**30 November 2006**

# Scapa Group plc
# Interim Results

Scapa Group plc, a global supplier of technical tapes today announced its Interim Results for the six months ended 30 September 2006.

**Highlights**

- Underlying sales up 5% due to growth in Europe following operational improvement initiatives
- Trading profit* of £3.8m - 35% up on last year's result
- Further stage of major cost reduction programme now put in place - cost £1.3m with annual savings of £1.5m
- Sale of Megolon compounding business for £16.75m successfully completed on 13 October 2006. Profit of approximately £9.5m to be credited to second half accounts
- New legal cost apportionment agreement on asbestos litigation saving £0.5m of cash in the full year. Over 12,500 claims (40% of total) dismissed since March 2006

**Commenting on the results, Chief Executive Calvin O'Connor said:**

"The ongoing improvement in trading performance, despite weaker market conditions in North America, reflects the major benefits arising from the cost reduction programmes put into place last year. The cash performance continues to strengthen, with Group borrowings eliminated in mid-October following the successful completion of the Megolon disposal. In addition, significant progress has been made on our asbestos litigation legacy issue. Major work is currently underway to address our pension deficits."

For further information:


| | | |
|---|---|---|
| Calvin O'Connor | Chief Executive | Tel: 0161 301 7430 |
| Mark Stirzaker | Company Secretary | Tel: 0161 301 7430 |


* Figures shown here and elsewhere as 'trading profit' in the Interim Results relate to operating profit before exceptional costs

**Report of the Directors**

The first half of the year showed a continued recovery in the business despite weaker market conditions in North America. Sales turnover of £97.9m was 4% (5% on an underlying basis) up on the prior year due to strong growth in Europe. Operating profit before exceptional costs (trading profit) was £3.8m compared to £2.8m in the first half of last year with the weakness in the US$ in the period costing £0.1m. Reorganisation costs in the first half amounted to £0.5m (2005/06 £1.6m) and were offset by a credit on the asbestos litigation reserve of £0.5m (2005/06 nil) to give net exceptional costs of nil, leaving operating profit unchanged at £3.8m (2005/06 £1.2m). The profit before tax was £2.1m (2005/06 £0.1m loss). Profit after tax was £nil (2005/06 £2.5m loss) and as last year there is no interim dividend.

**Portfolio**

As outlined in our preliminary results, one of the key thrusts of our strategy is to reduce the spread of our business by selling peripheral operations. On 19 June 2006 we completed the disposal of our small 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 the disposal of Megolon after transaction costs amounted to approximately £9.5m and will be accounted for in the second half results.

**Review of Operations**

**North America**

North American sales of £33.6m (£32.8m) were a little ahead of the prior year. Trading profit of £3.9m was £0.4m behind 2005/06, due primarily to flat sales volume and slightly lower margins.

Overall market demand was a little subdued with sales mix unfavourable due to lower medical sales in comparison to last year's strong first half. Sales price increases made over the last 12 months partly offset the significant increases in raw material, energy and carriage costs with average margins easing a little. Operational cost control remained tight throughout the period.

**Europe**

Sales in Europe increased by 6% (7% on an underlying basis for our tapes business) to £60.6m compared to the first half of 2005/06, primarily due to higher sales into the printing and graphics, construction, cable and automotive markets. This gain reflected the significant improvements in customer service made over the last 18 months. The trading profit for the region increased by £1.2m to £1.3m primarily due to lower costs arising from the previous year's major cost reduction programme. Targeted selling price increases coupled with improved purchasing helped to partly offset the increases seen in raw material and energy costs.

The third phase of the major cost reduction programme was commenced with an exceptional cost of £0.5m incurred to the half year.

**Asia**

Asia's sales were 8% down on last year at £3.7m. The trading loss in the period of £0.1m (2005/06 £0.1m profit) was disappointing with the strength of the Korean Won continuing to hamper profitability in the region. Actions to improve business performance have recently been put into place and we look forward to significant improvement in the second half.

**Corporate**

Relentless cost reduction remains the key focus with ongoing elimination of support roles and rationalisation of work within our European operations which contributed towards a reduction in costs of £0.5m in comparison to the prior year. During the first half we terminated currency swaps that had historically been used to partially hedge the Balance Sheet at a one-off loss of £0.1m. The recent move to AIM gave rise to an exceptional cost of £0.1m in the first half. The lease on the former Blackburn HQ was assigned in the period giving rise to a credit of £0.2m to exceptional costs. Following the period end we concluded the sale of several residual properties for £0.5m which will give rise to an exceptional profit on disposal of £0.5m in the second half (2005/06 first half £0.1m).

**Profit before tax and taxation charge**

Net bank interest of £0.6m was £0.2m up on prior year due to substantial rate increases over the last 12 months. Other finance charges (discount on litigation provision and IAS 19 finance cost) increased to £1.1m (2005/06 £0.9m) due to the increased size of the pension deficit. The profit before tax was £2.1m (2005/06 £0.1m loss).

The tax charge of £2.1m included underlying taxation payable of £0.8m and deferred tax of £1.3m. No benefit has been recognised for potential future tax credits in loss-making jurisdictions (primarily the UK).

The earnings per share were nil pence (1.7 pence loss in the first half of 2005/06).

**Cash flow**

Net cash inflow from operating activities (before exceptional costs) was £4.2m (2005/06 £2.6m). Trading working capital as at 30 September 2006 was higher than at 31 March 2006 for normal seasonal reasons. This resulted in a £0.9m trading working capital cash outflow (2005/06 £1.6m). Reorganisation spend was £0.4m (2005/06 £1.8m) with additional deficit funding payments into the pension funds amounting to £2.0m (2005/06 £1.4m). Asbestos litigation defence spend reduced substantially to £0.4m (2005/06 £0.9m), due to lower legal activity together with the new legal cost apportionment agreement made with our insurance carriers during the period. Capital investment in the first half was again tightly controlled at £1.2m (2005/06 £0.7m). In June 2006, £0.6m was received from the sale of our Irish subsidiary which helped to give a net cash inflow for the period, after exchange movements, of £1.0m. Overall net debt (excluding the remaining Waycross deposit of $10m) was thus £0.6m lower than at 31 March 2006, at £12.6m.

**Pensions**

The IAS 19 pension deficit as at 30 September 2006 was £62.2m (31 March 2006 £63.4m). A revaluation of the UK pension schemes at 1 April 2006 was recently completed. Discussions are currently in progress with the pension Trustees over ways to reduce the deficit, including future funding commitments by the Company. It is the Company's intention to close the schemes to future accrual from 1 April 2007, with employee consultation now commenced on this proposal. The sale of our Irish subsidiary in June triggered a Section 75 debt which will be funded progressively, using in part the £0.9m net disposal proceeds as these are received.

**Asbestos litigation**

The Company 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 which was manufactured by a business sold to J M Voith AG in 1999. The overall number of cases peaked in 2004 at 34,000 and has since trended downwards. Over 12,500 plaintiffs' claims were dismissed by the District Court for the Eastern District of Pennsylvania in the period, with the total number of claims at 30 September 2006 now down to 20,000.

During the first half, discussions were undertaken with our insurance carriers over the apportionment of legal defence costs. 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 reduction in the litigation reserve resulting in a credit of £0.5m to exceptional costs.

In the USA no Scapa Group company, nor any of our insurance carriers, has admitted liability to date, nor made any payment to any plaintiff. Accordingly, our insurance cover remains intact and the Board will continue to defend vigorously the outstanding claims.

**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. We would like to thank him for his service over the last five years and wish him well for the future. An announcement about his successor will be made in due course.

**Prospects**

Currently trading conditions for the second half show a modest improvement, with market demand in North America strengthening a little. The upward pressures on certain raw material prices are mitigating somewhat following the recent falls in the price of crude oil. As indicated in our Shareholder Circular, the sale of our Megolon business will give rise to a reduction in trading profits but resulting lower interest charges will offset most of the impact on profit before tax. The third phase of the overall cost reduction programme has now been enlarged from that announced at the time of the Preliminary Results, with a projected full cost in the year of £1.3m (was £1.0m) and resulting annual savings of £1.5m (was £1.2m). It is expected that the strong focus on major cost reduction will ensure that business performance continues to improve.

**C J O'Connor**
Chief Executive
30 November 2006

**K G G Hopkins**
Chairman
30 November 2006

## Consolidated Income Statement

For the half year ended 30 September 2006 (unaudited)

| | note | **Half year ended 30 September 2006 £m** | Half year ended 30 September 2005 £m | Year ended 31 March 2006 £m |
|---|---|---|---|---|
| **Turnover** | 2 | **97.9** | 94.1 | 191.5 |
| **Operating profit/(loss)** | 2 | **3.8** | 1.2 | (11.6) |
| Operating profit before exceptional items | | **3.8** | 2.8 | 5.4 |
| Exceptional charges and movements in exceptional provisions: | | | | |
| - reorganisation | 3 | **(0.4)** | (1.7) | (3.4) |
| - movement in asbestos litigation costs provision | 3 | **0.5** | - | - |
| - property, plant and equipment and goodwill impairment | | **-** | - | (13.7) |
| - other | 3 | **(0.1)** | 0.1 | 0.1 |
| **Operating profit/(loss)** | 2 | **3.8** | 1.2 | (11.6) |
| Interest payable | | **(0.8)** | (0.8) | (1.3) |
| Interest receivable | | **0.2** | 0.4 | 0.3 |
| | | **(0.6)** | (0.4) | (1.0) |
| Discount on litigation provision | | **(0.2)** | (0.2) | (0.5) |
| IAS 19 finance costs | | **(0.9)** | (0.7) | (1.4) |
| Net finance costs | | **(1.7)** | (1.3) | (2.9) |
| **Profit/(loss) on ordinary activities before taxation** | | **2.1** | (0.1) | (14.5) |
| Taxation | 4 | **(2.1)** | (2.4) | (0.8) |
| **Retained loss for the period** | | **-** | (2.5) | (15.3) |
| Weighted average number of shares | | **144.8** | 144.8 | 144.8 |
| **Loss per share (p)** | | **-** | (1.7) | (10.6) |

## Consolidated Statement of Recognised Income and Expense

For the half year ended 30 September 2006 (unaudited)

| | **Half year ended 30 September 2006 £m** | Half year ended 30 September 2005 £m | Year ended 31 March 2006 £m |
|---|---|---|---|
| Retained loss for the period | **-** | (2.5) | (15.3) |
| Exchange differences on translating foreign operations | **(2.4)** | 2.6 | 2.3 |
| Actuarial gains and losses | **-** | (2.4) | (19.3) |
| **Total recognised income and expense for the period** | **(2.4)** | (2.3) | (32.3) |
| IFRS transition adjustment (IAS 39) | **-** | 0.3 | 0.2 |
| **Total recognised income and expense** | **(2.4)** | (2.0) | (32.1) |

# Consolidated Balance Sheet

As at 30 September 2006 (unaudited)

| | note | **Half year ended 30 September 2006 £m** | Half year ended 30 September 2005 £m | Year ended 31 March 2006 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Goodwill | | **10.4** | 21.8 | 11.2 |
| Property, plant and equipment | | **39.5** | 51.0 | 46.9 |
| Deferred tax asset | | **8.2** | 1.6 | 9.4 |
| Other non-current assets | | **-** | 0.1 | - |
| | | **58.1** | 74.5 | 67.5 |
| **Current assets** | | | | |
| Assets held for sale | *8* | **6.5** | - | - |
| Inventory | | **19.6** | 21.1 | 21.6 |
| Trade and other receivables | | **44.2** | 45.3 | 46.5 |
| Financial assets – derivative financial instruments | | **-** | 0.5 | 0.2 |
| Current asset investments | | **5.4** | 5.6 | 5.7 |
| Cash and cash equivalents | | **1.7** | 5.7 | 3.4 |
| | | **77.4** | 78.2 | 77.4 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Financial liabilities | | | | |
| - Borrowings and other financial liabilities | | **(14.3)** | (1.1) | (3.0) |
| - Derivative financial instruments | | **-** | (0.6) | (0.1) |
| Trade and other payables | | **(32.7)** | (32.9) | (33.6) |
| Tax liabilities | | **(0.6)** | (0.2) | (0.6) |
| Provisions | *5* | **(1.1)** | (2.2) | (2.7) |
| | | **(48.7)** | (37.0) | (40.0) |
| **Net current assets** | | **28.7** | 41.2 | 37.4 |
| **Non-current liabilities** | | | | |
| Financial liabilities | | | | |
| - Borrowings and other financial liabilities | | **-** | (16.2) | (13.6) |
| Other non-current liabilities | | **(1.6)** | (1.9) | (2.1) |
| Deferred tax liabilities | | **(5.1)** | (2.5) | (5.0) |
| Other tax liabilities | | **(2.6)** | - | (2.7) |
| Retirement benefit obligations | | **(62.2)** | (47.2) | (63.4) |
| Provisions | *5* | **(9.5)** | (9.7) | (9.9) |
| | | **(81.0)** | (77.5) | (96.7) |
| **Net assets** | | **5.8** | 38.2 | 8.2 |
| **Shareholders' equity** | | | | |
| Ordinary shares | | **7.2** | 7.2 | 7.2 |
| Retained earnings | | **(2.6)** | 27.1 | (2.6) |
| Translation reserve | | **1.2** | 3.9 | 3.6 |
| **Total shareholders' equity** | *6* | **5.8** | 38.2 | 8.2 |

# Consolidated Cash Flow Statement

For the half year ended 30 September 2006 (unaudited)

| | note | **Half year ended 30 September 2006 £m** | Half year ended 30 September 2005 £m | Year ended 31 March 2006 £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net cash flow from operations | *7* | **2.8** | (0.1) | 2.1 |
| Cash generated from operations before reorganisation and movements in exceptional provisions | *7* | **4.2** | 2.6 | 6.3 |
| Cash flows from reorganisation and movements in exceptional provisions | *7* | **(1.4)** | (2.7) | (4.2) |
| **Net cash flow from operations** | | **2.8** | (0.1) | 2.1 |
| Net interest paid | | **(0.5)** | (0.5) | (1.1) |
| Income tax paid | | **(0.7)** | (0.4) | (1.0) |
| **Net cash generated from/(absorbed by) operating activities** | | **1.6** | (1.0) | - |
| **Cash flows from investing activities** | | | | |
| Proceeds from sale of a subsidiary | | **0.6** | - | - |
| Purchase of property, plant and equipment | | **(1.2)** | (0.7) | (2.7) |
| Proceeds from sale of property, plant and equipment | | **-** | 0.1 | 0.1 |
| Proceeds from release of $10m Waycross deposit | | **-** | 5.5 | 5.7 |
| Net payments in respect of forward contracts | | **-** | (0.1) | (0.3) |
| **Net cash (used)/received in investing activities** | | **(0.6)** | 4.8 | 2.8 |
| **Cash flows from financing activities** | | | | |
| Repayment of borrowings | | **-** | (4.6) | (8.0) |
| **Net cash used in financing activities** | | **-** | (4.6) | (8.0) |
| **Net increase/(decrease) in cash and cash equivalents** | | **1.0** | (0.8) | (5.2) |
| Cash and cash equivalents at beginning of the year | | **0.9** | 5.7 | 5.7 |
| Exchange (losses)/gains on cash and cash equivalents | | **(0.2)** | 0.3 | 0.4 |
| **Cash and cash equivalents at end of the year** | | **1.7** | 5.2 | 0.9 |

# Notes

### 1. Basis of preparation

This interim financial report has been prepared under the historical cost accounting and in accordance with the policies used in the Group's financial statements for the year ended 31 March 2006. The IFRS interpretations that will be applicable as at 31 March 2007, including those that will be applicable on an optional basis, are not yet known with certainty at the time of preparing this report. The Group has chosen not to adopt IAS 34 'Interim financial statements' in preparing its 2006 interim statement and, therefore, this interim financial information is not in compliance with IFRS.

The financial information included in this interim financial report for the six months ended 30 September 2006 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and is unaudited. The comparative information for the six months ended 30 September 2005 is also unaudited. The comparative figures for the year ended 31 March 2006 have been extracted from the Group's financial statements as filed with the Registrar of Companies, on which the auditors gave an unqualified opinion and did not make a statement under either section 237(2) or section 237(3) of the Companies Act 1985.

### 2. 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 half year ended 30 September 2006 are as follows:

| | Europe £m | N America £m | Asia £m | Eliminations £m | Corporate £m | Group £m |
|---|---|---|---|---|---|---|
| External sales | 60.6 | 33.6 | 3.7 | - | - | 97.9 |
| Inter-segment sales | 2.5 | 1.6 | 0.8 | (4.9) | - | - |
| Total revenue | 63.1 | 35.2 | 4.5 | (4.9) | - | 97.9 |
| Segment result (before exceptional items) | 1.3 | 3.9 | (0.1) | - | (1.3) | 3.8 |
| Exceptional charges and movements in exceptional provisions: | | | | | | |
| - reorganisation | (0.6) | - | - | - | 0.2 | (0.4) |
| - movement in asbestos litigation costs provision | - | - | - | - | 0.5 | 0.5 |
| - other | - | - | - | - | (0.1) | (0.1) |
| | (0.6) | - | - | - | 0.6 | - |
| Operating profit/(loss) | 0.7 | 3.9 | (0.1) | - | (0.7) | 3.8 |
| Net finance costs | | | | | | (1.7) |
| **Profit on ordinary activities before taxation** | | | | | | **2.1** |
| Taxation | | | | | | (2.1) |
| **Profit on ordinary activities after taxation** | | | | | | **-** |

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 | 58.0 | 31.2 | 8.7 | 97.9 |

The segment results for the half year ended 30 September 2005 are as follows:

| | Europe £m | N America £m | Asia £m | Eliminations £m | Corporate £m | Group £m |
|---|---|---|---|---|---|---|
| External sales | 57.3 | 32.8 | 4.0 | - | - | 94.1 |
| Inter-segment sales | 2.9 | 1.4 | 0.4 | (4.7) | - | - |
| Total revenue | 60.2 | 34.2 | 4.4 | (4.7) | - | 94.1 |
| Segment result (before exceptional items) | 0.1 | 4.3 | 0.1 | - | (1.7) | 2.8 |
| Exceptional charges and movements in exceptional provisions: | | | | | | |
| - reorganisation | (1.2) | (0.1) | - | - | (0.4) | (1.7) |
| - other | - | - | - | - | 0.1 | 0.1 |
| | (1.2) | (0.1) | - | - | (0.3) | (1.6) |
| Operating (loss)/profit | (1.1) | 4.2 | 0.1 | - | (2.0) | 1.2 |
| Net finance costs | | | | | | (1.3) |
| **Loss on ordinary activities before taxation** | | | | | | **(0.1)** |
| Taxation | | | | | | (2.4) |
| **Loss on ordinary activities after taxation** | | | | | | **(2.5)** |

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 | 52.4 | 31.4 | 10.3 | 94.1 |

The segment results for the year ended 31 March 2006 are 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 items) | 0.7 | 7.7 | (0.1) | - | (2.9) | 5.4 |
| Exceptional charges and movements in exceptional provisions: | | | | | | |
| - reorganisation | (2.2) | (0.1) | - | - | (1.1) | (3.4) |
| - property, plant and equipment and goodwill impairment | (10.3) | (2.7) | (0.7) | - | - | (13.7) |
| - other | - | - | - | - | 0.1 | 0.1 |
| | (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 | | | | | | (0.8) |
| **Loss on ordinary activities after taxation** | | | | | | **(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 is as follows:

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

### 3. Exceptional items

Reorganisation costs in the half year ended 30 September 2006 amounted to £0.4m (2005 £1.7m) and related to redundancies in Europe (£0.5m) and the loss from the sale of the Ireland operation (£0.1m), partly offset by the exit of the leasehold obligation from the Group's former head office building in the UK, resulting in a £0.2m release from the exceptional leasehold provision.

In addition, a revised agreement with the insurance carriers over the apportionment of asbestos litigation costs gave rise to an exceptional provision release of £0.5m.

The Group also incurred costs of £0.1m relating to the move onto the Alternative Investment Market (AIM) on the London Stock Exchange.

### 4. Taxation

The tax charge of £2.1m represents tax payable of £0.8m and movements in deferred tax in profit-making jurisdictions of £1.3m. No benefit has been recognised for potential future tax credits in loss-making jurisdictions (primarily in the UK) as there is little expectation of recovery within the foreseeable future. The tax charge for the period ending 30 September 2005 was £2.4m, which included a prior year adjustment of £0.4m.

### 5. Provisions

| | Asbestos litigation costs £m | Leasehold commitments £m | Other £m | Total £m |
|---|---|---|---|---|
| **At 30 September 2005** | 8.9 | 1.3 | 1.7 | 11.9 |
| Exchange differences | 0.1 | - | - | 0.1 |
| Provided for the year | - | 1.0 | - | 1.0 |
| Unwinding of discount | 0.3 | - | - | 0.3 |
| Utilised in the period | (0.5) | (0.1) | (0.1) | (0.7) |
| **At 31 March 2006** | 8.8 | 2.2 | 1.6 | 12.6 |
| Exchange differences | (0.6) | (0.1) | (0.1) | (0.8) |
| Released in the year | (0.5) | (0.2) | - | (0.7) |
| Unwinding of discount | 0.2 | - | - | 0.2 |
| Utilised in the period | (0.4) | (0.1) | (0.2) | (0.7) |
| **At 30 September 2006** | **7.5** | **1.8** | **1.3** | **10.6** |

A release of £0.5m relating to the asbestos litigation costs provision has been made in the period ending 30 September 2006 following a three-year agreement with the insurance carriers to reduce the Group's share of the asbestos litigation costs from approximately 50% to 25%.

In addition, a release of £0.2m was made from the leasehold commitments provision in the period ending 30 September 2006 following the exit of the leasehold obligation from the Group's former head office building in the UK.

### 6. Reserves

| | Share capital £m | Translation reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|
| **At 30 September 2005** | 7.2 | 3.9 | 27.1 | 38.2 |
| Currency translation differences | - | (0.3) | - | (0.3) |
| Actuarial loss on pension schemes | - | - | (16.9) | (16.9) |
| Net loss recognised directly in equity | - | (0.3) | (16.9) | (17.2) |
| Loss for the period | - | - | (12.8) | (12.8) |
| Total recognised loss for the period | - | (0.3) | (29.7) | (30.0) |
| **Balance at 31 March 2006** | 7.2 | 3.6 | (2.6) | 8.2 |

| | Share capital £m | Translation reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|
| **At 31 March 2006** | 7.2 | 3.6 | (2.6) | 8.2 |
| Currency translation differences | - | (2.4) | - | (2.4) |
| Actuarial loss on pension schemes | - | - | - | - |
| Net loss recognised directly in equity | - | (2.4) | - | (2.4) |
| Profit for the period | - | - | - | - |
| Total recognised loss for the period | - | (2.4) | - | (2.4) |
| **Balance at 30 September 2006** | **7.2** | **1.2** | **(2.6)** | **5.8** |

### 7. Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

| | **Half year ended 30 September 2006 £m** | Half year ended 30 September 2005 £m | Year ended 31 March 2006 £m |
|---|---|---|---|
| Operating profit/(loss) | **3.8** | 1.2 | (11.6) |
| Adjustments for: | | | |
| Depreciation | **2.7** | 3.2 | 6.4 |
| Loss/(profit) on disposal of assets | **0.1** | (0.1) | 0.2 |
| Impairment of tangible fixed assets | **-** | - | 2.8 |
| Impairment of goodwill | **-** | - | 10.9 |
| Movement in fair value of financial instruments | **(0.1)** | 0.2 | 0.1 |
| Pensions payments in excess of charge | **(2.0)** | (1.4) | (3.0) |
| Share options charge | **-** | - | 0.1 |
| Grant income release | **-** | - | (0.2) |
| Changes in trading working capital: | | | |
| - Inventories | **(0.5)** | (1.2) | (1.3) |
| - Trade debtors | **0.2** | (0.3) | (0.7) |
| - Trade creditors | **(0.6)** | (0.1) | (0.6) |
| Changes in trading working capital | **(0.9)** | (1.6) | (2.6) |
| Other debtors | **0.2** | (0.6) | (0.6) |
| Other creditors | **0.4** | - | 0.4 |
| Net movement in other provisions | **(0.2)** | (0.1) | (0.2) |
| Net movement in asbestos litigation costs provision | **(0.9)** | (0.9) | (1.4) |
| Net movement in leasehold commitment provisions | **(0.3)** | - | 0.8 |
| Cash generated from/(absorbed by) operations | **2.8** | (0.1) | 2.1 |
| Cash generated from operations before reorganisation and movements in exceptional provisions | **4.2** | 2.6 | 6.3 |
| Cash outflows from reorganisation and movements in exceptional provisions | **(1.4)** | (2.7) | (4.2) |
| Cash generated from/(absorbed by) operations | **2.8** | (0.1) | 2.1 |

### 8. Post balance sheet events

At 30 September 2006 the fixed assets and stock of the Megolon business amounted to £6.5m and are shown on the face of the Balance Sheet as 'Assets held for sale'.

Following shareholder approval, the Group completed the sale of the Megolon compounding business for £16.75m, pre disposal costs, on 13 October 2006. The profit on the disposal of Megolon after transaction costs amounted to approximately £9.5m and will be accounted for in the second half results.

## 9. Borrowing facilities

The proceeds from the sale of the Megolon business of £16.75m which were received following the sale of the business on 13 October 2006, were used to pay down the Group's secured borrowings, which totalled £13.7m at 30 September 2006, and the committed facility was reduced by £15m to £10m.