CHAPELTHORPE
plc

Interim Report 2002

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Corporate statement

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

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

Highlights of the period

- Operating profit of £4.1m, excluding goodwill and exceptional items, an increase of 37% on prior year, despite 9% fall in turnover
- Borrowings down from £38.6m to £32.1m and gearing reduced to 65% (31 March 2002: 75%, 30 September 2001: 85%)
- Interim dividend of 0.25p, covered 2.9 times by pre-exceptional, post-tax earnings
- North American fibres' dominant supply position in US automotive sector maintained, where sales remain well above expectations
- New management team in North American fibres has achieved considerable progress in all the key aspects of the business, improving profitability and cash management
- European fibres' turnover and profits relatively stable despite significant increase in raw material prices
- European wallcoverings market declined for the fourth consecutive year but profit reduction somewhat mitigated by initial contributions from Russian project
- North American wallcoverings reduction in turnover but profits significantly improved due to consolidation onto one site and reduction of cost base
- Umbrella Frames turnover and profits increased

Chairman's interim statement

This is my first statement to shareholders since my appointment as Chairman at the AGM in July. Markets have continued to be difficult with our customers remaining under severe pressure as manufacturing demand continues to weaken generally worldwide. However, as shareholders will be aware, we have taken some tough decisions and have dramatically reduced our cost base whilst ensuring we maintain and, where possible, develop our position as the number one supplier in the markets we serve. Consequently, we have been able to achieve a robust financial performance in the period under review. Despite lower sales, operating profit has increased by 37% and pre-exceptional earnings per share for the six months to the end of September compare favourably with earnings per share for the full year to March 2002.

Results in brief

Reflecting difficult market conditions worldwide, Group turnover in the six months to 30 September 2002 fell by 9% to £60.1m (2001: £66.2m). However, operating profits on continuing operations, before exceptional items and amortisation of goodwill, rose by 37% to £4.1m (2001: £3.0m), and pre-tax profits increased by 127% to £2.5m (2001: £1.1m). Earnings per share, before exceptional items, increased by 154% to 0.71p (2001: 0.28p) and earnings per share, post exceptional items, increased to 0.64p (2001: loss of 0.23p).

Dividend

Your Board is declaring an unchanged interim dividend of 0.25p per share which will be payable on 10 February 2003 to shareholders on the register as at 13 December 2002. At this level the dividend payment is covered 2.9 times by pre-exceptional earnings. Shareholders will once again have the opportunity to reinvest the whole of their cash dividends in the purchase of additional shares in the Company in the open market at competitive dealing rates through the Company's Dividend Reinvestment Plan. The last date for election to participate in the Plan is 20 January 2003.

Balance sheet

At the last balance sheet date in March 2002 our business risks were greater than we felt appropriate given the medium-term outlook for the businesses. For example, we had high current asset levels, high borrowings, provisions for unexpired lease commitments on unoccupied buildings, and some under-utilised plant. As a result of progressively determined action over the past twelve months to address this situation, borrowings are now down from £38.6m at 31 March 2002 to £32.1m at 30 September 2002 and consequently gearing has reduced from 75% to the current 65%. By way of a reminder at the time of our last Interim Report in September 2001 gearing stood at 85%. In total, net borrowings have been reduced by some 26% in the last twelve months. We have achieved this success through making all our businesses operate on a much tighter rein, both operationally and financially, and your Board believes that there is more that can be achieved in this area. Vigorous efforts are being made to satisfactorily resolve the above lease exposures, a liability for which was reflected in a provision of £1.4m in our March 2002 accounts. We will again review this level of provisioning at the year end to reflect any developments in the second half.

Shareholders' funds

Despite the improved financial performance, shareholders' funds have reduced by 4% from £51.4m to £49.2m due to the impact of exchange translation of foreign currency, in particular the US dollar, on net investments.

Strategy

Group turnover has declined over the past two years and we see no change occurring in that pattern in the near future. We have therefore formulated our business strategy accordingly with an emphasis on tight control of working capital and lower borrowings. We believe this will allow us to focus on growth in the future with a more modest gearing level.

Business progress

Turnover in our two largest divisions has fallen as demand remains weak. Sales in our Specialist Coatings division fell by 25% as the well-documented problems of the European wallcoverings market continue unabated. Having taken prudent decisions over the past 18 months or so to reduce costs and capacity we were able to restrict the fall in operating profit to 23%. Despite the worst ever conditions experienced in this market we managed a small improvement in margins, while the benefit of our partnership venture in Russia will continue to contribute in the second half.

Although sales in our Fibres division fell by 4%, operating profits rose by 228% as the production problems we incurred in the US last year have been addressed. We remain the number one supplier of coloured polypropylene fibre in both Western Europe and North America, where the US automotive industry is forecast to have one of its best ever years in terms of vehicles sold; in the first half this sector represented 43% of our sales of staple fibre in the US.

Chairman's interim statement

Sales in our Umbrella Frames division actually recovered by 7% from the depressed levels of the previous year due to greater marketing effort and some evidence of re-stocking the inventory pipeline. The benefit of our market position, where we estimate we have 60% of the European market and 25% of the World market for sun umbrella frames, was also a factor.

Management changes

As previously announced on 5 September, David Riley, our Group Finance Director, will retire on 31 December 2002. I would like to thank him for his contribution as Finance Director for the past three years and wish him and his family well in his retirement.

We are pleased to announce the appointment of Andrew Weatherstone as Group Finance Director with effect from 1 January 2003. Andrew, aged 38, was formerly group finance director of Bostrom plc and has recently been interim group finance director at Pressac plc. In addition we have recently appointed a new director of finance for our US operation.

It is apparent from these interim results that the Group recognises the value of continually improving financial disciplines and strategy within the business and these two new appointments will help strengthen the level of performance in serving shareholders' interests.

People

Once again we are indebted to our employees throughout the Group, who have shown tremendous commitment and loyalty despite difficult markets worldwide. The senior management team, led by Brian Leckie and the chief executives of our subsidiaries, has imposed some tough financial disciplines and, despite the operational difficulties that can result from such action, all our employees have responded magnificently and produced the results we were expecting.

Outlook

Difficult market conditions continue to be experienced throughout each of our three divisions and there is no sign of an upturn on the horizon. However, the action we have taken in reducing our cost base, whilst we remain focused on maintaining our market leadership in our chosen areas, gives us confidence that trading in the second half will show an improvement on the first half, although the uncertainty surrounding economic conditions, particularly in North America, inevitably leads us to some degree of caution in our outlook. We also anticipate that the Group will remain cash generative for the remainder of the year, providing us with the ability to reduce borrowings still further.

The underlying resilience of the Group has enabled us to meet expectations despite very poor markets. With costs now very firmly under control, we expect an improving operational and financial performance.

John Standen
Chairman
4 December 2002

Consolidated profit and loss account

half-year ended 30 September 2002

	Notes	Operating activities 2002 £000	Exceptional items 2002 £000	**Half-year 30 September 2002 £000**	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Turnover – continuing operations	2	**60,131**	**–**	**60,131**	66,244	127,048
Operating profit – continuing operations						
Continuing operations		**4,078**	**–**	**4,078**	2,969	6,006
Exceptional items		**–**	**(225)**	**(225)**	(1,452)	(2,819)
Amortisation of goodwill		**(384)**	**–**	**(384)**	(401)	(822)
Total operating profit	2,6	**3,694**	**(225)**	**3,469**	1,116	2,365
Interest		**1,179**	**–**	**1,179**	1,501	2,805
Profit (loss) on ordinary activities before taxation						
Profit before taxation and exceptional items		**2,515**	**–**	**2,515**	1,067	2,379
Exceptional items		**–**	**(225)**	**(225)**	(1,452)	(2,819)
Total profit (loss) on ordinary activities before taxation		**2,515**	**(225)**	**2,290**	(385)	(440)
Taxation on profit (loss) on ordinary activities				**993**	46	(266)
Profit (loss) for the period				**1,297**	(431)	(174)
Dividends:						
Preference				**23**	23	46
Ordinary				**501**	470	972
				524	493	1,018
Retained profit (deficit)				**773**	(924)	(1,192)

	Notes	Operating activities	Exceptional items	Total
Basic and diluted earnings (loss) per ordinary share (pence)				
Half-year ended 30 September 2002	7	**0.71**	**(0.07)**	**0.64**
Half-year ended 30 September 2001	7	0.28	(0.51)	(0.23)
Year ended 31 March 2002	7	0.71	(0.82)	(0.11)

Consolidated balance sheet

30 September 2002

	30 September 2002 £000	30 September 2001 £000	31 March 2002 £000
Fixed assets			
Intangible assets	**12,864**	13,679	13,231
Tangible assets	**56,730**	63,360	62,026
	69,594	77,039	75,257
Current assets			
Stocks	**13,798**	17,080	14,372
Debtors	**28,454**	34,399	31,941
Cash at bank and in hand	**4,003**	5,351	9,006
	46,255	56,830	55,319
Creditors			
Amounts falling due within one year	**36,061**	38,577	40,162
Net current assets	**10,194**	18,253	15,157
Total assets less current liabilities	**79,788**	95,292	90,414
Creditors			
Amounts falling due after more than one year	**22,739**	35,629	30,338
Provisions for liabilities and charges	**7,811**	9,013	8,672
Net assets	**49,238**	50,650	51,404
Capital and reserves			
Called up share capital	**11,002**	11,002	11,002
Reserves	**38,236**	39,648	40,402
Total shareholders' funds	**49,238**	50,650	51,404
Attributable to:			
Equity interests	**48,438**	49,850	50,604
Non-equity interests	**800**	800	800
	49,238	50,650	51,404

Consolidated cash flow statement

half-year ended 30 September 2002

	Notes	**Half-year 30 September 2002 £000**	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Net cash inflow from operating activities	3	**8,057**	1,516	9,552
Returns on investments and servicing of finance				
Interest received		**72**	101	172
Interest paid		**(1,083)**	(1,158)	(2,909)
Interest element of finance lease rental payments		**(6)**	(1)	(1)
Dividends paid on non-equity shares		**(23)**	(23)	(46)
Net cash (outflow) from returns on investments and servicing of finance		**(1,040)**	(1,081)	(2,784)
Taxation		**(581)**	705	335
Capital expenditure				
Purchases of tangible fixed assets		**(517)**	(992)	(2,273)
Sales of tangible fixed assets		**19**	47	847
		(498)	(945)	(1,426)
Acquisitions and disposals				
Purchases of businesses		**–**	(262)	(161)
		–	(262)	(161)
Equity dividends paid		**(501)**	(2,000)	(2,502)
Net cash inflow (outflow) before financing		**5,437**	(2,067)	3,014
Financing				
Loans advanced		**–**	9,790	9,790
Repayment of amounts borrowed		**(5,970)**	(304)	(4,897)
Capital element of finance lease rental payments		**(35)**	(7)	(9)
Net cash (outflow) inflow from financing		**(6,005)**	9,479	4,884
(Decrease) increase in cash	4	**(568)**	7,412	7,898

Total recognised gains and losses
half-year ended 30 September 2002

	Half-year 30 September 2002 £000	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Profit (loss) for the period	**1,297**	(431)	(174)
Exchange translation adjustments on foreign currency net investments	**(2,939)**	(1,431)	(409)
Total recognised gains and losses for the period	**(1,642)**	(1,862)	(583)

Movement in shareholders' funds
half-year ended 30 September 2002

	Half-year 30 September 2002 £000	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Profit (loss) for the period	**1,297**	(431)	(174)
Dividends	**(524)**	(493)	(1,018)
	773	(924)	(1,192)
Exchange translation adjustments on foreign currency net investments	**(2,939)**	(1,431)	(409)
(Decrease) in shareholders' funds	**(2,166)**	(2,355)	(1,601)
Shareholders' funds at 1 April 2002	**51,404**	53,005	53,005
Shareholders' funds at 30 September 2002	**49,238**	50,650	51,404

Notes to the interim accounts

1. Basis of preparation

The interim accounts for the half-year ended 30 September 2002 have been prepared using accounting policies consistent with those set out in the 2002 Report & Accounts and are unaudited. The consolidated profit and loss account, cash flow statement and statement of total recognised gains and losses for the year ended 31 March 2002 and the consolidated balance sheet as at that date are an abridged version of the full historical cost accounts which received an unqualified report by the auditors and have been filed with the Registrar of Companies.

2. Turnover and operating profit

Area of activity

	Turnover			Pre-exceptional operating profit		
	Half-year 30 September 2002 £000	Half-year 30 September 2001 £000	Year 31 March 2002 £000	**Half-year 30 September 2002 £000**	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Continuing operations						
Fibres	**40,944**	42,678	80,499	**2,007**	611	1,585
Specialist Coatings	**14,486**	19,208	35,446	**1,427**	1,855	2,879
Umbrella Frames	**4,701**	4,358	11,103	**644**	503	1,542
	60,131	66,244	127,048	**4,078**	2,969	6,006
Goodwill amortised						
Fibres				**(198)**	(198)	(397)
Specialist Coatings				**(186)**	(203)	(425)
				(384)	(401)	(822)
	60,131	66,244	127,048	**3,694**	2,568	5,184

Geographical area

Region of origin	**Half-year 30 September 2002 £000**	Half-year 30 September 2001 £000	Year 31 March 2002 £000	**Half-year 30 September 2002 £000**	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Continuing operations						
Europe	**37,233**	40,613	78,285	**2,271**	3,479	6,413
North America	**22,898**	25,631	48,763	**1,807**	(510)	(407)
	60,131	66,244	127,048	**4,078**	2,969	6,006
Goodwill amortised						
Europe				**(348)**	(366)	(752)
North America				**(36)**	(35)	(70)
				(384)	(401)	(822)
	60,131	66,244	127,048	**3,694**	2,568	5,184

Region of destination	**Half-year 30 September 2002 £000**	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Turnover – continuing operations			
Europe	**34,522**	38,575	74,186
North America	**23,582**	26,279	49,933
Africa and Middle East	**330**	307	766
Australasia and Far East	**1,697**	1,083	2,163
	60,131	66,244	127,048

3. Reconciliation of operating profit to net cash inflow from operating activities

	Half-year 30 September 2002 £000	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Operating profit	**3,469**	1,116	2,365
Depreciation	**2,570**	2,695	5,974
Impairment of tangible fixed assets	**–**	269	237
Profit on disposal of tangible fixed assets	**–**	—	(98)
Amortisation of goodwill	**384**	401	822
Decrease (increase) in stocks	**103**	(333)	2,558
Decrease in debtors	**2,357**	3,489	7,162
(Decrease) in creditors	**(826)**	(6,121)	(9,468)
Net cash inflow from operating activities	**8,057**	1,516	9,552

The cash flow impact of the operating exceptional items, as disclosed in Note 6, is a cash outflow of £514,000.

4. Reconciliation to net debt

	Half-year 30 September 2002 £000	Half-year 30 September 2001 £000	Year 31 March 2002 £000
(Decrease) increase in cash in the period	**(568)**	7,412	7,898
Decrease (increase) in debt and finance leasing	**6,005**	(9,479)	(4,884)
Change in net debt from cash flows	**5,437**	(2,067)	3,014
New finance leases	**(127)**	—	—
Exchange adjustments	**1,144**	406	54
Movement in net debt in the period	**6,454**	(1,661)	3,068
Net debt at 1 April 2002	**(38,554)**	(41,622)	(41,622)
Net debt at 30 September 2002	**(32,100)**	(43,283)	(38,554)

5. Analysis of net debt

	1 April 2002 £000	Cash flow **£000**	Other non-cash **£000**	Exchange movement **£000**	**30 September 2002 £000**
Cash at bank and in hand	9,006	**(4,809)**		**(194)**	**4,003**
Overdrafts and short-term facilities	(9,808)	**4,241**		**414**	**(5,153)**
		(568)			
Debt due after 1 year	(30,338)	**–**	**6,970**	**670**	**(22,698)**
Debt due within 1 year	(7,414)	**5,970**	**(6,970)**	**254**	**(8,160)**
Finance leases	—	**35**	**(127)**	**–**	**(92)**
		6,005			
Total	(38,554)	**5,437**	**(127)**	**1,144**	**(32,100)**

Notes to the interim accounts

6. Operating exceptional items

During the period the Group has incurred operating exceptional items amounting to £225,000, which relate to salary in lieu of notice and pension costs in connection with the retirement of the Group Finance Director, and redundancy costs in relation to further rationalisation of the UK wallcoverings division.

The taxation impact of these exceptional items was a credit of £68,000.

The cash flow impact of operating exceptional items was £514,000, all of which related to prior year exceptional items.

7. Basic and diluted earnings (loss) per ordinary share

	Basic and diluted earnings (loss) per share			Earnings per share before exceptional items		
	Half-year 30 September 2002 £000	Half-year 30 September 2001 £000	Year 31 March 2002 £000	**Half-year 30 September 2002 £000**	Half-year 30 September 2001 £000	Year 31 March 2002 £000
Profit (loss) for the period	**1,297**	(431)	(174)	**1,297**	(431)	(174)
Dividends on preference shares	**(23)**	(23)	(46)	**(23)**	(23)	(46)
Exceptional items	**–**	–	–	**225**	1,452	2,819
Tax effect of exceptional items	**–**	–	–	**(68)**	(432)	(1,184)
Earnings (loss) attributable to ordinary shareholders	**1,274**	(454)	(220)	**1,431**	566	1,415
Weighted average number of ordinary shares in issue during the period (000's)	**200,200**	200,892	200,656	**200,200**	200,892	200,656
Basic and diluted earnings (loss) per ordinary share (pence)	**0.64**	(0.23)	(0.11)	**0.71**	0.28	0.71

The effect of the exceptional items on the earnings per share for the current period is (0.07) pence (2001: (0.51) pence).

Directors and advisers

John Standen*
Non-executive Chairman, aged 54

Brian Leckie†
Chief Executive, aged 55

David Riley
Finance Director, aged 56

Allan Thompson
Executive Director, aged 53

Alan Reeve*
Non-executive Director, aged 65

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† Member of Nomination Committee

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