–	0.9	0.9
– Reorganisation costs and exceptional provision movements	(1.0)	–	(0.2)	–	(0.1)	(1.3)
– Other	–	(0.2)	–	–	0.3	0.1
Exceptional items	8.1	(0.2)	(0.3)	–	1.1	8.7
Operating profit/(loss)	10.2	7.4	(0.1)	–	(1.8)	15.7
Net finance costs						(2.8)
Profit on ordinary activities before taxation						**12.9**
Taxation on operating activities						(2.6)
Exceptional tax credit						3.0
Taxation credit						0.4
Retained profit for the year						**13.3**

Sales are allocated based on the country in which the order is received. All revenue relates to the sale of goods. The sales analysis based on the location of the customer is as follows:

	Europe £m	N America £m	Other £m	Group £m
External sales	100.3	61.8	22.2	184.3

Other segment items included within the Income Statement based on location of assets are as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Depreciation	(3.9)	(1.1)	–	–	(5.0)
Impairment of goodwill	–	–	(0.1)	–	(0.1)
Impairment of property, plant and equipment	(2.8)	–	–	–	(2.8)
Litigation provision release	–	–	–	0.9	0.9

Notes on the Accounts

1. Segmental reporting continued

The segment results for the year ended 31 March 2006 were as follows:

	Europe £m	N America £m	Asia £m	Eliminations £m	Corporate £m	Group £m
External sales	117.1	66.7	7.7	–	–	191.5
Inter-segment sales	5.9	2.8	1.2	(9.9)	–	–
Total revenue	123.0	69.5	8.9	(9.9)	–	191.5
Segment result (before exceptional costs)	0.7	7.7	(0.1)	–	(2.9)	5.4
Exceptional items and movements in exceptional provisions:						
– Business disposals	–	–	–	–	–	–
– Property, plant and equipment and goodwill impairment	(10.3)	(2.7)	(0.7)	–	–	(13.7)
– Movement in asbestos litigation costs provision	–	–	–	–	–	–
– Reorganisation costs and provision increases	(2.2)	(0.1)	–	–	(1.1)	(3.4)
– Other	–	–	–	–	0.1	0.1
Exceptional items	(12.5)	(2.8)	(0.7)	–	(1.0)	(17.0)
Operating (loss)/profit	(11.8)	4.9	(0.8)	–	(3.9)	(11.6)
Net finance costs						(2.9)
Loss on ordinary activities before taxation						**(14.5)**
Taxation on operating activities						(2.7)
Exceptional tax credit						1.9
Taxation charge						(0.8)
Retained loss for the year						**(15.3)**

Sales are allocated based on the country in which the order is received. All revenue relates to the sale of goods. The sales analysis based on the location of the customer was as follows:

	Europe £m	N America £m	Other £m	Group £m
External sales	106.7	63.5	21.3	191.5

Other segment items included within the Income Statement based on location of assets were as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Depreciation	(5.0)	(1.3)	(0.1)	–	(6.4)
Impairment of goodwill	(8.3)	(2.6)	–	–	(10.9)
Impairment of property, plant and equipment	(2.0)	(0.1)	(0.7)	–	(2.8)
Other non-cash expenses	–	(0.1)	–	(0.1)	(0.2)

2. Segment assets and liabilities

The segment assets and liabilities at 31 March 2007 and capital expenditure for the year then ended are as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Segment assets	63.4	36.5	3.2	21.2	124.3
Segment liabilities	(56.0)	(11.3)	(1.1)	(36.5)	(104.9)
Capital expenditure	(1.5)	(1.2)	(0.1)	–	(2.8)

The segment assets and liabilities at 31 March 2006 and capital expenditure for the year then ended were as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Segment assets	78.4	52.9	3.8	9.8	144.9
Segment liabilities	(63.1)	(16.0)	(0.8)	(56.8)	(136.7)
Capital expenditure	(1.5)	(1.0)	–	(0.1)	(2.6)

The Group is organised into geographical areas and does not report to management on any other basis. The Group has only one business segment, being the sale of technical adhesive tapes and as such there is no additional secondary segment information to report under IAS 14.

3. Operating profit/(loss)

The operating profit/(loss) for the year comprises:

	2007 Pre Exceptional £m	**2007 Exceptional £m**	**2007 Total £m**	2006 Pre Exceptional £m	2006 Exceptional £m	2006 Total £m
Turnover	**184.3**	**–**	**184.3**	191.5	–	191.5
Change in stocks of finished goods and WIP	**1.0**	**–**	**1.0**	3.0	–	3.0
Raw materials and consumables	**(84.2)**	**–**	**(84.2)**	(90.2)	–	(90.2)
Other external charges	**(20.8)**	**–**	**(20.8)**	(21.8)	–	(21.8)
Directors and employees costs	**(50.1)**	**–**	**(50.1)**	(52.0)	(2.1)	(54.1)
Depreciation of tangible fixed assets						
– owned assets	**(4.9)**	**–**	**(4.9)**	(6.3)	–	(6.3)
– leased assets	**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)
Impairment of goodwill	**–**	**(0.1)**	**(0.1)**	–	(10.9)	(10.9)
Impairment of property, plant and equipment	**–**	**(2.8)**	**(2.8)**	–	(2.8)	(2.8)
Operating lease rentals						
– land and buildings	**(1.8)**	**–**	**(1.8)**	(2.1)	–	(2.1)
– plant, machinery and other	**(1.3)**	**–**	**(1.3)**	(1.4)	–	(1.4)
Auditors remuneration (UK £0.1m (2006: £0.1m))	**(0.3)**	**–**	**(0.3)**	(0.3)	–	(0.3)
Other fees paid to auditors (UK £0.1m (2006: £0.1m))	**(0.2)**	**–**	**(0.2)**	(0.3)	–	(0.3)
Profit on business disposals	**–**	**11.9**	**11.9**	–	–	–
Profit/(loss) on sale of fixed assets	**–**	**0.5**	**0.5**	(0.3)	0.1	(0.2)
Repairs and maintenance costs	**(2.6)**	**–**	**(2.6)**	(2.8)	–	(2.8)
Research and development costs	**(3.4)**	**–**	**(3.4)**	(3.4)	–	(3.4)
Amortisation of government grants received	**0.2**	**–**	**0.2**	0.2	–	0.2
Other reorganisation costs and exceptional provision increases	**–**	**(0.4)**	**(0.4)**	–	(1.3)	(1.3)
Move in fair value of financial instruments	**(0.2)**	**–**	**(0.2)**	(0.1)	–	(0.1)
Other operating charges	**(8.6)**	**(0.4)**	**(9.0)**	(8.2)	–	(8.2)
Total operating profit/(loss)	**7.0**	**8.7**	**15.7**	5.4	(17.0)	(11.6)

Other fees paid to auditors include **£0.1m** (2006: £0.3m) tax compliance and advisory together with other consultancy fees of **£0.1m** (2006: £nil).

The parent company audit fee was **£0.1m** (2006: £0.1m).

Notes on the Accounts

4. Exceptional items

In the year ended 31 March 2007 the exceptional items for the Group totalled a net credit of £8.7m and comprised:

Business disposals during the year resulted in a profit of £11.9m following the sale of peripheral businesses; the Megolon compounding business was sold in October 2006 at a profit of £9.4m, followed by the sale of the Lymington sealant business in February 2007 at a profit of £2.6m. These profits on disposals were offset by a £0.1m loss on the sale of the loss-making Irish distribution business in June 2006.

Reorganisation costs and exceptional provision movements totalled £1.3m in the year, of which £1.5m was incurred in connection with redundancies across the Group, offset by a credit of £0.2m relating to the net movements for exceptional and onerous lease provisions.

In addition, there was a provision release of £0.9m in the year relating to the asbestos litigation provision following the new legal agreement with the insurance companies effective from April 2006.

Impairments of property, plant and equipment of £2.8m were booked in the year following a review of the projected future cash flows relating to a UK site and the Group's Swiss site. In addition, a goodwill balance of £0.1m was impaired relating to the Group's activities in China following a slower than anticipated development in performance.

Other exceptional items resulted in a net gain of £0.1m in the year largely due to the profit on the sale of residual properties (£0.5m), offset somewhat by other exceptional items including the costs associated with a fire at the Group's USA Carlstadt site (£0.2m).

5. Employee benefit expense

	2007 £m	2006 £m
Wages and salaries	**39.6**	41.2
Social security costs	**6.5**	6.2
Share options granted to directors and employees	**0.1**	0.1
Pension costs – defined contribution plans (note 21)	**2.0**	2.6
Pension costs – defined benefit plans (note 21)	**1.9**	1.9
	50.1	52.0
Reorganisation and termination costs (note 4)	**1.5**	2.1
	51.6	54.1

Average employee numbers

	2007	2006
Europe	**955**	1,060
North America	**487**	502
Asia	**84**	77
	1,526	1,639

6. Related parties

Key management compensation

	2007 £m	2006 £m
Salaries and other short-term employee benefits	**0.8**	0.5
Termination benefits	**0.1**	0.2
Post employment benefits	**–**	0.1
	0.9	0.8

7. Net finance costs

	2007 £m	2006 £m
Interest payable on bank loans and overdrafts	**(1.2)**	(1.3)
Expected return on pension scheme assets less interest on scheme liabilities	**(1.9)**	(1.4)
Discount on provisions	**(0.4)**	(0.5)
	(3.5)	(3.2)
Interest receivable and similar income	**0.7**	0.3
Net financial expenses	**(2.8)**	(2.9)

8. Taxation

Income tax expense	**2007 Operating £m**	**2007 Exceptional £m**	**2007 Total £m**	2006 Operating £m	2006 Exceptional £m	2006 Total £m
Recognised in the Income Statement:						
UK corporation tax:						
– current year	**0.2**	**–**	**0.2**	–	–	–
– prior year	**–**	**–**	**–**	0.3	–	0.3
Non-UK corporation tax:						
– current year	**(0.8)**	**–**	**(0.8)**	(1.4)	–	(1.4)
– prior year	**0.5**	**–**	**0.5**	0.1	–	0.1
	(0.1)	**–**	**(0.1)**	(1.0)	–	(1.0)
UK deferred tax:						
– current year	**–**	**3.0**	**3.0**	–	–	–
– prior year	**–**	**–**	**–**	–	–	–
Non-UK deferred tax:						
– current year	**(2.9)**	**–**	**(2.9)**	(1.4)	0.8	(0.6)
– prior year	**0.4**	**–**	**0.4**	(0.3)	1.1	0.8
	(2.5)	**3.0**	**0.5**	(1.7)	1.9	0.2
Tax credit/(charge) for the year	**(2.6)**	**3.0**	**0.4**	(2.7)	1.9	(0.8)

The exceptional credit of £3.0m has arisen due to the release of a provision which was no longer required.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the UK corporation tax rate as follows:

	2007 £m	2006 £m
Profit/(loss) before tax	**12.9**	(14.5)
Taxation (charge)/credit at 30%	**(3.9)**	4.3
Adjustments for prior years	**0.9**	1.2
Tax losses utilised but not previously recognised	**6.1**	–
Tax losses arising during the period	**–**	(3.8)
Income not taxable and other deductions	**4.8**	3.3
Items not deductible for tax purposes and other taxable items	**(6.6)**	(5.7)
Effect of local tax rates being higher than expected tax rate	**(0.9)**	(0.1)
Tax credit/(charge) for the year	**0.4**	(0.8)

Deferred income tax

The deferred tax balances included in these accounts are attributable to the following:

	2007 £m	2006 £m
Deferred tax assets:		
– loss arising on transfer of business	**0.8**	2.4
– litigation and other provisions	**5.6**	6.4
– retirement benefit liabilities	**0.9**	1.0
	7.3	9.8
Deferred tax liabilities:		
– accelerated tax depreciation	**(2.0)**	(1.4)
– provision for potential tax liability	**–**	(4.0)
	(2.0)	(5.4)

Notes on the Accounts

8. Taxation continued

As required by IAS 12, deferred tax assets and liabilities have been offset where they arise in the same jurisdictions and are therefore presented on the Balance Sheet as follows:

	2007 £m	2006 £m
Deferred tax assets as above:	**7.3**	9.8
– accelerated tax depreciation liabilities offset against same country assets	**(1.0)**	(0.3)
– other timing difference assets moved to offset against liabilities	**(0.1)**	(0.1)
Deferred tax asset on the Balance Sheet	**6.2**	9.4
Deferred tax liabilities as above:	**(2.0)**	(5.4)
– other timing difference assets offset against same country liabilities	**0.1**	0.1
– accelerated tax depreciation liabilities moved to offset against assets	**1.0**	0.3
Deferred tax liability on the Balance Sheet	**(0.9)**	(5.0)

All movements on deferred tax balances have been recognised in the Income Statement.

Deferred tax assets amounting to £23.7m have not been recognised due to the uncertainty over the utilisation of the underlying tax losses in each jurisdiction. The assets comprise of unrecognised tax losses (£4.4m), accelerated tax depreciation (£2.5m) and retirement benefit liabilities (£16.8m).

In the year ended 31 March 2006 deferred tax assets of £28.0m were not recognised. These comprised of unrecognised tax losses (£7.6m), accelerated tax depreciation (£2.6m) and retirement benefit liabilities (£17.8m).

No taxes have been provided for liabilities which may arise on the distribution of unremitted earnings of subsidiaries on the basis of control, except where distributions of such profits are planned. Cumulative unremitted earnings of overseas subsidiaries totalled approximately £28.1m at 31 March 2007. It is not practicable to calculate the tax which would arise on remittance of these amounts: it would be substantially lower than statutory rates after giving effect to foreign tax credits and UK tax losses.

The gross movement on the deferred income tax account is as follows:

	2007 £m	2006 £m
Beginning of the year	**4.4**	3.5
Income Statement charge	**0.5**	0.3
Exchange differences on translating foreign operations	**(0.6)**	–
Transfer to current tax liabilities	**1.0**	0.6
End of the year	**5.3**	4.4

On 21 March 2007, the Chancellor of the Exchequer announced that the standard rate of corporation tax in the UK would be reduced from 30% to 28% with effect from 1 April 2008. As this reduction has not been enacted or substantially enacted at the Balance Sheet date, the effect of the proposed changes has been disclosed but not recognised in the financial statements. There would be no impact on the Group's results.

The Chancellor of the Exchequer also announced that capital allowances in relation to industrial buildings will be withdrawn over four years from April 2008. Had the deferred tax relating to these buildings been excluded, the unrecognised deferred tax assets would have decreased by £0.3m.

9. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Profit/(loss) attributable to equity holders of the Company (£m)	**13.3**	(15.3)
Weighted average number of ordinary shares in issue (m)	**144.8**	144.8
Basic and diluted earnings/(loss) per share (p)	**9.2**	(10.6)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company currently has no dilutive potential ordinary shares.

	2007	2006
Profit/(loss) attributable to equity holders of the Company (£m)	**13.3**	(15.3)
Weighted average number of ordinary shares in issue (m)	**144.8**	144.8
Basic and diluted earnings/(loss) per share (p)	**9.2**	(10.6)

Headline (before exceptional items)	**2007 £m**	2006 £m
Profit/(loss) attributable to equity holders of the Company	**13.3**	(15.3)
Adjusted for:		
Exceptional items	**(8.7)**	17.0
Exceptional element of tax charge	**(3.0)**	(1.9)
Adjusted profit/(loss) attributable to equity holders of the Company	**1.6**	(0.2)
Weighted average number of ordinary shares in issue (m)	**144.8**	144.8
Headline and diluted headline earnings/(loss) per share (p)	**1.1**	(0.1)

10. Dividends per share

No dividend was proposed at the Annual General Meeting in respect of the year ended 31 March 2006.

11. Impairment of assets

Year ended 31 March 2007

The carrying values of the Group's goodwill and property, plant and equipment balances have been reassessed at 31 March 2007 for any evidence that the carrying value may be impaired. A discount rate of 9.5% based on the Group's weighted average cost of capital has been used in each review.

Impairments in the year totalled £2.9m and were made up as follows:

Impairment at the Rorschach site in Switzerland of £2.0m has been recorded in the period against property. The property was reviewed against value in use using discounted future cash flows of the operation and as a result of slower than anticipated growth in the trading of the local operation, the carrying value of the asset was found to be in excess of the discounted forecast cash flows.

Impairment at the UK North site of £0.8m has been recorded in the period. The plant and equipment at the UK North site were reviewed against the value in use, using discounted future cash flows of the operation, and as a result of the restructuring of the site following the sale of the Megolon business, the carrying value of the remaining assets was found to be in excess of the discounted forecast cash flows.

In addition, an impairment of goodwill of £0.1m relating to the joint venture buy-out of the Chinese operations in 2005 has been recorded in the period. The site has been assessed against value in use, using discounted future cash flows from the site in China and as a result of slower than expected development in performance of the local operation the goodwill balance was impaired in full.

Notes on the Accounts

11. Impairment of assets continued

Year ended 31 March 2006
The following impairments were made in the year ended 31 March 2006 following a review of the carrying value of the Group's goodwill and asset values against the value in use at this time based on projected future cash flow forecasts:

Impairment of goodwill £6.7m, IT systems £0.4m and £0.2m leasehold additions was recorded relating to the UK Dunstable site following a reduction in demand for medical products manufactured at this site. In addition, impairment of the UK North site of £1.6m goodwill, £0.8m IT systems and £0.6m leasehold additions was recorded following a review of the underperformance of certain products manufactured at the site. Property, plant and equipment at the Korean site were also impaired totalling £0.7m, again following a review of the site's performance against the carrying value of the site's assets. Finally, a goodwill impairment of £2.6m and £0.1m plant and machinery was recorded for the North American cable business relating to the LUSA acquisition which had been combined into a cash generating unit (CGU) along with the cable property, plant and equipment in the region to assess the projected future cash flows of the business.

12. Goodwill

	£m
At 1 April 2005	
Cost	37.6
Accumulated amortisation and impairment	(16.6)
Net book value	21.0
Year ended 31 March 2006	
Opening cost	37.6
Exchange differences	2.4
Closing cost	40.0
Opening accumulated amortisation and impairment	(16.6)
Exchange differences	(1.3)
Impairment for the year	(10.9)
Closing accumulated amortisation and impairment	(28.8)

	£m
At 1 April 2006	
Cost	40.0
Accumulated amortisation and impairment	(28.8)
Net book value	11.2
Year ended 31 March 2007	
Opening cost	40.0
Exchange differences	(3.4)
Closing cost	36.6
Opening accumulated amortisation and impairment	(28.8)
Exchange differences	2.1
Impairment for the year	(0.1)
Closing accumulated amortisation and impairment	(26.8)
At 1 April 2007	
Cost	36.6
Accumulated amortisation and impairment	(26.8)
Net book value	9.8

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the country of operation and acquisition.

12. Goodwill continued

A summary of the goodwill allocation is presented below:

Year ended 31 March 2007	Europe £m	N America £m	Asia £m	Total £m
Acutek acquisition	–	9.8	–	9.8

Year ended 31 March 2006	Europe £m	N America £m	Asia £m	Total £m
Asia Joint Venture buy out	–	–	0.1	0.1
Acutek acquisition	–	11.1	–	11.1
	–	11.1	0.1	11.2

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 12 month period. Cash flows beyond this period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business segment in which the CGU operates.

Key assumptions for value-in-use calculations

	Operating margin movement	Growth rate	Discount rate
North America			
Acutek acquisition	0.50%	2.0%	9.5%
Asia			
China JV buy-out	0.50%	2.0%	9.5%

These assumptions have been used for the analysis of each CGU. Management forecast operating margins based on past performance and product mix projections. The weighted average growth rates used are based on management projections for the respective products and markets. The discount rates used are post-tax and are based on the Group's weighted average cost of capital.

A summary of the impairment charges made in the period is given in note 11 above. The only remaining goodwill balance at 31 March 2007 relates to the Acutek Medical operation. Management does not believe that there are any assumptions used in the discounted future cash flow model for this operation where a reasonable change could cause the carrying value of the assets in the CGU to exceed the forecast future cash flows.

Notes on the Accounts

13. Property, plant and equipment

	Freehold land and buildings £m	Long leasehold buildings £m	Plant and machinery £m	Furniture, fittings and equipment £m	IT systems £m	Assets under construction £m	Total £m
At 1 April 2005							
Cost	17.6	7.8	79.3	4.0	15.1	0.8	124.6
Accumulated depreciation	(4.0)	(2.2)	(53.7)	(2.7)	(9.7)	–	(72.3)
Net book value	13.6	5.6	25.6	1.3	5.4	0.8	52.3
Year ended 31 March 2006							
Opening cost	17.6	7.8	79.3	4.0	15.1	0.8	124.6
Exchange differences	0.8	–	1.9	0.1	0.1	–	2.9
Additions	–	–	0.6	0.1	0.1	1.8	2.6
Disposals	–	–	(4.5)	–	–	–	(4.5)
Transfers	0.1	–	0.6	–	0.1	(0.8)	–
Closing cost	18.5	7.8	77.9	4.2	15.4	1.8	125.6
Opening accumulated depreciation	(4.0)	(2.2)	(53.7)	(2.7)	(9.7)	–	(72.3)
Exchange differences	(0.2)	–	(1.0)	(0.1)	(0.1)	–	(1.4)
Depreciation	(0.5)	(0.2)	(3.8)	(0.3)	(1.6)	–	(6.4)
Disposals	–	–	4.2	–	–	–	4.2
Impairment	(0.2)	(0.8)	(0.6)	–	(1.2)	–	(2.8)
Closing accumulated depreciation	(4.9)	(3.2)	(54.9)	(3.1)	(12.6)	–	(78.7)
At 1 April 2006							
Cost	18.5	7.8	77.9	4.2	15.4	1.8	125.6
Accumulated depreciation	(4.9)	(3.2)	(54.9)	(3.1)	(12.6)	–	(78.7)
Net book value	13.6	4.6	23.0	1.1	2.8	1.8	46.9
Year ended 31 March 2007							
Opening cost	18.5	7.8	77.9	4.2	15.4	1.8	125.6
Exchange differences	(1.4)	–	(3.1)	(0.2)	(0.2)	(0.1)	(5.0)
Additions	–	–	0.8	–	0.2	1.8	2.8
Disposals	(2.0)	–	(15.8)	(0.1)	(0.3)	–	(18.2)
Transfers	0.1	–	1.8	0.2	0.2	(2.3)	–
Closing cost	15.2	7.8	61.6	4.1	15.3	1.2	105.2
Opening accumulated depreciation	(4.9)	(3.2)	(54.9)	(3.1)	(12.6)	–	(78.7)
Exchange differences	0.3	–	2.0	0.2	0.2	–	2.7
Depreciation	(0.6)	(0.2)	(3.2)	(0.2)	(0.8)	–	(5.0)
Disposals	0.9	–	10.8	0.1	0.3	–	12.1
Impairment	(2.0)	–	(0.8)	–	–	–	(2.8)
Closing accumulated depreciation	(6.3)	(3.4)	(46.1)	(3.0)	(12.9)	–	(71.7)
At 1 April 2007							
Cost	15.2	7.8	61.6	4.1	15.3	1.2	105.2
Accumulated depreciation	(6.3)	(3.4)	(46.1)	(3.0)	(12.9)	–	(71.7)
Net book value	8.9	4.4	15.5	1.1	2.4	1.2	33.5

The Group has not revalued any item of property, plant and equipment.

13. Property, plant and equipment continued

Assets held under finance leases, capitalised and included in property, plant and equipment are as follows:

	2007 £m	2006 £m
Cost	**0.5**	0.1
Accumulated depreciation	**(0.1)**	(0.1)
Net book amount	**0.4**	–

14. Trade and other receivables

	2007 £m	2006 £m
Amounts due within one year:		
Trade receivables	**35.2**	43.2
Less: provisions for impairment	**(0.5)**	(0.6)
Trade receivables – net	**34.7**	42.6
Other debtors	**3.1**	2.4
Prepayments and accrued income	**0.8**	1.5
	38.6	46.5

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, which are internationally dispersed.

15. Inventories

	2007 £m	2006 £m
Raw materials	**5.9**	6.9
Work in progress	**4.0**	4.0
Finished goods	**8.6**	10.7
	18.5	21.6

The cost of inventories recognised as an expense and included in the Income Statement amounted to **£83.2m** (2006: £87.2m).

Notes on the Accounts

16. Current asset investments

Under the terms of the agreement for the sale of the Papermaking Products and Services business dated 1 July 1999, Scapa Dryer Fabrics Inc., which is party to the asbestos litigation described in note 26, made certain undertakings to the purchaser, J M Voith AG, regarding the disposition of the proceeds of the sale of its business of US$40.0m. This required that this sum be retained as cash on deposit from the date of the agreement, effectively as security against the cost of any successful asbestos claims made against the purchaser as successor to the business.

During the year ended 31 March 2003, as a result of the settlement of a number of outstanding issues between Scapa and J M Voith AG, related to the sale of the Papermaking Products and Services business, Scapa was able to release US$20.0m (£13.1m) from this deposit, leaving US$20.0m (£13.4m) in the fund at 31 March 2003. On 1 September 2005, it was agreed with J M Voith AG that a further US$10m (£5.7m) be released and this was used to reduce debt. There is a balance of US$10m remaining in the account and this remains a restricted asset. At 31 March 2007 the value of this fund translated into Sterling was £5.1m.

17. Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank and in hand	**12.5**	3.4
Short-term bank deposits	**–**	–
	12.5	3.4

Cash and bank overdrafts include the following for the purposes of the Cash Flow Statement:

	2007 £m	2006 £m
Cash and cash equivalents	**12.5**	3.4
Bank overdrafts – note 19	**(0.5)**	(2.5)
	12.0	0.9

18. Trade and other payables

	2007 £m	2006 £m
Amounts due within one year:		
Trade payables	**19.2**	23.1
Other taxes and social security	**2.6**	3.8
Other creditors	**1.9**	1.4
Accruals and deferred income	**5.3**	5.3
	29.0	33.6
Amounts due after more than one year:		
Other creditors	**0.8**	0.5
Accruals and deferred income	**1.2**	1.6
	2.0	2.1

19. Borrowings

	2007 £m	2006 £m
Amounts due within one year:		
Bank overdrafts	**0.5**	2.5
Other loans	**0.3**	0.5
Total amounts within one year	**0.8**	3.0
Amounts due after more than one year:		
Bank borrowings	**–**	13.5
Finance lease creditor	**0.4**	–
Other loans	**0.1**	0.1
Total amounts after more than one year	**0.5**	13.6
Total borrowings	**1.3**	16.6

Bank borrowings under the committed facility were fully paid down during the year, largely from proceeds of business disposals and there were no drawings under this line at 31 March 2007. The committed facility arranged by HSBC and Allied Irish Banks was cancelled in March 2007 when all securities under that arrangement were released and all obligations cancelled. Also in March 2007 a new three year US$15m committed facility was executed between Bank of America NA and Scapa North America Inc. This facility is unsecured and there were no drawings under it as at 31 March 2007.

The Group also has in place a cross guarantee between the parent company and its UK subsidiaries in respect of UK overdraft facilities and other financial obligations, which amounted at 31 March 2007 to £0.4m.

Bank overdrafts also include a borrowing facility, which Scapa Tapes Korea executed with Woori Bank in May 2006 and which is secured by a charge over land and buildings in Korea.

The exposure of the Group to variable interest rate changes and the contractual repricing dates are as follows:

	6 months or less £m	6–12 months £m	1–5 years £m	Total £m
31 March 2007				
Total borrowings	**0.5**	**0.3**	**0.5**	**1.3**
Effect of interest rate swaps	**–**	**–**	**–**	**–**
	0.5	**0.3**	**0.5**	**1.3**
31 March 2006				
Total borrowings	3.0	–	13.6	16.6
Effect of interest rate swaps	–	–	(0.1)	(0.1)
	3.0	–	13.5	16.5

The maturity of non-current financial liabilities is as follows:

	1-2 years £m	2-5 years £m	over 5 years £m	Total £m
31 March 2007				
Bank borrowings	**–**	**–**	**–**	**–**
Finance lease creditor	**–**	**–**	**0.4**	**0.4**
Other loans	**0.1**	**–**	**–**	**0.1**
	0.1	**–**	**0.4**	**0.5**
31 March 2006				
Bank borrowings	13.5	–	–	13.5
Other loans	0.1	–	–	0.1
	13.6	–	–	13.6

Notes on the Accounts

19. Borrowings continued

The effective interest rates at the Balance Sheet date were as follows:

	Sterling	US and Canadian Dollars	Other currencies
31 March 2007			
Bank overdrafts	**–**	**6.3%**	**4.0%**
Other loans	**5.5%**	**–**	**6.7%**
Bank borrowings	**–**	**–**	**–**
31 March 2006			
Bank overdrafts	5.5%	–	–
Other loans	5.5%	–	–
Bank borrowings	6.4%	6.3%	2.7%

The Group currently has no significant debt exposure to interest rate movements and the interest rate cap taken out in August 2004 was terminated in September 2006, for which Scapa received consideration of US$152,000.

Set out below is a year-end comparison of fair and book values of non-current borrowings:

	Book value £m	Fair value £m
31 March 2007		
Bank borrowings	**–**	**–**
Finance lease creditor	**0.4**	**0.4**
Other loans	**0.1**	**0.1**
	0.5	**0.5**
31 March 2006		
Bank borrowings	13.5	13.5
Other loans	0.1	0.1
	13.6	13.6

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	**0.3**	4.1
US and Canadian Dollars	**0.3**	11.5
Other currencies	**0.7**	1.0
	1.3	16.6

The Group has the following undrawn borrowing facilities:

	2007 £m	2006 £m
Floating rate		
– expiring within one year	**10.1**	12.5
– expiring after more than one year	**7.7**	11.1
	17.8	23.6

20. Provisions

	Asbestos litigation costs £m	Reorganisation and leasehold commitments £m	Other £m	Total £m
At 1 April 2006	8.8	2.2	1.6	12.6
Exchange differences	(1.0)	(0.1)	(0.2)	(1.3)
(Released)/provided in the year	(0.9)	0.4	–	(0.5)
Unwinding of discount	0.4	–	–	0.4
Utilised in the year	(0.5)	(0.4)	(0.3)	(1.2)
At 31 March 2007	6.8	2.1	1.1	10.0
Analysis of provisions:				
Current	0.5	0.6	0.5	1.6
Non-current	6.3	1.5	0.6	8.4
	6.8	2.1	1.1	10.0

Asbestos litigation costs
Following the Group's divestiture of the Papermaking Products and Services business in the year ended 31 March 2000, provision was made for ongoing liabilities, which related to these businesses, but which were retained by Scapa. These relate primarily to the defence of personal injury claims as outlined in note 26. In conjunction with US Legal Counsel, the Board has reviewed the assumptions underlying the provision for future litigation costs and following the legal agreement on the apportionment of legal costs with the insurance carriers, a release of **£0.9m** (2006: £nil) was made in the current year. This provision is being discounted in accordance with IAS 37 using the Group's weighted average cost of capital. Whilst the Board believes that the assumptions made are reasonable, and the provision remains its best estimate of the total cost likely to be incurred, there remains, as is usual in these circumstances, substantial uncertainty.

As described in note 26 Scapa is vigorously defending all of the outstanding claims against it. No Scapa Group company, or insurance carrier, has admitted liability to date or made any payment to any plaintiff under the policies, either as the result of any judgement or by way of settlement. Accordingly the Board believes that it is unlikely that significant uninsured liabilities will arise from this litigation. Consequently no provision has been made for payments to plaintiffs.

Reorganisation and leasehold commitments
The **£2.1m** (2006: £2.2m) reorganisation provision relates mainly to onerous lease commitments (£0.8m) and dilapidations for leasehold property (£0.9m). £0.2m of provisions were released in the current year relating to the exit from the lease obligation for the former UK head office leased property and an additional £0.4m was provided in the year for severance payments as part of the ongoing reorganisation programme.

Whilst the timing of the economic benefits relating to the non-current provisions cannot be ascertained with any degree of certainty, the Directors consider they will take place within 20 years.

Other provisions
Other provisions relate to expected costs required to clean up environmental contamination of a number of sites in both Europe (£0.6m) and North America (£0.5m). The Group expects the spend against the European environmental provision to be incurred over the next two years.

21. Retirement benefit liabilities

The Company operates several defined benefit and defined contribution schemes for employees in the UK and overseas.

Defined contribution schemes
The Group operates a number of defined contribution schemes. Employer's contributions are charged to the profit and loss account as incurred. The total pension cost for the Group in respect of these schemes for the year ended 31 March 2007 was **£2.0m** (2006: £2.6m).

Defined benefit schemes
The total amounts recognised in the Group financial statements for defined benefit schemes are summarised on page 56.

a) UK schemes
The UK defined benefit schemes are funded by contributions from members as defined in the scheme rules and by the employing company at a rate assessed by the scheme actuaries as sufficient to meet the balance of costs determined following the triennial fund reviews. The assets of the schemes are held separately from Company assets under Trust. The charge to operating profit in the year for UK schemes was **£1.3m** (2006: £1.3m).

The funding position of the three principal UK schemes, the Scapa Group Retirement Benefits Scheme, the Senior Retirement Benefits Scheme and Scapa Tapes UK Ltd. Pension Plan, was reassessed in April 2006 by independent qualified actuaries using the projected unit method of valuation.

Notes on the Accounts

21. Retirement benefit liabilities continued

Following the earlier assessment of the scheme funding position in April 2003, the agreed additional cash contributions in excess of ongoing contributions for existing employees are currently:

– £0.4m per annum from December 2003 to November 2013 for the Scapa Group Retirement Benefits Scheme;
– £2.3m per annum from April 2005 to November 2013 for the Scapa Group Senior Retirement Benefits Scheme;
– £0.6m per annum from March 2005 to February 2009 for the Scapa Tapes UK Ltd. Pension Plan.

Including ongoing contributions at the agreed rate, total annual cash contributions into the defined benefit schemes were £4.5m based on current circumstances.

The IAS 19 Retirement Benefits valuations have been updated by the scheme actuaries, in order to assess the liabilities of the schemes at 31 March 2007. Scheme assets are stated at their market value at 31 March 2007.

The financial assumptions used to calculate scheme liabilities under IAS 19 for the UK defined benefit schemes are as follows:

	2007	2006
Discount rate	**5.3%**	5.0%
Salary increases per annum	**3.9%**	3.8%
Price inflation per annum	**3.1%**	3.0%
Increases to pensions in payment	**2.3%–3.5%**	3.0%
Increases to deferred pensions	**3.0%**	3.0%

The IAS 19 calculations have been performed using the mortality assumptions contained in the medium cohort year of birth PA92 tables with the addition of one year to age. All schemes include an allowance for administration expenses in the value of the accrued benefits.

The amounts recognised in the Balance Sheet are determined as follows:

	2007 Expected rate of return	**2007 Value £m**	2006 Expected rate of return	2006 Value £m
Equities	**7.9%**	**42.0**	7.8%	43.7
Bonds	**4.5%–5.3%**	**49.9**	4.4%–5.0%	46.0
Other	**3.8%–4.5%**	**0.1**	4.5%	0.1
Total market value of assets		**92.0**		89.8
Present value of scheme liabilities		**(146.8)**		(149.0)
Net deficit in the scheme		**(54.8)**		(59.2)

The amounts recognised in the Income Statement are as follows:

	2007 £m	2006 £m
Current service cost (included within staff costs)	**(1.3)**	(1.3)
Expected return on scheme assets	**5.5**	4.9
Interest on scheme liabilities	**(7.3)**	(6.2)
Total included within finance costs	**(1.8)**	(1.3)
Total expenses charged through Income Statement	**(3.1)**	(2.6)

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2007 £m	2006 £m
Actual return less expected return on scheme assets	**(2.2)**	10.7
Experience gains and (losses) arising on scheme liabilities	**(0.8)**	(1.6)
Changes in assumptions underlying the present value of scheme liabilities	**6.0**	(28.3)
Total amounts recognised in the Statement of Recognised Income and Expense	**3.0**	(19.2)

21. Retirement benefit liabilities continued

Analysis of movements in scheme assets:

	2007 £m	2006 £m
Beginning of the year	**89.8**	74.8
Expected return on scheme assets	**5.5**	4.9
Actual return less expected return on scheme assets	**(2.2)**	10.7
Contributions paid	**4.5**	4.3
Benefits paid	**(5.7)**	(5.1)
Member contributions	**0.1**	0.2
End of the year	**92.0**	89.8

Analysis of movement in scheme liabilities:

	2007 £m	2006 £m
Beginning of the year	**(149.0)**	(116.5)
Current service cost (included within staff costs)	**(1.3)**	(1.3)
Interest on scheme liabilities	**(7.3)**	(6.2)
Experience losses arising on scheme liabilities	**(0.8)**	(1.6)
Changes in assumptions underlying the present value of scheme liabilities	**6.0**	(28.3)
Benefits paid	**5.7**	5.1
Member contributions	**(0.1)**	(0.2)
End of the year	**(146.8)**	(149.0)

Analysis of the movement in the Balance Sheet liability:

	2007 £m	2006 £m
Beginning of the year	**(59.2)**	(41.7)
Total expenses charged through Income Statement	**(3.1)**	(2.6)
Total amounts recognised in the Statement of Recognised Income and Expense	**3.0**	(19.2)
Contributions paid	**4.5**	4.3
End of the year	**(54.8)**	(59.2)

b) Overseas schemes

The Group operates a number of pension schemes in different countries, both of a defined benefit and defined contribution nature. The total defined benefit pension charge to operating profit for the Group in respect of overseas pension schemes for the year ended 31 March 2007 was **£0.7m** (2006: £0.6m).

Defined benefit schemes are set up under separate trust funds and liabilities are generally assessed annually in accordance with the advice of independent actuaries. Details of the Group's material overseas defined benefit schemes are as follows:

North America

The Group operates a funded defined benefit scheme and two unfunded pension plans in North America. The valuations used for the IAS 19 Retirement Benefits disclosure have been based on the most recent actuarial valuations at 31 March 2007. Scheme assets are stated at their market value at 31 March 2007. The financial assumptions used to calculate the present value of the scheme liabilities at 31 March 2007 under the requirements of IAS 19 are shown below.

	2007	2006
Discount rate	**5.0%–6.0%**	5.25%–6.0%
Salary increases per annum	**4.25%**	4.25%
Price inflation per annum	**3.0%**	3.0%

Notes on the Accounts

21. Retirement benefit liabilities continued

The amounts recognised in the Balance Sheet are determined as follows:

	2007 Expected rate of return	**2007 Value £m**	2006 Expected rate of return	2006 Value £m
Equities	**9.0%**	**2.8**	9.3%	3.0
Bonds	**5.3%**	**1.9**	5.2%	2.1
Other	**3.8%**	**0.7**	3.8%	0.2
Total market value of assets		**5.4**		5.3
Present value of scheme liabilities		**(6.6)**		(6.8)
Net deficit in the scheme		**(1.2)**		(1.5)

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected return on equity investments reflect long-term real rates of return.

The amounts recognised in the Income Statement are as follows:

	2007 £m	2006 £m
Current service cost (included within staff costs)	**(0.5)**	(0.5)
Expected return on scheme assets	**0.3**	0.3
Interest on scheme liabilities	**(0.3)**	(0.3)
Total included within finance costs	**–**	–
Total expenses charged through Income Statement	**(0.5)**	(0.5)

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2007 £m	2006 £m
Actual return less expected return on scheme assets	**–**	0.7
Experience gains and (losses) arising on scheme liabilities	**0.1**	(0.8)
Total amounts recognised in the Statement of Recognised Income and Expense	**0.1**	(0.1)

Analysis of movements in scheme assets:

	2007 £m	2006 £m
Beginning of the year	**5.3**	3.4
Exchange differences	**(0.8)**	0.4
Expected return on scheme assets	**0.3**	0.3
Actual return less expected return on scheme assets	**–**	0.7
Contributions paid	**0.6**	0.5
End of the year	**5.4**	5.3

Analysis of movement in scheme liabilities:

	2007 £m	2006 £m
Beginning of the year	**(6.8)**	(4.8)
Exchange differences	**0.9**	(0.4)
Current service cost (included within staff costs)	**(0.5)**	(0.5)
Interest on scheme liabilities	**(0.3)**	(0.3)
Experience gains and (losses) arising on scheme liabilities	**0.1**	(0.8)
End of the year	**(6.6)**	(6.8)

21. Retirement benefit liabilities continued

Analysis of the movement in the Balance Sheet liability:

	2007 £m	2006 £m
Beginning of the year	**(1.5)**	(1.4)
Exchange differences	**0.1**	–
Total expenses charged through Income Statement	**(0.5)**	(0.5)
Total amounts recognised in the Statement of Recognised Income and Expense	**0.1**	(0.1)
Contributions paid	**0.6**	0.5
End of the year	**(1.2)**	(1.5)

France and Italy

The Group operates an unfunded retirement benefit scheme in France, with payments made to employees on retirement, and an unfunded termination indemnity plan in Italy, with payments made to employees on retirement or termination of service. The financial assumptions used to calculate the present value of the scheme liabilities at 31 March 2007 under the requirements of IAS 19 are shown below.

	2007	2006
Discount rate	**4.5%**	4.5%
Salary increases per annum	**2.25%–3.0%**	2.25%–3.0%
Price inflation per annum	**2.0%**	2.0%

The amounts recognised in the Balance Sheet are determined as follows:

	2007 £m	2006 £m
Total market value of assets	**–**	–
Present value of scheme liabilities	**(2.3)**	(2.7)
Net deficit in the scheme	**(2.3)**	(2.7)

The amounts recognised in the Income Statement are as follows:

	2007 £m	2006 £m
Current service cost (included within staff costs)	**(0.2)**	(0.1)
Expected return on scheme assets	**–**	–
Interest on scheme liabilities	**(0.1)**	(0.1)
Total included within finance costs	**(0.1)**	(0.1)
Total expenses charged through Income Statement	**(0.3)**	(0.2)

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2007 £m	2006 £m
Changes in assumptions underlying the present value of scheme liabilities	**–**	–
Total amounts recognised in the Statement of Recognised Income and Expense	**–**	–

Analysis of movements in scheme assets:

	2007 £m	2006 £m
Beginning of the year	**–**	–
Contributions paid	**0.6**	0.1
Benefits paid	**(0.6)**	(0.1)
End of the year	**–**	–

Notes on the Accounts

21. Retirement benefit liabilities continued

Analysis of movement in scheme liabilities:

	2007 £m	2006 £m
Beginning of the year	**(2.7)**	(2.5)
Exchange differences	**0.1**	(0.1)
Current service cost (included within staff costs)	**(0.2)**	(0.1)
Interest on scheme liabilities	**(0.1)**	(0.1)
Experience gains and (losses) arising on scheme liabilities	**–**	–
Benefits paid	**0.6**	0.1
End of the year	**(2.3)**	(2.7)

Analysis of the movement in the Balance Sheet liability:

	2007 £m	2006 £m
Beginning of the year	**(2.7)**	(2.5)
Exchange differences	**0.1**	(0.1)
Total expenses charged through Income Statement	**(0.3)**	(0.2)
Total amounts recognised in the Statement of Recognised Income and Expense	**–**	–
Contributions paid	**0.6**	0.1
End of the year	**(2.3)**	(2.7)

Total amounts recognised for the Group

The amounts recognised in the Income Statement are as follows:

	2007			2006		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Current service cost (included within staff costs)	**(1.3)**	**(0.7)**	**(2.0)**	(1.3)	(0.6)	(1.9)
Expected return on scheme assets	**5.5**	**0.3**	**5.8**	4.9	0.3	5.2
Interest on scheme liabilities	**(7.3)**	**(0.4)**	**(7.7)**	(6.2)	(0.4)	(6.6)
Total included within finance costs	**(1.8)**	**(0.1)**	**(1.9)**	(1.3)	(0.1)	(1.4)
Total Expense charged through Income Statement	**(3.1)**	**(0.8)**	**(3.9)**	(2.6)	(0.7)	(3.3)

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2007			2006		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Actual return less expected return on scheme assets	**(2.2)**	**–**	**(2.2)**	10.7	0.7	11.4
Experience (losses) and gains arising on scheme liabilities	**(0.8)**	**0.1**	**(0.7)**	(1.6)	(0.8)	(2.4)
Changes in assumptions underlying the present value of scheme liabilities	**6.0**	**–**	**6.0**	(28.3)	–	(28.3)
Total amounts recognised in the Statement of Recognised Income and Expense	**3.0**	**0.1**	**3.1**	(19.2)	(0.1)	(19.3)

21. Retirement benefit liabilities continued

Analysis of movements in scheme assets:

	2007			2006		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Beginning of the year	**89.8**	**5.3**	**95.1**	74.8	3.4	78.2
Exchange differences	**–**	**(0.8)**	**(0.8)**	–	0.4	0.4
Expected return on scheme assets	**5.5**	**0.3**	**5.8**	4.9	0.3	5.2
Actual return less expected return on scheme assets	**(2.2)**	**–**	**(2.2)**	10.7	0.7	11.4
Contributions paid	**4.5**	**1.2**	**5.7**	4.3	0.6	4.9
Benefits paid	**(5.7)**	**(0.6)**	**(6.3)**	(5.1)	(0.1)	(5.2)
Member contributions	**0.1**	**–**	**0.1**	0.2	–	0.2
End of the year	**92.0**	**5.4**	**97.4**	89.8	5.3	95.1

Analysis of movement in scheme liabilities:

	2007			2006		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Beginning of the year	**(149.0)**	**(9.5)**	**(158.5)**	(116.5)	(7.3)	(123.8)
Exchange differences	**–**	**1.0**	**1.0**	–	(0.5)	(0.5)
Current service cost (included within staff costs)	**(1.3)**	**(0.7)**	**(2.0)**	(1.3)	(0.6)	(1.9)
Interest on scheme liabilities	**(7.3)**	**(0.4)**	**(7.7)**	(6.2)	(0.4)	(6.6)
Experience (losses) and gains arising on scheme liabilities	**(0.8)**	**0.1**	**(0.7)**	(1.6)	(0.8)	(2.4)
Changes in assumptions underlying the present value of scheme liabilities	**6.0**	**–**	**6.0**	(28.3)	–	(28.3)
Benefits paid	**5.7**	**0.6**	**6.3**	5.1	0.1	5.2
Member contributions	**(0.1)**	**–**	**(0.1)**	(0.2)	–	(0.2)
End of the year	**(146.8)**	**(8.9)**	**(155.7)**	(149.0)	(9.5)	(158.5)

Analysis of the movement in the Balance Sheet liability:

	2007			2006		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Beginning of the year	**(59.2)**	**(4.2)**	**(63.4)**	(41.7)	(3.9)	(45.6)
Exchange differences	**–**	**0.2**	**0.2**	–	(0.1)	(0.1)
Total Expense charged through Income Statement	**(3.1)**	**(0.8)**	**(3.9)**	(2.6)	(0.7)	(3.3)
Total amounts recognised in the Statement of Recognised Income and Expense	**3.0**	**0.1**	**3.1**	(19.2)	(0.1)	(19.3)
Contributions paid	**4.5**	**1.2**	**5.7**	4.3	0.6	4.9
End of the year	**(54.8)**	**(3.5)**	**(58.3)**	(59.2)	(4.2)	(63.4)

Detail of experience (losses) and gains

Year ended 31 March 2007

	UK	**Overseas**	**Total**
Difference between expected and actual return on scheme assets:			
– Amount (£m)	(2.2)	–	(2.2)
– Percentage of scheme assets	(2.4%)	–	(2.4%)
Experience (losses) and gains arising on scheme liabilities			
– Amount (£m)	(0.8)	0.1	(0.7)
– Percentage of scheme liabilities	(0.5%)	1.1%	(0.4%)
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	3.0	0.1	3.1
– Percentage of scheme liabilities	2.0%	1.1%	2.0%

Notes on the Accounts

21. Retirement benefit liabilities continued

Year ended 31 March 2006

	UK	Overseas	Total
Difference between expected and actual return on scheme assets:			
– Amount (£m)	10.7	0.7	11.4
– Percentage of scheme assets	11.9%	13.2%	12.0%
Experience losses arising on scheme liabilities			
– Amount (£m)	(1.6)	(0.8)	(2.4)
– Percentage of scheme liabilities	(1.1%)	(8.4%)	(1.5%)
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	(19.2)	(0.1)	(19.3)
– Percentage of scheme liabilities	(12.9%)	(1.1%)	(12.2%)

Year ended 31 March 2005

	UK	Overseas	Total
Difference between expected and actual return on scheme assets:			
– Amount (£m)	2.0	(0.2)	1.8
– Percentage of scheme assets	2.7%	(5.9%)	2.3%
Experience (losses) and gains arising on scheme liabilities			
– Amount (£m)	(3.0)	0.2	(2.8)
– Percentage of scheme liabilities	(2.6%)	2.7%	(2.3%)
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	(7.2)	(0.1)	(7.3)
– Percentage of scheme liabilities	(6.2%)	(1.4%)	(5.9%)

Year ended 31 March 2004

	UK	Overseas	Total
Difference between expected and actual return on scheme assets:			
– Amount (£m)	5.8	0.3	6.1
– Percentage of scheme assets	8.5%	10.7%	8.5%
Experience gains arising on scheme liabilities			
– Amount (£m)	1.1	0.3	1.4
– Percentage of scheme liabilities	1.1%	4.5%	1.3%
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	2.5	0.1	2.6
– Percentage of scheme liabilities	2.4%	1.5%	2.3%

Year ended 31 March 2003

	UK	Overseas	Total
Difference between expected and actual return on scheme assets:			
– Amount (£m)	(14.7)	(0.1)	(14.8)
– Percentage of scheme assets	(23.7%)	(4.2%)	(23.0%)
Experience losses arising on scheme liabilities			
– Amount (£m)	(2.5)	(0.1)	(2.6)
– Percentage of scheme liabilities	(2.5%)	(1.5%)	(2.5%)
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	(24.0)	(0.7)	(24.7)
– Percentage of scheme liabilities	(24.2%)	(10.4%)	(23.3%)

The Group adopted FRS 17 in the year ended 31 March 2003 and the above disclosures for the years ended 31 March 2003, 31 March 2004 and 31 March 2005 are stated under UK GAAP on an FRS 17 basis. The disclosures for the years ended 31 March 2006 and 31 March 2007 are stated under IFRS on an IAS 19 basis.

22. Share capital

	2007 £m	2006 £m
Authorised		
190,688,306 shares of 5p each	**9.5**	9.5
Allotted, issued and fully paid		
144,762,868 shares of 5p each	**7.2**	7.2

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from nil pence per share to 45 pence per share under the share options schemes approved by shareholders. The number of shares subject to options, the periods in which they were granted, and the periods in which they may be exercised are given below:

Scheme	Year of grant	Average exercise price per share	Exercise period	Numbers 2007	Numbers 2006
Sharesave option plan	2001–2002	47p–76p	up to 29 February 2008	**868,249**	967,491
Executive share option plan	1997–2002	49p–236p	up to 20 June 2012	**1,708,500**	2,277,500
Executive share option plan	2006	22.25p	up to 31 August 2016	**900,000**	–
US stock option plan	1997–2002	49p–195.5p	up to 20 June 2012	**988,500**	1,184,000
Performance share plan	2004	nil pence per share	up to 15 August 2014	**650,000**	1,100,000
Performance share plan	2006	nil pence per share	up to 31 August 2016	**1,050,000**	–

Movements in the Performance Share Plan relate to options which have been restated. Movements in all other schemes relate to options which have expired.

23. Reserves

	Share capital £m	Translation reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2005	7.2	1.3	31.9	40.4
Currency translation differences	–	2.3	–	2.3
Actuarial loss on pension schemes	–	–	(19.3)	(19.3)
Net income recognised directly in equity	–	2.3	(19.3)	(17.0)
Loss for the year	–	–	(15.3)	(15.3)
Total recognised income for the year	–	2.3	(34.6)	(32.3)
Employee share option scheme – value of employee services	–	–	0.1	0.1
	–	–	0.1	0.1
Balance at 31 March 2006	**7.2**	**3.6**	**(2.6)**	**8.2**

	Share capital £m	Translation reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2006	7.2	3.6	(2.6)	8.2
Currency translation differences	–	(5.2)	–	(5.2)
Recycling of foreign exchange on disposal	–	(0.1)	–	(0.1)
Actuarial gain on pension schemes	–	–	3.1	3.1
Net (loss)/income recognised directly in equity	–	(5.3)	3.1	(2.2)
Profit for the year	–	–	13.3	13.3
Total recognised income for the year	–	(5.3)	16.4	11.1
Employee share option scheme – value of employee services	–	–	0.1	0.1
Balance at 31 March 2007	**7.2**	**(1.7)**	**13.9**	**19.4**

Notes on the Accounts

23. Reserves continued

At 31 March 2007 financial liabilities of £0.1m have been recognised in the Balance Sheet relating to the fair values of derivative financial instruments in place across the Group at this date.

Movements in instruments used to hedge against the exposure to exchange differences due to the timing of cash flows are taken through the Income Statement as it is not Group policy to hedge account for these instruments.

Cumulative actuarial losses on pension schemes recognised in reserves total **£23.5m** (2006: £26.6m).

24. Reconciliation of operating profit to operating cash flow, and reconciliation of net debt

All on continuing operations	**Year ended 31 March 2007 £m**	Year ended 31 March 2006 £m
Operating profit/(loss)	**15.7**	(11.6)
Adjustments for:		
Depreciation	**5.0**	6.4
(Profit)/loss on disposal of fixed assets	**(0.5)**	0.2
Profit on disposal of businesses	**(11.9)**	–
Impairment of tangible fixed assets	**2.8**	2.8
Impairment of goodwill	**0.1**	10.9
Pensions payments in excess of charge	**(3.7)**	(3.0)
Movement in fair value of financial instruments	**0.1**	0.1
Share options charge	**0.1**	0.1
Grant income released	**(0.1)**	(0.2)
Changes in working capital:		
– Inventories	**(0.8)**	(1.3)
– Trade debtors	**4.6**	(0.7)
– Trade creditors	**(2.0)**	(0.6)
Changes in trading working capital	**1.8**	(2.6)
Other debtors	**(0.8)**	(0.6)
Other creditors	**(0.3)**	0.4
Deferred consideration	**0.4**	–
Net movement in other provisions	**(0.3)**	(0.2)
Net movement in reorganisation provisions	**(0.1)**	0.8
Net movement in asbestos litigation provision	**(1.4)**	(1.4)
Cash generated from operations	**6.9**	2.1

Cash generated from operations before reorganisation and movements in exceptional provisions	**9.1**	6.3
Cash outflows from reorganisation and movements in exceptional provisions	**(2.2)**	(4.2)
Cash generated from operations	**6.9**	2.1

The changes in trading working capital include the unwind benefit of £2.0m relating to the business disposals made during the year ending 31 March 2007.

Analysis of cash and cash equivalents and borrowings

	At 1 April 2006 £m	Cash flow £m	Exchange movement £m	**At 31 March 2007 £m**
Cash and cash equivalents	3.4	9.4	(0.3)	**12.5**
Overdrafts	(2.5)	2.0	–	**(0.5)**
	0.9	11.4	(0.3)	**12.0**
Borrowings within one year	(0.5)	0.1	–	**(0.4)**
Borrowings after more than one year	(13.6)	12.3	0.9	**(0.4)**
	(14.1)	12.4	0.9	**(0.8)**
Total	(13.2)	23.8	0.6	**11.2**

24. Reconciliation of operating profit to operating cash flow, and reconciliation of net debt continued

Reconciliation of net cash flow to movement in net debt

	2007 £m	2007 £m	2006 £m	2006 £m
Increase/(decrease) in cash and cash equivalents				
Increase/(decrease) in net cash and cash equivalents in the year	**11.4**		(5.2)	
Cash outflow from decrease in loan finance	**12.4**		8.0	
Change in net debt resulting from cash flows		**23.8**		2.8
Release of arrangement fees		**–**		(0.1)
Translation differences		**0.6**		(0.7)
Movement in net debt		**24.4**		2.0
Net debt at start of year		**(13.2)**		(15.2)
Cash and cash equivalents/(net debt) at end of year		**11.2**		(13.2)

Cash flows arising from business disposals for the year ended 31 March 2007

	2007 £m
Fixed assets	**6.1**
Stock	**2.7**
Other net current assets	**0.5**
Gain on disposal	**11.9**
Net cash inflow	**21.2**
Costs	**1.5**
Gross proceeds from disposal	**22.7**
Deferred consideration	**(0.4)**
Net cash inflow from sale	**22.3**

25. Commitments

Capital commitments

Amounts contracted for at 31 March 2007 but not provided for in the accounts amounted to **£0.3m** (2006: £0.8m).

All amounts in 2007 and 2006 related to subsidiary undertakings.

At 31 March 2007 a total of **£0.2m** (2006: £nil) was authorised but not yet contracted.

Operating lease commitments

At 31 March 2007 the Group has lease agreements in respect of properties, vehicles, plant and equipment, for which payments extend over a number of years.

Commitments under leases expiring:	2007 Property £m	2007 Vehicles, plant and equipment £m	2006 Property £m	2006 Vehicles, plant and equipment £m
Within one year	**–**	**0.1**	–	0.2
More than one year and less than five years	**1.9**	**3.1**	1.8	2.3
After five years	**12.3**	**0.1**	15.5	–
Total operating lease commitments	**14.2**	**3.3**	17.3	2.5

Notes on the Accounts

26. Contingent liabilities

In the United States various Group companies, together with numerous and diverse non Scapa Group parties, are named as defendants in claims in which damages are being sought for personal injury arising from alleged exposure to asbestos. As at 31 March 2007 19,313 (30 September 2005 33,658, 31 March 2005 33,878, 31 March 2006 32,607) plaintiffs have brought claims in 22 states (Georgia, Florida, Louisiana, Mississippi, North Carolina, South Carolina, Ohio, California, New Jersey, New York, Pennsylvania, Alabama, Arkansas, Illinois, Maryland, Washington, Delaware, Oklahoma, Virginia, Connecticut, Missouri and Texas). Scapa has continued to be dismissed from many cases during 2006/07.

The claims, so far as the Scapa Group defendants are concerned, primarily relate to the Waycross business carried on by Scapa Dryer Fabrics, Inc. as part of the Paper Machine Clothing business. The Waycross business consisted of the manufacture and supply of dryer fabrics to paper manufacturers. As was common with the industry between approximately 1958 and 1978, the Waycross business used yarn containing chrysotile asbestos in some of its dryer fabrics.

The plaintiffs, who are mostly former paper mill employees (or their dependants) allege that asbestos fibres were released when they cleaned the dryer fabrics by blowing compressed air across them. It is also alleged that exposure to asbestos fibres occurred during installation and removal of dryer fabrics, during the routine maintenance, and even as a result of normal wear and tear. To date there have been 8 sets of jury trials in the United States – in Louisiana and Washington State (covering 5 plaintiffs each), in Oregon (1 plaintiff), in Arkansas (5 plaintiffs), in Maryland (2 cases covering 1 plaintiff and 1 plaintiff and wife), Pennsylvania (1 plaintiff) and New Jersey (5 plaintiffs).

In February 2005 an adverse judgement in the Bickham litigation totalling US$162,500 (£91,300) in respect of 7 plaintiffs was entered in Washington Parish, Louisiana. Upon advice of counsel, the Board believes there are multiple grounds for appeal which should provide sufficient basis for the appellate court to reverse the judgement. The disruptive effect which Hurricane Katrina had in the State of Louisiana has included the judicial system and it is not yet known when it will be possible for the appeal to proceed. The Company believes, upon the advice of counsel, that sufficient legal error occurred before and during the trial to make it more likely than not that the judgement will not be upheld on appeal. The Company has retained as insurance coverage counsel, Mr Andrew Hill of the Blasingame, Burch, Garrard, Bryant & Ashley firm of Athens, Georgia, who advises that he believes there is sufficient liability insurance to satisfy the judgement in full if it is not reversed.

In October 2003, a US$3m (£1.7m) adverse judgement in the Saville litigation was entered in the Maryland State Court on the claims of a former paper mill employee. The Company successfully appealed the judgement and the plaintiff's further appeal has been denied. The case has been remanded to the lower court for a retrial but the Company is advised by counsel that a new trial is unlikely to take place before 2008.

In April 2007 a trial commenced before a jury in Middlesex County, New Jersey, of the claims of asbestos exposure brought by five former paper mill workers, two of whom are deceased. At the date of signing these accounts, a verdict on this case had not been returned.

Scapa Dryer Fabrics, Inc. and the other Scapa Group companies named as defendants are vigorously defending all of the outstanding claims against them. In the USA, no Scapa Group company or its insurance carrier has admitted liability to date or made any payment to any plaintiff under our policies, either as the result of any judgement or by way of settlement. Based upon our advice from counsel, the Board believes that it is unlikely that significant uninsured liabilities will arise from this litigation.

27. Post balance sheet events

On 21 March 2007, the Chancellor of the Exchequer announced that the standard rate of corporation tax in the UK would be reduced from 30% to 28% with effect from 1 April 2008. As this reduction has not been enacted or substantially enacted at the Balance Sheet date, the effect of the proposed changes has been disclosed but not recognised in the financial statements. There would be no impact on the Group's results.

The Chancellor of the Exchequer also announced that capital allowances in relation to industrial buildings will be withdrawn over four years from April 2008. Had the deferred tax relating to these buildings been excluded, the unrecognised deferred tax assets would have decreased by £0.3m.

Five Year Summaries

On 1 April 2004 the Group adopted IFRS. Restatement of earlier years is not required under IFRS and accordingly the information presented below for periods ended prior to the transition date is as prepared under UK GAAP. The main adjustments that would be required to comply with IFRS would be the removal of goodwill amortisation and the timing of the recognition of dividend payments.

Five Year Financial Summary

		IFRS		UK GAAP	
	2007	2006	2005	2004	2003
	£m	£m	£m	£m	£m
Group turnover	**184.3**	191.5	188.2	187.9	187.0
Group profits					
Profit before taxation and exceptional items	**4.2**	2.5	0.9	2.6	1.5
Exceptional items (operating charges)	**8.7**	(17.0)	(4.5)	(10.8)	(17.1)
Exceptional items (non-operating charges)	**–**	–	–	–	(5.8)
Profit/(loss) before taxation	**12.9**	(14.5)	(3.6)	(8.2)	(21.4)
Taxation credit/(charge)	**0.4**	(0.8)	5.8	4.1	(0.1)
Profit/(loss) after taxation	**13.3**	(15.3)	2.2	(4.1)	(21.5)
Headline earnings/(loss) per share (p)	**1.1**	(0.1)	(0.1)	–	(0.8)
Net (cash equivalents)/debt	**(11.2)**	13.2	15.2	13.7	15.7
Shareholders' funds – equity	**19.4**	8.2	40.2	44.3	51.4

Comparative figures for 2003 and 2004 are stated on a UK GAAP basis, however 2004 figures have been restated following the adoption of FRS17. Comparative figures for 2005 have been restated to an IFRS basis.

	2007	2006	2005	2004	2003
US$ exchange rate					
– Closing	**1.96**	1.74	1.89	1.84	1.58
– Average	**1.89**	1.78	1.85	1.69	1.54
Euro exchange rate					
– Closing	**1.47**	1.45	1.45	1.50	1.45
– Average	**1.47**	1.46	1.47	1.44	1.56

Principal Subsidiary Companies

As at 31 March 2007 the principal subsidiaries of the Company were:

Holding and Management Companies	Country of Incorporation	
Porritts & Spencer Ltd*	England	Holding company
Lindsay and Williams Ltd*	England	Holding company
Scapa North America Inc	USA	Holding company
Scapa Holdings Inc	USA	Holding company
Scapa Holdings (Georgia) Inc	USA	Holding company
Scapa Holdings GmbH	Germany	Holding company
Scapa Group Holdings GmbH	Austria	Holding company
Scapa Holdings Canada Inc	Canada	Holding company
Groupe Scapa France SAS	France	Holding company
Scapa (HK) Holdings Ltd	Hong Kong	Holding company

Technical Tapes Companies	
Scapa Tapes North America Ltd	Canada
Scapa France SAS	France
Scapa Deutschland GmbH	Germany
Scapa Italia SpA	Italy
Scapa Tapes Benelux BV	Netherlands
Scapa Ibérica, S.A.	Spain
Scapa (Schweiz) AG	Switzerland
Scapa UK Ltd	England
Scapa Tapes North America (Windsor) Inc	USA
Scapa Tapes North America (Carlstadt) Inc	USA
Scapa Extruded Films Inc	USA
Scapa Tapes (Korea) Co. Ltd	Korea
Scapa Hong Kong Ltd	Hong Kong
Scapa Tapes Malaysia Sdn Bhd	Malaysia
Scapa (Shanghai) International Trading Company Ltd	China

*** Denotes the undertakings which are held directly by Scapa Group plc. All the subsidiaries listed are wholly owned and are incorporated in and operate from the countries named.**

Scapa Group plc
Parent Company Financial Statements

The separate financial statements of Scapa Group plc are presented on pages 67 to 76, as required by the Companies Act 1985 ('the Act'). The Group has elected not to adopt International Financial Reporting Standards in the individual company accounts for the Parent Company and subsidiary undertakings, and accordingly these financial statements have been prepared under UK accounting standards and in accordance with the Act. They are therefore presented separately to the Group consolidated financial statements which have been prepared under International Financial Reporting Standards.

Independent Auditors' Report to the Members of Scapa Group plc

We have audited the Parent Company financial statements of Scapa Group plc for the year ended 31 March 2007 which comprise the Company Balance Sheet, the Statement of Total Recognised Gains and Losses, the Statement of Accounting Policies 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 Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Scapa Group plc for the year ended 31 March 2007.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report 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 Directors' Remuneration Report 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 Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the Parent Company financial statements.

In addition we report to you if, in our opinion, 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 director's 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 Report of the Directors and the Directors' Remuneration Report. 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 Directors' Remuneration Report 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 Directors' Remuneration Report 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 Directors' Remuneration Report 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 2007;
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the Parent Company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
6 June 2007

Company Balance Sheet

As at 31 March 2007

	note	31 March 2007 £m	31 March 2006 £m
Fixed assets			
Tangible fixed assets	3	**1.3**	2.1
Investments in subsidiary undertakings	4	**144.6**	147.4
		145.9	149.5
Current assets			
Debtors: amounts due within one year	5	**9.2**	83.0
Debtors: amounts due after more than one year	5	**54.1**	20.2
		63.3	103.2
Creditors – amounts falling due within one year			
Bank loans and overdrafts	7	**(4.8)**	(3.3)
Creditors	6	**(13.5)**	(154.2)
		(18.3)	(157.5)
Net current assets/(liabilities)		**45.0**	(54.3)
Total assets less current liabilities		**190.9**	95.2)
Creditors – amounts falling due after more than one year			
Bank loans and overdrafts	7	**–**	(13.5)
Creditors	6	**(111.4)**	–
		(111.4)	(13.5)
Provisions for liabilities and charges	8	**(0.2)**	(0.4)
Net assets excluding pension liability		**79.3**	81.3
Net pension liability	11	**(24.7)**	(29.0)
Net assets		**54.6**	52.3
Shareholders' equity			
Called-up share capital	9	**7.2**	7.2
Other reserves	10	**10.1**	10.1
Profit and loss account	10	**37.3**	35.0
Shareholders' funds – equity		**54.6**	52.3

The notes on pages 69 to 76 form part of these accounts.

These accounts were approved by the Directors on 6 June 2007.

C J O'Connor
Chief Executive Officer

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2007

	note	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Retained loss for the period	1	**(0.2)**	(6.8)
Actuarial gain/(loss) on pension schemes	11	**2.5**	(7.1)
Total recognised gain/(loss) for the period		**2.3**	(13.9)
Transitional adjustment – FRS 26		**–**	0.1
Total recognised gain/(loss)		**2.3**	(13.8)

Statement of Accounting Policies

Basis of accounting
The accounts are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards.

A summary of the Company's principal accounting policies is set out below. These have been applied consistently throughout the year.

Financial instruments
Financial instruments are accounted for in accordance with FRS 26.

The Company uses derivative financial instruments to hedge its exposure to interest rates and short-term currency rate fluctuations. The Company does not apply hedge accounting in its financial statements and accordingly all gains and losses on the transaction and movements in fair value of the instruments are taken through the profit and loss account.

Tangible fixed assets
Tangible fixed assets are stated at cost less cumulative depreciation and impairment. Depreciation is provided on the basis of writing off the cost of the relevant assets over their expected useful lives. The Company applies the straight line method. The effect is to reduce the cost of plant, machinery and fixtures to estimated residual value over a period of 5–20 years.

Taxation
The charge for taxation is based on the taxable profits and losses for the year and takes into account deferred taxation. Full provision is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax assets are only recognised to the extent that their recoverability is regarded as more likely than not.

Provisions
Provisions are made in accordance with FRS 12 where an obligation exists for a future liability in respect of a past event and where the amount of obligation can be reliably estimated. Provision is made for vacant and sub-let leasehold properties to the extent that future rental payments are expected to exceed future rental income and for all other known liabilities which exist at the Balance Sheet date, based on management's best estimate as to the cost of settling these liabilities. These provisions are discounted in line with FRS 12 guidelines at a risk free discount rate.

Pension costs
Pension costs are accounted for under FRS 17 'Retirement Benefits'.

(i) Defined Benefit Pension Schemes
For defined benefit schemes, the cost of benefits accruing during the year in respect of current and past service is charged against operating profit. The expected return on the scheme's assets and the increase in the present value of the scheme's liabilities arising from the passage of time, are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The Balance Sheet includes the deficit in schemes taking assets at their year-end market values and liabilities at their actuarially calculated value discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

(ii) Defined Contribution Pension Schemes
Amounts charged in respect of defined contribution pension schemes represent contributions payable in the year.

Fixed asset investments
Fixed asset investments are stated at cost, less provision for any impairment in value. Where circumstances indicate that there may have been an impairment in the carrying value of a tangible or intangible fixed asset, an impairment review is carried out using cash flows from approved budgets and projections discounted at the Group's weighted average cost of capital.

Share-based payments
The fair value of employee share options plans is calculated using the binomial model in accordance with FRS 20 'Share-based payments'. The resulting cost is charged to the profit and loss account over the vesting period of the options. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

Notes on the Accounts

1. Profit and loss account

The Company loss for the year, before charging dividends, is **£0.2m** (2006: £6.8m). As permitted by s.230(3) of the Companies Act 1985 a separate profit and loss account has not been presented.

2. Auditors' remuneration

For the year ended 31 March 2007

	2007 £m	2006 £m
Audit fees	**0.1**	0.1
Tax and consultancy fees	**0.1**	0.1
	0.2	0.2

3. Tangible fixed assets

	Plant, equipment, fixtures and computer systems £m
Cost	
At 1 April 2006 and 31 March 2007	10.7
Depreciation	
At 1 April 2006	8.6
Depreciation	0.8
At 31 March 2007	9.4
Net book value at 31 March 2007	**1.3**
Net book value at 31 March 2006	2.1

4. Investments

	Shares in Group undertakings £m
Cost	
At 1 April 2006	183.1
Disposals	(6.6)
At 31 March 2007	176.5
Provision for impairment in value	
At 1 April 2006	35.7
Released in the year	(3.8)
	31.9
Net book value at 31 March 2007	**144.6**
Net book value at 31 March 2006	147.4

Following the impairment of the Company's investments in subsidiary undertakings in 2003, a 'look-back' test has been performed in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'. The existing provision was calculated by comparing the net book value of the Company's investments and long-term inter-company receivables with the future cash flows of those subsidiaries based on budgets and forecasts approved by the Group Board, discounted using the Group's weighted average pre-tax cost of capital of 12.2%. This test confirmed that no further impairment was required for the current year ended 31 March 2007. However, the results of the test did show that the allocation of the impairment was no longer appropriate, and, as a result, £3.8m of the total impairment has been transferred from investments to long-term inter-company receivables.

The principal subsidiaries of the parent undertaking are shown on page 64.

Notes on the Accounts

5. Debtors

	2007 £m	2006 £m
Amounts due within one year:		
Amounts owed by subsidiary undertakings	**4.4**	82.1
Taxation	**4.4**	–
Other debtors	**0.3**	0.7
Prepayments and accrued income	**0.1**	0.2
Total amounts due within one year	**9.2**	83.0
Amounts due after more than one year:		
Amounts owed by subsidiary undertakings	**54.1**	20.2
Total amounts due after more than one year	**54.1**	20.2
Total debtors	**63.3**	103.2

6. Creditors

	2007 £m	2006 £m
Amounts due within one year:		
Amounts owed to subsidiary undertakings	**12.2**	152.3
Taxation	**–**	0.9
Other taxes and social security	**–**	–
Other creditors	**0.7**	0.4
Accruals and deferred income	**0.6**	0.6
Total amounts due within one year	**13.5**	154.2
Amounts due after more than one year:		
Amounts owed to subsidiary undertakings	**111.4**	–
Total amounts due after more than one year	**111.4**	–

7. Financial instruments

The Company's policies in respect of financial instruments are detailed in the accounting policies on page 68 which forms part of the annual report and accounts. In accordance with FRS 26 the fair value of all derivative financial instruments are now included in the Balance Sheet.

Financial assets

Bank borrowings under the committed facility were fully paid down during the year, largely from proceeds of asset disposals, and there were no drawings under this line at 31 March 2007. The committed facility arranged by HSBC and Allied Irish Banks was cancelled in March 2007 and all security under that arrangement was released and all obligations cancelled.

The Company currently has no significant debt exposure to interest rate movements and the interest rate cap taken out in August 2004 was terminated in September 2006, for which consideration of US$0.2m (£0.1m) was received.

Financial liabilities

	2007 £m	2006 £m
Amounts due within one year		
Bank overdrafts	**4.4**	2.9
Other loans	**0.4**	0.4
Total amounts due within one year	**4.8**	3.3
Amounts due after more than one year		
Bank borrowings	**–**	13.5
Total amounts due after more than one year	**–**	13.5
Total borrowings	**4.8**	16.8

The Group also has in place a cross guarantee between the parent company and its UK subsidiaries in respect of bank loans and other financial obligations which amounted at 31 March 2007 to £0.4m.

The exposure of the Company to interest rate changes and the contractual repricing dates are as follows:

	6 months or less £m	**6-12 months £m**	**1-5 years £m**	**Total £m**
31 March 2007				
Total borrowings	4.8	–	–	4.8
Effect of interest rate swaps	–	–	–	–
	4.8	–	–	4.8
31 March 2006				
Total borrowings	3.3	–	13.5	16.8
Effect of interest rate swaps	–	–	(0.1)	(0.1)
	3.3	–	13.4	16.7

Notes on the Accounts

7. Financial instruments continued

The effective interest rates at the Balance Sheet date were as follows:

	Sterling	US and Canadian Dollars	Other currencies
31 March 2007			
Bank overdrafts	4.3%	6.5%	2.8%
Other loans	5.5%	–	–
Bank borrowings	–	–	–
31 March 2006			
Bank overdrafts	5.5%	–	–
Other loans	5.5%	–	–
Bank borrowings	6.4%	6.3%	2.7%

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	**0.5**	5.2
US and Canadian Dollars	**0.3**	10.9
Other Currencies	**4.0**	0.7
	4.8	16.8

The Company has the following undrawn borrowing facilities:

	2007 £m	2006 £m
Floating rate		
– Expiring within one year	**–**	5.0
– Expiring after more than one year	**–**	11.5
	–	16.5

Maturity of non-current financial assets and liabilities

	1-2 years £m	More than 5 years £m	Total £m
31 March 2007			
Debtors	–	54.1	54.1
31 March 2006			
Debtors	–	20.2	20.2
Bank borrowings	(13.5)	–	(13.5)
	(13.5)	20.2	6.7

Fair and book values of non-current financial assets and liabilities

	Book value £m	Fair value £m
31 March 2007		
Debtors	54.1	54.1
31 March 2006		
Debtors	20.2	20.2
Bank borrowings	(13.5)	(13.5)
	6.7	6.7

8. Provisions

	Reorganisation provision £m	Onerous lease provision £m
At 1 April 2006	–	0.4
Provided in the year	0.3	–
Released in the year	–	(0.2)
Utilised in the year	(0.1)	(0.2)
At 31 March 2007	0.2	–
Analysis of provisions:		
Current	0.2	–
Non-current	–	–
Total provisions	0.2	–

9. Share capital

	2007 £m	2006 £m
Authorised		
190,688,306 shares of 5p each	**9.5**	9.5
Allotted, issued and fully paid		
144,762,868 shares of 5p each	**7.2**	7.2

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from nil pence per share to 45 pence per share under the share options schemes approved by shareholders. The number of shares subject to options, the periods in which they were granted, and the periods in which they may be exercised are given below:

Scheme	Year of grant	Average exercise price per share (pence)	Exercise period	Numbers 2007	Numbers 2006
Sharesave option plan	2001–2002	47p–76p	up to 29 February 2008	**868,249**	967,491
Executive share option plan	1997–2002	49p–236p	up to 20 June 2012	**1,708,500**	2,277,500
Executive share option plan	2006	22.25p	up to 31 August 2016	**900,000**	–
US stock option plan	1997–2002	49p–195.5p	up to 20 June 2012	**988,500**	1,184,000
Performance share plan	2004	nil pence per share	up to 15 August 2014	**650,000**	1,100,000
Performance share plan	2006	nil pence per share	up to 31 August 2016	**1,050,000**	–

10. Reconciliation of shareholders' equity

	Share capital £m	Other reserves £m	Profit and Loss Account £m	Total £m
Balance at 1 April 2006	7.2	10.1	35.0	52.3
Loss for the period	–	–	(0.2)	(0.2)
Actuarial gain on pension schemes	–	–	2.5	2.5
Balance at 31 March 2007	**7.2**	**10.1**	**37.3**	**54.6**

Notes on the Accounts

11. Pension schemes

The Company operates several defined benefit schemes and a defined contribution scheme for employees in the UK.

UK Pension schemes

(a) Defined contribution scheme
The Company operates a defined contribution scheme in the UK. Employer's contributions are charged to the profit and loss account as incurred. The total pension cost for the Company in respect of this scheme for the year ended 31 March 2007 was **£0.1m** (2006: £0.1m).

(b) Defined benefit schemes
The UK defined benefit schemes are funded by contributions from members as defined in the scheme rules, and by the employing company at a rate assessed by the scheme actuary as sufficient to meet the balance of costs determined following the triennial fund reviews.
The assets of the schemes are held separately from Company assets under Trust. The charge to operating profit in the year was **£0.1m** (2006: £0.3m).

The FRS 17 'Retirement Benefits' valuations have been updated by the scheme actuaries, in order to assess the liabilities of the schemes at 31 March 2007. Scheme assets are stated at their market value at 31 March 2007.

The financial assumptions used to calculate scheme liabilities under FRS 17 for the UK defined benefit schemes are as follows:

	2007	2006	2005
Discount rate	**5.3%**	5.0%	5.4%
Salary increases per annum	**3.9%**	3.8%	3.5%
Price inflation per annum	**3.1%**	3.0%	2.8%
Increases to pensions in payment	**2.8%–3.5%**	3.0%	2.8%–3.0%
Increases to deferred pensions	**3.0%**	3.0%	2.8%

The market value of assets in the schemes at the Balance Sheet date, and the expected rates of return and the present value of the scheme liabilities at each balance sheet date are as follows:

	At 31 March 2007		At 31 March 2006		At 31 March 2005	
	Expected rate of return	**Market value £m**	Expected rate of return	Market value £m	Expected rate of return	Market value £m
Equities	**7.9%**	**20.7**	7.8%	21.6	8.0%	18.8
Bonds	**5.3%**	**27.8**	5.0%	26.3	4.8%–5.5%	22.9
Other	**3.8%–4.5%**	**–**	3.5%–4.4%	–	4.5%	–
Total market value of assets		**48.5**		47.9		41.7
Present value of scheme liabilities		**(73.2)**		(76.9)		(64.5)
Net deficit in the schemes		**(24.7)**		(29.0)		(22.8)

A deferred tax asset of **£7.4m** (2006: £8.7m) has not been recognised because of the current loss making position of the Company.

11. Pension schemes continued

The following amounts have been recognised in the profit and loss account and Statement of Total Recognised Gains and Losses for the year ended 31 March 2007 in respect of the Company's defined benefit schemes:

	2007 £m	2006 £m
Profit and loss account		
– current service cost	**(0.1)**	(0.3)
Total charge to operating profit	**(0.1)**	(0.3)
Other finance costs		
– expected return on pension scheme	**2.9**	2.6
– interest on pension scheme liabilities	**(3.8)**	(3.4)
Net finance cost	**(0.9)**	(0.8)
Statement of Total Recognised Gains and Losses		
Actual return less expected return on scheme assets	**(2.2)**	4.4
Experience gains/(losses) arising on scheme liabilities	**1.1**	1.0
Changes in assumptions underlying the present value of scheme liabilities	**3.6**	(12.5)
Net actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses	**2.5**	(7.1)
Movement in deficit before deferred tax during the year		
Net deficit in schemes at beginning of year	**(29.0)**	(22.8)
Movement in year:		
– current service cost	**(0.1)**	(0.3)
– contributions	**2.8**	2.0
– net finance cost	**(0.9)**	(0.8)
– actuarial gain/(loss)	**2.5**	(7.1)
Net deficit in schemes at end of year	**(24.7)**	(29.0)

	2007	2006	2005	2004
Details of experience (gains) and losses				
Difference between the expected and actual return on scheme assets:				
– Amount (£m)	**(2.2)**	4.4	1.9	3.1
– Percentage of scheme assets	**(4.5%)**	9.2%	4.6%	7.3%
Experience gains/(losses) on scheme liabilities:				
– Amount (£m)	**1.1**	1.0	(2.8)	2.2
– Percentage of scheme liabilities	**1.5%**	1.3%	(4.3%)	3.5%
Total amount recognised in statement of total recognised gains and losses:				
– Amount (£m)	**2.5**	(7.1)	(5.6)	2.4
– Percentage of scheme liabilities	**3.4%**	(9.2%)	(8.7%)	3.8%

Notes on the Accounts

12. Employee benefit expense

	2007 £m	2006 £m
Wages and salaries	**0.9**	0.5
Social security costs	**0.1**	0.1
Share options granted to directors and employees	**–**	0.1
Pension costs – defined contribution plans	**0.1**	0.1
Pension costs – defined benefit plans	**0.1**	0.3
	1.2	1.1
Reorganisation and termination costs	**–**	0.4
	1.2	1.5

	2007	2006
Average employee numbers	**9**	12

13. Contingent liabilities

The Group also has in place a cross guarantee between the parent company and its UK subsidiaries in respect of bank loans and other financial obligations which amounted at 31 March 2007 to £0.4m.

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