



CHAPELTHORPE
plc

Corporate statement

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

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

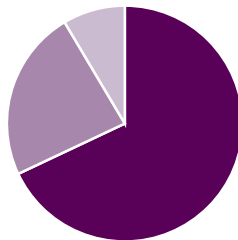
Highlights of the period

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- Turnover up 4% to £60.9m (2003: £58.7m)
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- Underlying* operating profit of £2.3m (2003: £3.1m)
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- Net borrowings reduced from £22.7m to £21.2m; on track for borrowings below £20m by March 2005
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- Weak North American wallcoverings market: £1.8m of bad debts incurred; Canada being closed with write-down of £5.4m
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- Post exceptional loss before tax £9.5m (2003: profit of £1.8m)
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- Interim dividend of 0.33p, up 10%, covered 1.6 times by underlying* earnings
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- Underlying* EPS 0.53p (2003: 0.71p restated)
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- Reshaping of the Group underway
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* Before exceptional items and goodwill

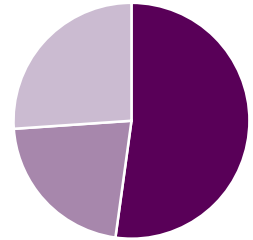
Turnover

- £41.4m Fibres
- £14.3m Specialist Coatings
- £5.2m Umbrella Frames



Underlying Operating Profit

- £1.2m Fibres
- £0.5m Specialist Coatings
- £0.6m Umbrella Frames



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Chairman's interim statement



“Despite the setbacks we have experienced in the first six months of this year, we have been able to deliver a further reduction of £1.5m in borrowings to £21.2m.”

Summary

- Performance impacted by depressed North American wallcoverings market and rising raw material prices
- Despite challenging conditions borrowings down and on track to meet target of below £20m by March 2005
- Interim dividend of 0.33p up 10%
- Reshaping of the Group underway

In our trading statement on 16 September 2004, we explained that the North American market for wallcoverings had continued to deteriorate; bad debts incurred as a result of this deterioration were being fully provisioned at £1.8m and we were closing our Canadian manufacturing facility. We also explained that, although the costs will result in a write-down of assets in our balance sheet, when the sale of the freehold site takes place the net cash costs of closure will not be significant. These matters are now reflected in our results for the first half of the financial year.

Rising raw material prices on the back of the oil price surge, which were referred to in my statement in June, have been the other feature of the first half. These rises have occurred over a period where we have traditionally experienced a fall in prices of polymer. Notwithstanding the difficulties this situation poses, trading to date has held up reasonably well.

Cash is being generated and we remain on course to achieve our year end debt target of below £20m.

Strategy

The review of our businesses and assets outlined in my statement accompanying the 2004 financial results is proceeding. The purpose of the review is to ensure that we are as well placed as we can be, to deliver growth and acceptable returns for shareholders.

Actions taken so far include property sales and the realisation of tax losses in the first six months of this year; these have generated over £1m in cash. Furthermore, we are reducing our

investment in wallcoverings by closing our Canadian manufacturing operations.

However, we need to take more significant action to release further cash from our assets. This would allow us to invest in, and grow, business areas where our skills are demonstrating the capability to provide good margins and growth over the longer term. In this regard, we have made recent strides in developing our capability in higher value added specialist fibres applications in the food and construction industries. We believe that technical applications such as these should meet our requirements for growth. Therefore we have also decided to focus our activities more towards man-made fibres, which currently represent the major proportion of Group sales.

Our Umbrella Frames division does not fit into this new direction we are taking and we are currently exploring ways to release cash from this division. Hoyland Fox Limited is a well established, profitable business with embedded investment and considerable local expertise. The Board wants to ensure that we realise the highest cash return from both the business and its asset base, ensure the business continues successfully and obtain best value for shareholders.

Results in brief

Group turnover in the first six months rose to £60.9m – an increase of 4% reflecting increased volumes and higher selling prices. Underlying operating profits from continuing operations, before exceptional items and goodwill, fell to £2.3m (2003: £3.1m) reflecting the wallcoverings market decline and erosion of margins by high raw material costs and the weak US dollar.

A £1.8m exceptional charge has been made at operating level in respect of the bad debts in the Specialist Coatings division highlighted above. Operating profits, after this exceptional charge and before goodwill amortisation, amounted to £0.5m (2003: £3.1m).

Furthermore, we have made a provision of £5.4m in respect of the closure of our Canadian operation. We anticipate that the estimated cash costs of closure should be covered by the

proceeds from the sale of the Canadian assets. Further, in light of the closure, goodwill of £3.5m previously written off directly against reserves has been recognised in the profit and loss account in the period. This item has no impact on net assets.

After a reduced net interest charge of £0.8m (2003: £1.0m) profit before taxation and exceptional items was £1.1m (2003: £1.8m). The pre tax loss for the period, after exceptional items and goodwill, was £9.5m. Underlying earnings per share fell to 0.53p (2003: 0.71p), whilst post exceptional losses per share were 4.55p compared to earnings of 0.52p per share in 2003.

Balance sheet and borrowings

The determined efforts we have made to maximise our cash generation and improve our control over working capital has ensured that, despite the setbacks we have experienced in the first six months of this year, we have been able to deliver a further reduction of £1.5m in borrowings to £21.2m since the last year end. Gearing stands at 54% and the Board remains confident that it is firmly on track to achieve its target of borrowings below £20m by the end of March 2005.

Dividends

In light of the Group's cash performance and in anticipation of improved trading in the second half, the Board remains committed to its progressive dividend policy and is declaring a 10% increase in the interim dividend from 0.3p to 0.33p per share. The cost of this dividend is covered 1.6 times (2003: 2.4 times) by underlying earnings.

The interim dividend is payable on 14 February 2005 to shareholders on the register on 17 December 2004.

Shareholders will continue to have the opportunity to reinvest their cash dividends in the purchase of additional shares at competitive dealing rates through the Company's Dividend Reinvestment Plan ("the Plan"). The last date for election to participate in the Plan is 24 January 2005.

Business review

Fibres

Sales in the period increased by 4% to £41.4m (2003: £39.7m) and underlying operating profits were £1.2m (2003: £1.3m).

The performance in this division has been satisfactory with higher volumes being achieved in both Europe and North America.

Our second quarter saw significant polymer price rises, when traditionally prices fall, to a ten year high in Europe and a 25 year high in the US, as a result of strong global demand and underlying oil price pressures on feedstock costs. Inevitably there is a lag before these increases in price can be passed on to our customers and consequently we have experienced an erosion in margins particularly in Europe where only a limited number of customer contracts are linked to polymer prices.

Specialist Coatings

Sales for the period were similar to last year at £14.3m but underlying operating profits fell to £0.5m from £1.1m in the previous year.

Despite a fall of 10% in the UK market, our total European wallcoverings volumes improved benefiting from the sole supply agreements negotiated last year, albeit at lower margins. This has replaced more profitable business with other customers whose key export market was North America. Once our Canadian operations are closed in December, we will service our remaining North American customers from our UK plant. This should improve performance in the final quarter.

The Russian market continues to grow and we are well positioned to benefit from this growth. Income increased to £0.25m and should increase further as more customer capacity comes on stream.

Umbrella Frames

Sales for the period were £5.2m (2003: £4.6m) reflecting a 14% improvement in volumes, partly due to some pre-buying in advance of October price rises. However, operating profits were £0.6m (2003: £0.7m) impacted by a change in product mix and raw material price increases. The impact of higher raw material costs should be mitigated for the forthcoming selling season by strategic forward buying of steel and increases in selling prices.

Prior year adjustment

The Group has adopted UITF 17 (revised 2003) and UITF 38 in respect of its employee share schemes. The comparative results have therefore been restated to reflect the impact of these changes to our accounting policies. Further details are set out in Note 9.

Outlook

Continuing raw material price pressures and increasing energy costs will continue to present challenges for the remainder of the year and defence of our margins remains a priority. We will continue to focus on productivity and the development of new markets and products.

We look forward to improved trading in the second half. We remain firmly on track to reduce borrowings below £20m by March 2005 and maintain our progressive dividend policy.



John Standen
Chairman
1 December 2004

Consolidated profit and loss account

half-year ended 30 September 2004

	Notes	Operating activities 2004 £000	Exceptional items 2004 £000	Half-year 30 September 2004 £000	Restated Half-year 30 September 2003 £000	Restated Year 31 March 2004 £000
Turnover – continuing operations	2	60,903	–	60,903	58,710	121,460
Operating profit						
Continuing operations before exceptional items and goodwill		2,307	–	2,307	3,147	7,924
– Exceptional items	6	–	(1,753)	(1,753)	–	–
– Goodwill amortisation		(391)	–	(391)	(384)	(782)
Operating profit (loss)	2	1,916	(1,753)	163	2,763	7,142
Costs relating to fundamental reorganisation	7	–	(5,380)	(5,380)	–	–
Reinstatement of historic goodwill	7	–	(3,513)	(3,513)	–	–
Net interest payable		(787)	–	(787)	(977)	(1,782)
Profit (loss) on ordinary activities before taxation						
Profit before taxation and exceptional items		1,129	–	1,129	1,786	5,360
Exceptional items		–	(10,646)	(10,646)	–	–
Total profit (loss) on ordinary activities before taxation		1,129	(10,646)	(9,517)	1,786	5,360
Taxation on profit before exceptional items		(433)	–	(433)	(724)	(1,766)
Taxation relating to exceptional items		–	878	878	–	–
Total taxation on profit (loss) on ordinary activities		(433)	878	445	(724)	(1,766)
(Loss) profit for the period		696	(9,768)	(9,072)	1,062	3,594
Dividends:						
Preference				(23)	(23)	(46)
Ordinary				(647)	(593)	(2,011)
				(670)	(616)	(2,057)
(Deficit) profit transferred (from) to reserves				(9,742)	446	1,537
(Loss) earnings per ordinary share						
Basic and diluted				(4.55)p	0.52p	1.77p
Underlying				0.53p	0.71p	2.16p

Consolidated balance sheet

30 September 2004

	30 September 2004 £000	Restated 30 September 2003 £000	Restated 31 March 2004 £000
Fixed assets			
Intangible assets	11,691	12,720	11,885
Tangible assets	42,816	53,178	48,304
	54,507	65,898	60,189
Current assets			
Stocks	12,794	14,642	13,650
Debtors	24,796	23,926	30,447
Cash at bank and in hand	5,607	5,134	3,183
	43,197	43,702	47,280
Creditors			
Amounts falling due within one year	(31,019)	(36,872)	(37,451)
Net current assets	12,178	6,830	9,829
Total assets less current liabilities	66,685	72,728	70,018
Creditors			
Amounts falling due after more than one year	(18,020)	(16,696)	(16,903)
Provisions for liabilities and charges	(9,293)	(8,774)	(8,135)
Net assets	39,372	47,258	44,980
Capital and reserves			
Called up share capital	11,002	11,002	11,002
Reserves	28,370	36,256	33,978
Total shareholders' funds	39,372	47,258	44,980
Attributable to:			
Equity interests	38,572	46,458	44,180
Non-equity interests	800	800	800
	39,372	47,258	44,980

Consolidated cash flow statement

half-year ended 30 September 2004

	Notes	Half-year 30 September 2004 £000	Half-year 30 September 2003 £000	Year 31 March 2004 £000
Net cash inflow from operating activities	3	4,113	5,117	10,926
Returns on investments and servicing of finance				
Interest received		20	76	104
Interest paid		(642)	(1,276)	(2,462)
Interest element of finance lease rental payments		–	(2)	(3)
Dividends paid on non-equity shares		(23)	(23)	(46)
Net cash outflow from returns on investments and servicing of finance		(645)	(1,225)	(2,407)
Taxation		44	(610)	(808)
Capital expenditure and financial investment				
Purchases of tangible fixed assets		(757)	(902)	(1,702)
Sales of tangible fixed assets		649	–	31
Purchase of own shares by employee benefit trust		(220)	–	–
		(328)	(902)	(1,671)
Acquisitions and disposals				
(Payments) receipts relating to prior period disposals of businesses/properties		(30)	1,153	563
		(30)	1,153	563
Equity dividends paid		(1,402)	(1,001)	(1,603)
Net cash inflow before financing		1,752	2,532	5,000
Financing				
Loans advanced		2,265	–	17,615
Repayment of amounts borrowed		(1,323)	(3,075)	(24,548)
Capital element of finance lease rental payments		(14)	(26)	(53)
Net cash inflow (outflow) from financing		928	(3,101)	(6,986)
Increase (decrease) in cash	4	2,680	(569)	(1,986)

Total recognised gains and losses

half-year ended 30 September 2004

	Half-year 30 September 2004 £000	Restated Half-year 30 September 2003 £000	Restated Year 31 March 2004 £000
(Loss) profit for the period	(9,072)	1,062	3,594
Exchange translation adjustments on foreign currency net investments	771	(918)	(4,215)
Credit (charge) in respect of employee share scheme	70	(51)	(123)
Total recognised gains and losses for the period	(8,231)	93	(744)
Prior year adjustment	362	—	—
Total gains and losses recognised since last annual report	(7,869)	93	(744)

Movement in shareholders' funds

half-year ended 30 September 2004

	Half-year 30 September 2004 £000	Restated Half-year 30 September 2003 £000	Restated Year 31 March 2004 £000
(Loss) profit for the period	(9,072)	1,062	3,594
Dividends	(670)	(616)	(2,057)
	(9,742)	446	1,537
Reinstatement of historic goodwill relating to fundamental reorganisation	3,513	—	—
Exchange translation adjustments on foreign currency net investments	771	(918)	(4,215)
Acquisition of own shares by employee benefit trust	(220)	—	—
Credit (charge) in respect of employee share scheme	70	(51)	(123)
Decrease in shareholders' funds	(5,608)	(523)	(2,801)
Opening shareholders' funds – as previously reported	45,289	47,877	47,877
Prior year adjustment	(309)	(96)	(96)
Opening shareholders' funds – as restated	44,980	47,781	47,781
Closing shareholders' funds	39,372	47,258	44,980

Notes to the interim accounts

1. Basis of preparation

The interim accounts for the half-year ended 30 September 2004 have been prepared using accounting policies consistent with those set out in the 2004 Report & Accounts, with the exception that the Group has adopted the requirements of UITF Abstract 17 (revised 2003) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts". Comparative figures have been restated where applicable, as more fully explained in Note 9. The interim accounts 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 2004 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. Segmental analysis

Area of activity

Area of activity	Turnover			Pre-exceptional operating profit		
	Half-year 30 September 2004 £000	Half-year 30 September 2003 £000	Year 31 March 2004 £000	Half-year 30 September 2004 £000	Restated Half-year 30 September 2003 £000	Restated Year 31 March 2004 £000
Continuing operations						
Fibres	41,380	39,734	79,656	1,187	1,321	3,334
Specialist Coatings	14,339	14,397	29,985	552	1,140	2,750
Umbrella Frames	5,184	4,579	11,819	568	686	1,840
	60,903	58,710	121,460	2,307	3,147	7,924
Goodwill amortised						
Fibres				(202)	(198)	(405)
Specialist Coatings				(189)	(186)	(377)
				(391)	(384)	(782)
	60,903	58,710	121,460	1,916	2,763	7,142

In the period ended 30 September 2004 the operating exceptional item of £1,753,000 and the non-operating exceptional items of £5,380,000 and £3,513,000 related solely to the Specialist Coatings division.

Geographical area

Region of origin	Turnover			Pre-exceptional operating profit		
	Half-year 30 September 2004 £000	Half-year 30 September 2003 £000	Year 31 March 2004 £000	Half-year 30 September 2004 £000	Restated Half-year 30 September 2003 £000	Restated Year 31 March 2004 £000
Continuing operations						
Europe	41,579	37,973	81,958	1,839	2,706	6,686
North America	19,324	20,737	39,502	468	441	1,238
	60,903	58,710	121,460	2,307	3,147	7,924
Goodwill amortised						
Europe				(366)	(348)	(731)
North America				(25)	(36)	(51)
				(391)	(384)	(782)
	60,903	58,710	121,460	1,916	2,763	7,142

In the period ended 30 September 2004 the operating exceptional item of £1,753,000 included £1,071,000 associated with the European operations and £682,000 associated with the North American operations. The non-operating exceptional items of £5,380,000 and £3,513,000 related to the North American operations.

2. Segmental analysis (continued)**Geographical area (continued)**

Region of destination	Half-year 30 September 2004 £000	Half-year 30 September 2003 £000	Year 31 March 2004 £000
Turnover – continuing operations			
Europe	38,787	34,975	75,728
North America	20,135	21,595	41,343
Africa and Middle East	262	386	809
Australasia and Far East	1,719	1,754	3,580
	60,903	58,710	121,460

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

	Half-year 30 September 2004 £000	Restated Half-year 30 September 2003 £000	Restated Year 31 March 2004 £000
Operating profit	163	2,763	7,142
Depreciation	2,153	2,595	4,947
Amortisation of goodwill	391	384	782
Decrease (increase) in stocks	883	(1,936)	(1,586)
Decrease (increase) in debtors	6,900	4,888	(3,256)
(Decrease) increase in creditors	(6,193)	(3,334)	3,217
Decrease in provisions	(184)	(243)	(320)
Net cash inflow from operating activities	4,113	5,117	10,926

The cash flow impact of the operating exceptional items for which provision was made in prior periods is a cash outflow of £184,000 (2003: £299,000), as disclosed in Note 6.

4. Reconciliation to net debt

	Half-year 30 September 2004 £000	Half-year 30 September 2003 £000	Year 31 March 2004 £000
Increase (decrease) in cash in the period	2,680	(569)	(1,986)
(Increase) decrease in debt and finance leasing	(928)	3,101	6,986
Change in net debt from cash flows	1,752	2,532	5,000
Exchange adjustments	(294)	216	553
Movement in net debt in the period	1,458	2,748	5,553
Opening net debt	(22,666)	(28,219)	(28,219)
Closing net debt	(21,208)	(25,471)	(22,666)

Notes to the interim accounts

5. Analysis of net debt

	1 April 2004 £000	Cash flow £000	Other non-cash £000	Exchange movement £000	30 September 2004 £000
Cash at bank and in hand	3,183	2,358	–	66	5,607
Overdrafts and short-term facilities	(6,283)	322	–	(167)	(6,128)
	(3,100)	2,680	–	(101)	(521)
Debt due after 1 year	(16,903)	(2,265)	1,323	(175)	(18,020)
Debt due within 1 year	(2,649)	1,323	(1,323)	(18)	(2,667)
Finance leases	(14)	14	–	–	–
	(19,566)	(928)	–	(193)	(20,687)
Total	(22,666)	1,752	–	(294)	(21,208)

6. Operating exceptional items

During the period the Group incurred a number of substantial bad debts in its Specialist Coatings division totalling £1,753,000. The taxation impact of operating exceptional items was a credit of £108,000. The cash flow impact of operating exceptional items was £184,000, all of which related to prior year items.

7. Non-operating exceptional items

During the period the Group announced the decision to undertake a major reorganisation within its Specialist Coatings division. This reorganisation involves the closure of the Canadian manufacturing operation and the transfer of manufacturing to the UK operation. This will result in significant redundancy and closure costs and a write-down of surplus assets, amounting to £5,380,000. The taxation impact of non-operating exceptional items was a credit of £770,000. The cash flow impact of non-operating exceptional items was £30,000, all of which related to prior year items.

As a consequence of the fundamental reorganisation that has taken place within the Specialist Coatings division, historic goodwill that has previously been fully written-off directly to reserves amounting to £3,513,000 is required to be written back and charged through the profit and loss account. This adjustment has no impact upon the Group's net assets.

8. Basic and diluted earnings per ordinary share

	Basic and diluted earnings per share			Underlying earnings per share		
	Half-year 30 September 2004 £000	Restated Half-year 30 September 2003 £000	Restated Year 31 March 2004 £000	Half-year 30 September 2004 £000	Restated Half-year 30 September 2003 £000	Restated Year 31 March 2004 £000
(Loss) profit for the period	(9,072)	1,062	3,594	(9,072)	1,062	3,594
Goodwill amortisation	–	–	–	391	384	782
Dividends on preference shares	(23)	(23)	(46)	(23)	(23)	(46)
Exceptional items	–	–	–	10,646	–	–
Tax effect of exceptional items	–	–	–	(878)	–	–
(Loss) earnings attributable to ordinary shareholders	(9,095)	1,039	3,548	1,064	1,423	4,330
Weighted average number of ordinary shares in issue during the period (000's)*	199,745	200,138	200,177	199,745	200,138	200,177
Basic and diluted (loss) earnings per ordinary share (pence)	(4.55)	0.52	1.77	0.53	0.71	2.16

The effect of the exceptional items on the earnings per share for the current period is a loss of 4.89 pence (2003: nil).

* excluding shares held by the Chapelthorpe plc 1996 Employee Benefit Trust.

9. Prior year adjustment

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

Under the revised UITF 17 the cost of share awards to employees is recognised over the period to which the employee's performance relates. The amount recognised is based on the fair value of the shares at the date the award is made. Under the previous accounting policy the cost of awards made under the Company's employee share ownership plans was amortised over the periods of service to which the awards related. The amount recognised in the profit and loss account in the comparative periods as a prior year adjustment represents the difference between the charge calculated under the revised and the previous accounting policies. This has resulted in an increase in the profit recorded for the half year ended 30 September 2003 of £87,000 and a decrease in the profit recorded for the year ended 31 March 2004 of £90,000.

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

Directors and advisers

John Standen* Non-executive Chairman, aged 56

Brian Leckie† Chief Executive, aged 57

Andy Weatherstone Finance Director, aged 40

Allan Thompson Executive Director, aged 55

Alan Reeve* Non-executive Director, aged 67

* Member of Nomination, Remuneration and Audit Committees

† Member of Nomination Committee

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