



## PRINCIPAL ACTIVITIES

Chapelthorpe plc is a leading manufacturer of industrial products which are supplied to carefully chosen niche markets worldwide. The business is organised into three divisions, namely Fibres, Specialist Coatings and Umbrella Frames.

The Fibres division supplies polypropylene fibre to the automotive, floorcoverings, technical textiles, geotextiles and home furnishings markets.

The Specialist Coatings division supplies vinyl coated paper and plastisols to the wallcoverings industry.

The Umbrella Frames division supplies frames to the sun and sports umbrella markets.

- Adverse factors including volatile polymer price, reduced US automotive volumes, weak umbrella frame market and dramatic rise in energy costs are having a significant impact
- Underlying\* operating profits down £1.1m to £1.2m (2004: £2.3m) reflecting harsh trading environment
- Overall loss before tax £1.2m (2004: loss of £5.5m)
- Interim dividend maintained at 0.33p per share
- Net bank borrowings up by £1.4m to £21.1m. Reduction targeted to below £18m by March 2006
- Strategy delivering:
  - Conditional sale of Penistone site for up to £10.3m dependent on planning
  - Fundamental reorganisation underway at Umbrella Frames with all manual assembly work transferred to Romania
  - Exchange of contracts for the sale and leaseback of UK Specialist Coatings site in Darwen, Lancashire for £2.3m
  - Negotiation for sale of surplus land at UK Fibres site in Drighlington, West Yorkshire created by consolidation of operations within approximately half the site and sale and leaseback of the remainder of the site. Targeted for completion by end of financial year

\* Before exceptional items of £1.5m (2004: £7.1m)

## CONTENTS

- 2 Chairman's interim statement
- 4 Consolidated income statement  
Group statement of recognised income and expense
- 5 Consolidated balance sheet
- 6 Consolidated statement of changes in shareholders' equity
- 7 Consolidated cash flow statement
- 8 Reconciliation of net cash flow to movement in net debt
- 9 Notes to the interim accounts

## CHAIRMAN'S INTERIM STATEMENT

“WE REMAIN FIRMLY FOCUSED ON RE-SHAPING OUR BUSINESSES WHERE APPROPRIATE AND MAXIMISING THE CASH TO BE RELEASED FROM SURPLUS ASSETS”

### First half overview

We have experienced poor trading conditions in the first half of this financial year, as we advised in September, but we have made good progress in continuing to ensure our asset base is providing the most effective return for shareholders. The interim dividend is unchanged from last year and whilst trading conditions are expected to remain tough we are confident in our strategic direction.

### Trading update

Trading conditions experienced by all of our operations in the first quarter were the worst since I became Chairman in July 2002 and although the second quarter showed a marked improvement in activity and profitability this failed to make up for a very poor start to the year.

In this financial year our fibres businesses have experienced abnormal levels of polymer price volatility with published prices ranging from £570 per tonne to the current record high of £800 per tonne in Europe. Prices in the US have followed a similar trend but are at an even higher level of £870 per tonne. Fibres volumes have been affected as customers try to order when polymer prices are perceived to be advantageous to them. Consequently, with prices currently at a record high, we are experiencing a very low forward order book although prices are widely expected to fall and this should lead to a recovery in our traditionally strongest final quarter. Volumes have also been impacted by the well publicised cut-backs in automotive production by Ford and GM in the US. Future demand is uncertain, in particular following GM's recent announcement of substantial cut-backs in their operations.

In the second half of last year we began to experience a rise in our UK energy costs and we anticipated a substantial increase in the current financial year. In the event we experienced an increase of £0.4m in the first half, in line with our expectations. However, as a result of the recent dramatic rise in predicted energy costs for this winter it is now anticipated that our costs for the second half could be £0.5m in excess of our previously expected levels in the UK alone.

As previously announced, our Umbrella Frames division failed to experience any up-turn in demand in its most recent selling season due to weak demand and competition from the Far East. Furthermore, given that we have to date received very few advance orders for the forthcoming season, we believe it is now prudent to take a more cautious view of the likely volumes.



The cumulative effect of these adverse factors is having a significant impact on our overall operating performance and consequently our full year performance will be materially below our earlier expectations.

Despite these difficult trading conditions we have made significant further progress on delivering our strategy.

### Strategy

Actions taken so far this year in pursuit of our strategy include:

- the conditional sale of our Penistone site for up to £10.3m depending on satisfactory planning permission being granted. The application was submitted in October 2005 and we expect a response before the end of our financial year. We are encouraged by the response of the local authority and local development agency to our proposals;
- exchange of contracts for the sale and leaseback of our Specialist Coatings site in Darwen, Lancashire for £2.3m scheduled for completion in December 2005;
- the negotiation for the sale of surplus land at our UK Fibres site in Drighlington, West Yorkshire created by consolidation of our operations within approximately half of our existing site. This sale, coupled with the sale and leaseback of the remainder of the site, is anticipated to be completed in the second half.

We are very conscious of the fact that our trading base has been shrinking and that property sales alone will not provide shareholders with satisfactory returns in the longer term. We are actively exploring options to address this situation and to this end we remain committed to selling our Umbrella Frames division at the soonest practicable time and continue to evaluate how best to maximise returns for shareholders from both our Fibres and Specialist Coatings operations.

### Results in brief

These are the first results which we have presented under the new International Financial Reporting Standards ("IFRS") and this has involved restating our prior year figures. The main changes are set out in notes 9 and 10.

Group turnover fell by 3% to £58.8m (2004: £60.9m) reflecting a fall in volumes across all divisions offset in part by higher selling prices.

Underlying profits fell to £1.2m from £2.3m reflecting the particularly harsh trading environment of the first three months.

Exceptional costs of £1.5m were incurred principally as a result of restructuring within both the Umbrella Frames and Specialist Coatings divisions. Consequently an operating loss of £0.2m (2004: loss of £4.7m) was generated.

## CHAIRMAN'S INTERIM STATEMENT

Overall a loss before tax of £1.2m was incurred after charging higher financing costs of £0.9m (2004: £0.8m) reflecting the impact of the change to accounting for pensions under IFRS. The underlying bank interest charge remained broadly flat year on year.

Loss per share reduced to 0.46p from 2.54p per share in the half year ended 30 September 2004.

### Balance sheet and borrowings

In line with IFRS, borrowings now include the Company's preference shares of £0.8m. Excluding these, there was an increase in net bank borrowings of £1.4m to £21.1m in the first six months. This increase was principally due to the exceptional cash costs of £1.7m, of which £0.7m related to prior year charges and £0.7m related to current year costs paid in connection with the restructuring of the Umbrella Frames business and the sale of its Penistone site. We are determined to achieve a reduction in borrowings for the full year and have targeted bank borrowings of below £18m at 31 March 2006. Excluding preference shares gearing at 30 September 2005 stands at 59% (30 September 2004: 57%).

### Dividends

The Board is declaring an unchanged interim dividend of 0.33p per share and will review the level of the final dividend at the end of the financial year in light of the Company's performance and cash generation in the second half.

The interim dividend is payable on 13 February 2006 to shareholders on the register on 16 December 2005.

Shareholders will continue to have the opportunity to reinvest 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 in respect of this dividend is 23 January 2006.

### Business review

#### Fibres

Sales in the period increased by 4% to £43.0m (2004: £41.4m) with higher selling prices more than offsetting an 8% fall in volumes compared to the same period last year. Underlying operating profits were £0.9m compared with £1.2m for the same period last year.

As I stated above, our US operation experienced a significant decline in automotive volumes as a result of the drop in production by Ford and GM. However, we continue our efforts to increase sales into the growing "transplant" sector with manufacturers such as Toyota and Nissan and volumes into these customers now account for over 10% of our total automotive volumes.

Our European business has greater exposure to the effects of the volatility in polymer prices than our US operation which has a substantial proportion of its selling prices linked to polymer prices. In the first quarter in Europe volumes were subdued as customers waited for polymer prices to fall before replenishing stock levels. Demand increased in the second quarter but in the current quarter, with polymer now at a record high, activity has once again weakened. However, there is a growing expectation within the industry that polymer prices will begin to fall towards the end of the calendar year and this should lead to improved demand in our final quarter.

Operationally we are reorganising our UK Fibres factory at Drighlington, West Yorkshire in light of these market conditions. This has enabled land surplus to requirements to be freed up for disposal.

### Specialist Coatings

Sales for the period were £12.4m (2004: £14.3m) reflecting a fall in volumes, generating underlying operating profits of £0.4m, down £0.1m from the previous year.

The UK wallcoverings market continues to decline at a double digit rate, although demand in other Western European countries appears to be holding up a little better. We have responded to these conditions by cutting costs to produce annualised savings approaching £0.3m.

Our strategy of exploiting the growth opportunities in Eastern Europe is continuing to deliver. The Russian market for our products is growing and with additional capacity at our trading partner coming on line in the second half, our royalty income looks set to grow. We have established a branch in Poland and this will be fully operational in the second half of the year. We have signed a five year sole supplier agreement with a major manufacturer in Poland and these supplies will be satisfied from the UK until our Polish operation is up and running. In addition, we continue to develop our relationship with a major manufacturer in China and we are hopeful this will lead to benefits next year.

### Umbrella Frames

Sales were £3.5m, down from £5.2m in the previous year. Consequently, an underlying operating loss of £0.1m was incurred compared to a profit of £0.6m for the same period last year.

The operation has been downsized significantly with over 90 redundancies (almost half of the workforce) and the use of homeworkers has ceased. Most assembly work has now transferred to Romania. Plans are well advanced (subject to obtaining planning permission and selling the Penistone site) to relocate this business into a smaller purpose built site with a view to retaining the key processes which differentiate Hoyland Fox from competitive products coming from the Far East.

### Outlook

Notwithstanding the extremely challenging conditions facing us we remain firmly focused on re-shaping our businesses where appropriate and maximising the cash to be released from surplus assets.



**JOHN STANDEN**

Chairman  
1 December 2005

## CONSOLIDATED INCOME STATEMENT (unaudited)

half year ended 30 September 2005

	Notes	Half year 30 September 2005 £000	Half year 30 September 2004 £000	Year 31 March 2005 £000
Continuing operations				
Revenue	2	<b>58,841</b>	60,903	121,912
Operating expenses		<b>(59,085)</b>	(65,628)	(124,295)
Operating profit (loss)				
Operating profit before exceptional items		<b>1,232</b>	2,340	5,276
Exceptional items	3	<b>(1,476)</b>	(7,065)	(7,659)
Operating loss	2	<b>(244)</b>	(4,725)	(2,383)
Net financing costs	4	<b>(933)</b>	(753)	(1,485)
Loss before taxation		<b>(1,177)</b>	(5,478)	(3,868)
Taxation		<b>267</b>	421	460
Loss for the period attributable to equity shareholders		<b>(910)</b>	(5,057)	(3,408)
Loss per share				
Basic and diluted	5	<b>(0.46)p</b>	(2.54)p	(1.73)p

## GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE (unaudited)

half year ended 30 September 2005

	Notes	Half year 30 September 2005 £000	Half year 30 September 2004 £000	Year 31 March 2005 £000
Actuarial gains (losses) on defined benefit pension schemes		<b>118</b>	(324)	(472)
Exchange differences on translation of foreign operations		<b>1,198</b>	701	(335)
Gain in fair value of hedging derivatives		<b>92</b>	—	—
Net income (expense) recognised directly in equity		<b>1,408</b>	377	(807)
Loss for the period		<b>(910)</b>	(5,057)	(3,408)
Adjustment in respect of adoption of IAS 32 and IAS 39	10	<b>49</b>	—	—
Total recognised income and expense for the period		<b>547</b>	(4,680)	(4,215)

## CONSOLIDATED BALANCE SHEET (unaudited)

30 September 2005

	<b>30 September 2005 £000</b>	30 September 2004 £000	31 March 2005 £000
<b>Non-current assets</b>			
Property, plant and equipment	<b>38,142</b>	42,816	41,255
Goodwill	<b>12,061</b>	12,082	12,082
Deferred tax assets	<b>1,331</b>	1,259	1,303
Other non-current assets	<b>554</b>	558	561
	<b>52,088</b>	56,715	55,201
<b>Current assets</b>			
Inventories	<b>13,734</b>	12,794	14,066
Trade and other receivables	<b>22,360</b>	22,847	23,959
Current tax assets	<b>1,084</b>	725	621
Derivative financial instruments	<b>232</b>	—	—
Cash and cash equivalents	<b>2,926</b>	5,607	5,187
	<b>40,336</b>	41,973	43,833
Freehold properties held for resale	<b>2,923</b>	666	666
	<b>43,259</b>	42,639	44,499
<b>Current liabilities</b>			
Trade and other payables	<b>(19,977)</b>	(18,307)	(23,045)
Current tax liabilities	<b>(825)</b>	(1,623)	(355)
Derivative financial liabilities	<b>(83)</b>	—	—
Borrowings and bank overdrafts	<b>(8,810)</b>	(8,795)	(8,229)
	<b>(29,695)</b>	(28,725)	(31,629)
<b>Net current assets</b>	<b>13,564</b>	13,914	12,870
<b>Non-current liabilities</b>			
Retirement benefit obligations	<b>(5,828)</b>	(5,845)	(6,085)
Borrowings (including preference shares)	<b>(16,039)</b>	(18,020)	(16,671)
Provisions and other liabilities	<b>(1,111)</b>	(2,794)	(1,317)
Deferred tax liabilities	<b>(7,441)</b>	(6,775)	(7,019)
	<b>(30,419)</b>	(33,434)	(31,092)
<b>Net assets</b>	<b>35,233</b>	37,195	36,979
<b>Shareholders' equity</b>			
Share capital	<b>10,202</b>	11,002	11,002
Share premium reserve	<b>1,251</b>	1,251	1,251
Other reserves	<b>678</b>	487	487
Retained earnings	<b>23,102</b>	24,455	24,239
<b>Total equity</b>	<b>35,233</b>	37,195	36,979

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

half year ended 30 September 2005

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 April 2004	11,002	1,251	487	30,737	43,477
Loss for the period	—	—	—	(5,057)	(5,057)
Currency translation adjustments	—	—	—	701	701
Employee share schemes	—	—	—	(150)	(150)
Actuarial losses on pension scheme (net of deferred tax)	—	—	—	(324)	(324)
Ordinary and preference dividends	—	—	—	(1,452)	(1,452)
Balance at 30 September 2004	11,002	1,251	487	24,455	37,195
Balance at 1 April 2004	11,002	1,251	487	30,737	43,477
Loss for the period	—	—	—	(3,408)	(3,408)
Currency translation adjustments	—	—	—	(335)	(335)
Employee share schemes	—	—	—	(175)	(175)
Actuarial losses on pension scheme (net of deferred tax)	—	—	—	(472)	(472)
Ordinary and preference dividends	—	—	—	(2,108)	(2,108)
Balance at 31 March 2005	11,002	1,251	487	24,239	36,979
Adjustment in respect of adoption of IAS 32 and IAS 39 (note 10)	(800)	—	99	(50)	(751)
Balance at 1 April 2005	10,202	1,251	586	24,189	36,228
Loss for the period	—	—	—	(910)	(910)
Currency translation adjustments	—	—	—	1,198	1,198
Employee share schemes	—	—	—	45	45
Actuarial gains on pension scheme (net of deferred tax)	—	—	—	118	118
Increase in fair value of hedging derivatives	—	—	92	—	92
Ordinary dividends	—	—	—	(1,538)	(1,538)
Balance at 30 September 2005	<b>10,202</b>	<b>1,251</b>	<b>678</b>	<b>23,102</b>	<b>35,233</b>

## CONSOLIDATED CASH FLOW STATEMENT (unaudited)

half year ended 30 September 2005

	Notes	Half year 30 September 2005 £000	Half year 30 September 2004 £000	Year 31 March 2005 £000
<b>Cash flows from operating activities</b>				
Cash generated from operations	7	<b>458</b>	4,103	8,570
Tax received (paid)		<b>369</b>	44	(628)
Net interest paid		<b>(977)</b>	(645)	(1,250)
Net cash (used in) generated from operating activities		<b>(150)</b>	3,502	6,692
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		<b>(113)</b>	(757)	(1,830)
Proceeds from sale of property, plant and equipment		<b>24</b>	649	810
Payments relating to prior period disposal of businesses and properties		<b>(8)</b>	(30)	(94)
Net cash used in investing activities		<b>(97)</b>	(138)	(1,114)
<b>Cash flows from financing activities</b>				
Net proceeds from new bank loans		<b>-</b>	2,265	2,336
Repayment of borrowings		<b>(1,332)</b>	(1,323)	(2,659)
Repayment of capital element of finance leases		<b>-</b>	(14)	(14)
Purchase of own shares by employee benefit trust		<b>-</b>	(210)	(210)
Dividends paid to ordinary shareholders		<b>(1,538)</b>	(1,402)	(2,061)
Net cash used in financing activities		<b>(2,870)</b>	(684)	(2,608)
Net (decrease) increase in cash and cash equivalents		<b>(3,117)</b>	2,680	2,970
Cash and cash equivalents at beginning of the period		<b>(370)</b>	(3,100)	(3,100)
Exchange gains (losses) on cash and cash equivalents		<b>266</b>	(101)	(240)
Cash and cash equivalents at end of the period		<b>(3,221)</b>	(521)	(370)

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (unaudited)

half year ended 30 September 2005

	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000
Net movement in cash and cash equivalents	<b>(3,117)</b>	2,680	2,970
Cash inflow (outflow) from debt and lease financing	<b>1,332</b>	(928)	337
Change in net debt from cash flows	<b>(1,785)</b>	1,752	3,307
Exchange adjustments	<b>375</b>	(294)	(354)
Movement in net debt in the period	<b>(1,410)</b>	1,458	2,953
Opening net debt	<b>(19,713)</b>	(22,666)	(22,666)
Reclassification of preference shares on 1 April 2005 (note 10)	<b>(800)</b>	—	—
Closing net debt	<b>(21,923)</b>	(21,208)	(19,713)

# NOTES TO THE INTERIM ACCOUNTS

half year ended 30 September 2005

## 1. BASIS OF PREPARATION

The interim financial statements of Chapelthorpe plc for the half year ended 30 September 2005 are unaudited and do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985.

From 1 April 2005, Chapelthorpe plc is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Union. As such, the financial statements for the year ending 31 March 2006 will take account of the requirements and options in IFRS 1 "First Time Adoption of International Financial Reporting Standards".

The basis of accounting and format of presentation of financial information is still subject to change following any interpretive guidance of existing standards that may be issued by the International Financial Reporting Interpretations Committee, and the Group may choose to early adopt further standards that are issued by the International Accounting Standards Board and endorsed by the EU by 31 March 2006. In addition, as the financial community gains more experience, best practice and interpretive guidance continue to evolve. Given these uncertainties, the format and approaches currently adopted are subject to possible change when applied in the Group's first IFRS financial statements for the year ended 31 March 2006.

A company is generally required to determine its IFRS policies as at its reporting date and apply these retrospectively to determine the opening balance sheet at its date of transition to IFRS (1 April 2004). IFRS 1 allows a number of exemptions to this general principle to assist companies in their transition. The following key exemptions have been taken:

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

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and income statement is set out in note 9 "IFRS Adjustments".

Further details of the transition adjustments and accounting policies under IFRS, which were announced on 11 November 2005, are available on the Group's website [www.chapelthorpe.com](http://www.chapelthorpe.com).

The comparative figures for the financial year ended 31 March 2005 are not the Group's statutory accounts for the financial year. Those accounts, which were prepared under UK GAAP in accordance with the Companies Act 1985, have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

## 2. SEGMENTAL ANALYSIS

At 30 September 2005, the Group is organised into three business segments: Fibres, Specialist Coatings and Umbrella Frames. The segmental results for the half year ended 30 September 2005 are as follows:

### AREA OF ACTIVITY

	Revenue		
	Half year 30 September 2005 £000	Half year 30 September 2004 £000	Year 31 March 2005 £000
Continuing operations			
Fibres	42,959	41,380	84,294
Specialist Coatings	12,423	14,339	27,595
Umbrella Frames	3,459	5,184	10,023
	<b>58,841</b>	60,903	121,912

## NOTES TO THE INTERIM ACCOUNTS

half year ended 30 September 2005

### 2. SEGMENTAL ANALYSIS (CONTINUED)

#### AREA OF ACTIVITY (CONTINUED)

	Operating profit (loss) before exceptional items			Exceptional items (note 3)			Operating profit (loss)		
	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000
<b>Continuing operations</b>									
Fibres	<b>858</b>	1,200	2,703	<b>-</b>	-	-	<b>858</b>	1,200	2,703
Specialist Coatings	<b>444</b>	564	1,641	<b>(292)</b>	(7,065)	(6,840)	<b>152</b>	(6,501)	(5,199)
Umbrella Frames	<b>(70)</b>	576	932	<b>(1,181)</b>	-	(469)	<b>(1,251)</b>	576	463
Unallocated costs	<b>-</b>	-	-	<b>(3)</b>	-	(350)	<b>(3)</b>	-	(350)
	<b>1,232</b>	2,340	5,276	<b>(1,476)</b>	(7,065)	(7,659)	<b>(244)</b>	(4,725)	(2,383)
Net financing costs							<b>(933)</b>	(753)	(1,485)
Loss before taxation							<b>(1,177)</b>	(5,478)	(3,868)
Taxation							<b>267</b>	421	460
Loss for the period							<b>(910)</b>	(5,057)	(3,408)

#### GEOGRAPHICAL AREA

Region of origin	Revenue		
	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000
Europe	<b>40,011</b>	41,579	83,683
North America	<b>18,830</b>	19,324	38,229
	<b>58,841</b>	60,903	121,912

Region of destination	Revenue		
	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000
Europe	<b>36,332</b>	38,787	77,548
North America	<b>19,950</b>	20,135	40,019
Australasia and Far East	<b>1,951</b>	1,719	3,655
Africa and Middle East	<b>608</b>	262	690
	<b>58,841</b>	60,903	121,912

## NOTES TO THE INTERIM ACCOUNTS

half year ended 30 September 2005

### 3. EXCEPTIONAL ITEMS

Continuing operations	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000
Termination of North American Specialist Coatings operations	<b>45</b>	5,312	5,072
European Specialist Coatings restructuring	<b>247</b>	—	—
Bad debts incurred in Specialist Coatings division	<b>—</b>	1,753	1,768
Umbrella Frames restructuring	<b>1,181</b>	—	469
Costs of EGM held on 18 March 2005	<b>3</b>	—	350
	<b>1,476</b>	7,065	7,659

The taxation impact of these exceptional items was a credit of £402,000 (2004: credit of £878,000).

The Umbrella Frames restructuring charge in the half year ended 30 September 2005 includes £546,000 in respect of costs associated with the disposal of the Penistone site and £635,000 in respect of redundancy and other reorganisation costs.

The Umbrella Frames restructuring charge in the year ended 31 March 2005 was net of a profit on sale of property of £397,000.

### 4. NET FINANCING COSTS

	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000
Interest payable:			
Bank loans, overdrafts and short term facilities	<b>787</b>	820	1,645
Preference share dividends	<b>23</b>	—	—
Other interest	<b>64</b>	58	125
	<b>874</b>	878	1,770
Interest receivable:			
Bank and other deposits	<b>(13)</b>	(6)	(59)
Other interest	<b>(43)</b>	(85)	(161)
	<b>(56)</b>	(91)	(220)
Net borrowing costs	<b>818</b>	787	1,550
Net retirement benefit financing	<b>115</b>	(34)	(65)
Net financing costs	<b>933</b>	753	1,485

## NOTES TO THE INTERIM ACCOUNTS

half year ended 30 September 2005

### 5. (LOSS) EARNINGS PER SHARE

	Basic and diluted (loss) earnings per share			Underlying (loss) earnings per share		
	Half year 30 September 2005 £000	Half year 30 September 2004 £000	Year 31 March 2005 £000	Half year 30 September 2005 £000	Half year 30 September 2004 £000	Year 31 March 2005 £000
Loss for the period	<b>(910)</b>	(5,057)	(3,408)	<b>(910)</b>	(5,057)	(3,408)
Dividends on preference shares	-	(23)	(46)	-	(23)	(46)
Exceptional items	-	-	-	<b>1,476</b>	7,065	7,659
Tax effect of exceptional items	-	-	-	<b>(402)</b>	(878)	(1,244)
(Loss) earnings attributable to ordinary shareholders	<b>(910)</b>	(5,080)	(3,454)	<b>164</b>	1,107	2,961
Weighted average number of ordinary shares in issue during the period (000's)*	<b>199,737</b>	199,745	199,665	<b>199,737</b>	199,745	199,665
Basic and diluted (loss) earnings per ordinary share (pence)	<b>(0.46)</b>	(2.54)	(1.73)	<b>0.08</b>	0.55	1.48

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

The effect of the exceptional items on the earnings per share for the current period is a loss of 0.54p (2004: loss of 3.09p).

### 6. DIVIDENDS

The interim dividend for 2005/06 of 0.33p per ordinary share (interim 2004/05: 0.33p; final 2004/05: 0.77p) will be paid on 13 February 2006 to ordinary shareholders on the register at the close of business on 16 December 2005. The cash cost of this dividend of £660,000 will be recognised in the accounts when paid.

Ordinary dividends paid in the period totalled £1,538,000 (£1,402,000 half year to 30 September 2004; £2,061,000 year ended 31 March 2005).

Following the reclassification of preference shares as borrowings with effect from 1 April 2005, preference share dividends are recorded as a finance cost when paid (note 4).

## NOTES TO THE INTERIM ACCOUNTS

half year ended 30 September 2005

### 7. CASH GENERATED FROM OPERATIONS

	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000
Operating loss	<b>(244)</b>	(4,725)	(2,383)
Depreciation	<b>2,237</b>	2,153	4,344
Charge in respect of employee share scheme	<b>45</b>	60	35
Profit on sale of fixed assets	<b>(14)</b>	–	(140)
Working capital:			
– Decrease (increase) in inventories	<b>488</b>	883	(367)
– Decrease in debtors	<b>1,920</b>	5,147	3,453
– Decrease in creditors	<b>(3,310)</b>	(6,263)	(2,292)
Decrease in provisions	<b>(262)</b>	(184)	(410)
(Decrease) increase in retirement benefit obligations	<b>(180)</b>	(33)	34
Exceptional items:			
– Termination of North American Specialist Coatings operations			
– amount recognised in period	<b>45</b>	5,312	5,072
– amount paid in period	<b>(394)</b>	–	(961)
– Restructuring of European Specialist Coatings operations			
– amount recognised in period	<b>247</b>	–	–
– amount paid in period	<b>(247)</b>	–	–
– Restructuring of Umbrella Frames operations			
– amount recognised in period	<b>1,181</b>	–	469
– amount paid in period	<b>(704)</b>	–	(402)
– Bad debts suffered			
– amount recognised in period	<b>–</b>	1,753	1,768
– EGM costs			
– amount recognised in period	<b>3</b>	–	350
– amount paid in period	<b>(353)</b>	–	–
Cash generated from operations	<b>458</b>	4,103	8,570

### 8. RETIREMENT BENEFITS

The Group operates a number of pension schemes. The major scheme is in the UK and is of the defined benefit type, although this is now closed to new members. All other pension schemes which are operated by the Group are of a defined contribution type.

In addition there are leaving indemnities in Austria which represent a defined benefit upon retirement. As explained in note 9, in accordance with IFRS 1 all cumulative surpluses and deficits were recognised in shareholders' equity at 1 April 2004. Subsequent to that date all actuarial gains and losses have been immediately recognised in the statement of recognised income and expense.

The amounts included in operating profit in the income statement are analysed as follows:

	<b>Half year 30 September 2005 £000</b>	Half year 30 September 2004 £000	Year 31 March 2005 £000
Defined benefit scheme and leaving indemnities:			
Current service cost	<b>(312)</b>	(438)	(987)
Interest on schemes' liabilities	<b>(1,351)</b>	(1,301)	(2,612)
Expected return on schemes' assets	<b>1,236</b>	1,335	2,677
Past service costs	<b>(243)</b>	–	–
Gains on settlements, curtailments and other items	<b>89</b>	–	–
Defined benefit schemes	<b>(581)</b>	(404)	(922)
Defined contribution schemes	<b>(84)</b>	(168)	(232)
	<b>(665)</b>	(572)	(1,154)

## NOTES TO THE INTERIM ACCOUNTS

half year ended 30 September 2005

### 9. IFRS ADJUSTMENTS

	Half year 30 September 2004		Year 31 March 2005		At 1 April 2004
	Loss after tax £000	Net assets £000	Loss after tax £000	Net assets £000	Net assets £000
UK GAAP	(9,072)	39,372	(7,787)	38,018	44,980
Post retirement benefits (i)	67	(4,198)	31	(4,443)	(3,800)
Goodwill (ii)	391	391	794	794	—
Goodwill on closure of business (ii)	3,513	—	3,513	—	—
Deferred tax – post retirement benefit (iii)	(20)	1,259	(39)	1,303	1,140
Deferred tax – foreign entity distributable reserves (iv)	(4)	(276)	8	(264)	(272)
Dividend recognition (v)	—	647	—	1,571	1,429
Currency translation relating to business closure (vi)	68	—	72	—	—
	(5,057)	37,195	(3,408)	36,979	43,477

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

#### (i) POST-RETIREMENT BENEFITS

Under UK GAAP, the Group has previously accounted for its defined benefit pension scheme in accordance with SSAP 24 "Accounting for Pension Costs", which required defined benefit scheme costs to be included within operating costs, with variations from the regular cost spread over the expected remaining service lives of employees.

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

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

In addition during the year ended 31 March 2005 the Group has recognised all actuarial gains and losses immediately in the statement of recognised income and expense on the assumption that the amendment to IAS 19, issued on 16 December 2004, will be endorsed by the EU by 31 March 2006.

The impact of this policy is to recognise an additional pension liability of £3.8m in the Group's IFRS opening balance sheet at 1 April 2004, £4.2m at 30 September 2004 and £4.3m at 31 March 2005.

The impact on operating profit for the year ended 31 March 2005 is an increase of £0.1m, with an immaterial change in finance charges. For the half year ended 30 September 2004, operating profit has increased by £0.1m with an immaterial change in finance charges.

Also, the Group's Austrian subsidiary has leaving indemnities which are of a defined benefit nature and have previously been recognised in accruals. Under IFRS the value of the liability has been revised resulting in an additional charge of £0.1m for the year to 31 March 2005. The effect on the results for the half year to 30 September 2004 is immaterial.

## NOTES TO THE INTERIM ACCOUNTS

half year ended 30 September 2005

### 9. IFRS ADJUSTMENTS (CONTINUED)

#### (ii) GOODWILL

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

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

The amortisation charged under UK GAAP of £0.4m for the half year ended 30 September 2004 and £0.8m for the year to 31 March 2005 has been reversed and accordingly added back to profit and net assets. Impairment reviews were performed as at 31 March 2004 and 31 March 2005 and no impairments were recorded.

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

As permitted by IFRS 1, the Group has chosen to apply IFRS 3 prospectively from 1 April 2004 and has not restated previous business combinations. Goodwill is therefore stated at 1 April 2004 at its UK GAAP carrying value of £11.9m. This is adjusted for foreign exchange where the goodwill is held overseas.

#### (iii) DEFERRED TAX – POST RETIREMENT BENEFITS

A deferred tax asset of £1.1m has been recognised at 1 April 2004, £1.3m at 30 September 2004 and £1.3m at 31 March 2005 in respect of the UK pension liability recognised as a result of adopting IAS 19.

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

#### (iv) DEFERRED TAX – FOREIGN ENTITY DISTRIBUTABLE RESERVES

Both the US and Austrian subsidiaries have unremitted earnings. Chapelthorpe plc has control over the timing of any distribution and it is intended to remit some of the US earnings to the UK in the foreseeable future. Consequently, a deferred tax liability of £0.3m has been recognised at 1 April 2004, 30 September 2004 and 31 March 2005 in respect of unremitted US earnings.

#### (v) DIVIDENDS

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

Under IFRS, therefore, the Group will no longer accrue unapproved dividends at period ends. This has resulted in an increase in net assets of £1.4m at 1 April 2004, £0.6m at 30 September 2004 and £1.6m at 31 March 2005.

#### (vi) FOREIGN CURRENCY TRANSLATION RESERVE

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

Under IAS 21, where a foreign subsidiary is sold or liquidated, the cumulative net exchange difference should be recycled through the income statement. As a result, a £0.1m exchange gain previously recognised in reserves relating to the North American Specialist Coatings operation has been taken to the income statement in respect of the half year ended 30 September 2004 and in respect of the year ended 31 March 2005.

## NOTES TO THE INTERIM ACCOUNTS

half year ended 30 September 2005

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

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

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

#### CASH FLOW HEDGES

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

#### NET INVESTMENT HEDGES

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

#### PREFERENCE SHARES

Preference shares are reclassified as borrowings rather than share capital. The dividends on preference shares are shown as a finance cost. The adjustments to the opening balance sheet at 1 April 2005 are as follows:

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



