TREATT PLC

# TREATT PLC
# INTERIM STATEMENT

## For the six months ended 31 March 2006

Treatt PLC, the manufacturer and supplier of flavour and fragrance ingredients, primarily from essential oils, announces today its interim results for the six months ended 31 March 2006.


***SUMMARY***

- Profit before tax for the period up 26% to £1,621,000 (2005: £1,288,000)
- Group turnover up by 18% to £17,322,000 (2005: £14,713,000)
- EBITDA increased by 18% to £2,164,000 (2005: £1,835,000)
- Interim dividend raised by 10% to 3.4p (2005: 3.1p)
- Absence of last year’s one-off stock gains on citrus oil
- Group borrowings up by £1.8m, gearing of 25% (2005: 16%)


Edward Dawnay, Chairman commented:

"The Group has performed excellently over the last six months with both the UK and US subsidiaries replacing last year's one-off orange and grapefruit profits with strong sales growth across the Group's highly diversified product range.   The prospects for the remainder of the year are good with Treatt USA expected to continue its growth with Group profits in the second half expected, as usual, to be stronger than the first half.”

TREATT PLC

## CHAIRMAN'S STATEMENT

**"The Group performed excellently with profits increasing by 26% to £1.6m across broad product portfolio, in spite of the absence of last year's substantial one-off stock gains"**

The Group had a strong result for the six months to 31 March 2006, with Group turnover growing by 18% to £17,322,000 (2005: £14,713,000). In spite of the absence of last year's substantial stock gains from citrus oils, EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) rose by 18% to £2,164,000 (2005: £1,835,000) and profit before tax increased by 26% to £1,621,000 (2005: £1,288,000). Earnings per share have consequently increased to 11.1 pence per share (2005: 8.7 pence per share).

The Board has declared an increase in the interim dividend of 9.7% to 3.4 pence per share (2005: 3.1 pence per share) which will be payable on 2 October 2006 to all shareholders on the register at close of business on 1 September 2006.

The first six months of this financial year saw the Group enjoy increased profits as a result of sales growth across the broad product range, both in terms of sales value and volume, as well as an increase in order activity levels. Margins held up well in spite of the absence of last year's one-off stock gains from orange and grapefruit oil. Overall, the Group benefited from increasing prices in both essential oil and aroma chemical products as well as a slowly strengthening US Dollar, which has moved by 9% compared to the same period last year. During the period orange oil prices remained firm, well above their long term historical average, whilst demand for grapefruit oil products has weakened.

Treatt USA performed well with turnover growing by 22% in US Dollar terms, although with lower margins profits are slightly down on last year. As expected, overheads increased compared to the same period last year, which reflects the impact of last year's investment in Treatt USA's infrastructure in order to provide the platform for continued growth. Sales of the unique specialty Treattarome™ "From the Named Food" range of products continued to drive Treatt USA's growth, whilst sales and margins across the broad range of manufactured citrus products remained steady.

R.C. Treatt, the Group's UK operating subsidiary, had an excellent first six months with sales growing by 14%, but with slightly lower margins compared to the same period last year due to the absence of the one-off citrus stock gains referred to earlier. The main factors contributing to this success were the continuing process improvements flowing from the Enterprise Resource Planning (ERP) system, generally increasing commodity prices underpinned by higher energy prices and increased competitiveness following the introduction of flexible employee contracts last year. Again, a stronger US Dollar was also advantageous although this trend has reversed since the end of the period.

During the period there was a net cash outflow for the Group of £2,291,000 largely as a result of increased investment in stock as a consequence mainly of higher prices. As a result, net debt (including the Treatt USA Industrial Development Loan) increased to £4.5 million and gearing was 25% (2005: 16%), with short term gearing of 12% (2005: 2%). Based upon our current projections the cash flow in the second half is expected to be neutral.

### International Financial Reporting Standards (IFRS)

As previously announced, the results for the year ended 30 September 2006 are the first set of results to be published by Treatt Plc in accordance with IFRS. Following the publication of restated results for the year ended 30 September 2005, these results confirm that, to date, IFRS has not had a material impact on the Group's Income Statement and that, as expected, the most significant impact flows from recognising a pension liability of £2.3m (2005: £2.1m) which has been offset by a reduction in dividends payable of £0.3m (2005: £0.3m).

### Prospects

The Board is of the view that the breadth of the Group's diversified product range and customer base will result in Treatt USA and R.C. Treatt continuing to perform well in the second half of the year although US Dollar volatility may have a negative impact. In the absence of any unforeseen circumstances, the Board believes that Group profits in the second half will, as usual, be stronger than in the first half of the year.

Edward Dawnay
Chairman
19 May 2006

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INTERIM STATEMENT
For the six months ended 31 March 2006

## GROUP INCOME STATEMENT

| | Notes | Six months ended **31 March 2006 (Unaudited) £'000** | 31 March 2005 (Unaudited - restated) £'000 | Year ended 30 September 2005 (Audited - restated) £'000 |
|---|---|---|---|---|
| **Revenue** | 3 | **17,322** | 14,713 | 32,521 |
| Cost of Sales | | **(12,178)** | (10,314) | (21,952) |
| **Gross profit** | | **5,144** | 4,399 | 10,569 |
| Administrative expenses | | **(3,405)** | (3,030) | (7,020) |
| **Operating profit** | | **1,739** | 1,369 | 3,549 |
| Finance revenue | | **99** | - | 176 |
| Finance costs | | **(217)** | (81) | (319) |
| **Profit before taxation** | | **1,621** | 1,288 | 3,406 |
| Taxation | 4 | **(508)** | (405) | (1,070) |
| **Profit for the year attributable to equity shareholders** | | **1,113** | 883 | 2,336 |
| **Earnings per share** | | | | |
| - Basic | 5a | **11.1p** | 8.7p | 23.3p |
| - Diluted | 5b | **11.1p** | 8.7p | 23.2p |

## GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

| | Notes | Six months ended **31 March 2006** **(Unaudited)** **£'000** | Six months ended 31 March 2005 (Unaudited - restated) £'000 | Year ended 30 September 2005 (Audited - restated) £'000 |
|---|---|---|---|---|
| Profit for the period | | **1,113** | 883 | 2,336 |
| Currency translation differences on foreign currency net investments | | **99** | (160) | 123 |
| Actuarial gain/(loss) on defined benefit pension scheme | 2b | **-** | - | (257) |
| Deferred tax on actuarial gain/(loss) | | **-** | - | 77 |
| Total recognised net income for the period | | **1,212** | 723 | 2,279 |

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**GROUP BALANCE SHEET**

| | Notes | **As at 31 March 2006 (Unaudited)** | As at 31 March 2005 (Unaudited - restated) | As at 30 September 2005 (Audited - restated) |
|---|---|---|---|---|
| | **Notes** | **£'000** | £'000 | £'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 2f | **640** | 840 | 730 |
| Property, plant and equipment | | **8,700** | 8,302 | 8,644 |
| Deferred tax | | **521** | 375 | 521 |
| | | **9,861** | 9,517 | 9,895 |
| **Current assets** | | | | |
| Inventories | | **12,727** | 9,774 | 11,395 |
| Trade and other receivables | | **6,448** | 6,224 | 5,718 |
| Cash and cash equivalents | | **110** | 67 | 297 |
| | | **19,285** | 16,065 | 17,410 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Bank loans and overdrafts | | **(2,251)** | (426) | (144) |
| Trade and other payables | | **(3,505)** | (4,165) | (3,934) |
| Corporation tax payable | | **(420)** | (315) | (589) |
| | | **(6,176)** | (4,906) | (4,667) |
| **Net current assets** | | **13,109** | 11,159 | 12,743 |
| **Non-current liabilities** | | | | |
| Bank loans | | **(2,222)** | (2,175) | (2,179) |
| Post-employment benefits | 2b | **(3,254)** | (2,952) | (3,239) |
| | | **(5,476)** | (5,127) | (5,418) |
| **Net assets** | | **17,494** | 15,549 | 17,220 |

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## GROUP BALANCE SHEET (continued)

| | Notes | **As at 31 March 2006 (Unaudited) £'000** | As at 31 March 2005 (Unaudited – restated) £'000 | As at 30 September 2005 (Audited – restated) £'000 |
|---|---|---|---|---|
| **SHAREHOLDERS' EQUITY** | | | | |
| Called up share capital | | **1,029** | 1,029 | 1,029 |
| Share premium account | | **2,143** | 2,143 | 2,143 |
| Own shares in share trust | | **(625)** | (723) | (625) |
| Employee share option reserve | 2c | **25** | 9 | 14 |
| Foreign exchange reserve | 2e | **(600)** | (982) | (699) |
| Profit and loss account | | **15,522** | 14,073 | 15,358 |
| **Shareholders' equity** | | **17,494** | 15,549 | 17,220 |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | | Six months ended | | Year ended |
|---|---|---|---|---|
| | | **31 March** | 31 March | 30 September |
| | | **2006** | 2005 | 2005 |
| | | **(Unaudited)** | (Unaudited - restated) | (Audited - restated) |
| | Notes | **£'000** | £'000 | £'000 |
| Total recognised net income for the period | | **1,212** | 723 | 2,279 |
| Dividends | 6 | **(949)** | (893) | (881) |
| Share based payments | 2c | **11** | 7 | 12 |
| Movement in own shares in share trust | | **-** | (445) | (347) |
| **Increase/(decrease) in shareholders' equity** | | **274** | (608) | 1,063 |
| Shareholders' equity at 1 October | | **17,220** | 16,157 | 16,157 |
| **Shareholders' equity at period end** | | **17,494** | 15,549 | 17,220 |

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## GROUP CASH FLOW STATEMENT

| | Six months ended | | Year ended |
|---|---|---|---|
| | **31 March** | 31 March | 30 September |
| | **2006** | 2005 | 2005 |
| | **(Unaudited)** | (Unaudited - restated) | (Audited - restated) |
| | **£'000** | £'000 | £'000 |
| **Cash flow from operating activities** | | | |
| Profit before taxation | **1,621** | 1,288 | 3,406 |
| Adjusted for: | | | |
| Foreign exchange gain/(loss) | **64** | (100) | 104 |
| Depreciation of property, plant and equipment | **425** | 466 | 963 |
| Loss on disposal of property, plant and equipment | **-** | - | 135 |
| Share option charge | **11** | 7 | 12 |
| Pension funding | **15** | 8 | 38 |
| | **2,136** | 1,669 | 4,658 |
| Changes in working capital: | | | |
| Decrease/(increase) in inventories | **(1,332)** | (1,419) | (3,040) |
| Decrease/(increase) in trade and other receivables | **(730)** | (217) | 288 |
| Increase/(decrease) in trade and other payables | **(429)** | 846 | 642 |
| Cash generated from operations | **(355)** | 879 | 2,548 |
| Tax paid | **(677)** | (352) | (812) |
| Net cash from operating activities | **(1,032)** | 527 | 1,736 |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | **(310)** | (234) | (862) |
| **Cash flow from financing activities** | | | |
| Repayment of bank loans | **-** | - | (144) |
| Dividends paid | **(949)** | (881) | (895) |
| Net acquisition of own shares by Share Trust | **-** | (445) | (347) |
| | **(949)** | (1,326) | (1,386) |
| Net decrease in cash and cash equivalents | **(2,291)** | (1,033) | (512) |
| Cash and cash equivalents at beginning of period | **297** | 809 | 809 |
| **Cash and cash equivalents at end of period** | **(1,994)** | (224) | 297 |

## NOTES TO THE INTERIM STATEMENT

### (1) Basis of preparation

Prior to 2006 the Group prepared its audited financial statements under UK Generally Accepted Accounting Principles (UK GAAP). For the year ended 30 September 2006 the Group is required to prepare its annual consolidated financial statements in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRS)).

These interim financial statements have been prepared in accordance with the accounting policies set out below, taking into account the requirements and options in IFRS 1 'First-time adoption of International Financial Reporting Standards'. The Group has not adopted the reporting requirements of IAS 34 'Interim Financial Reporting'. The transition date for the Group's application of IFRS is 1 October 2004 and the comparative figures for 31 March 2005 and 30 September 2005 have been restated accordingly. Reconciliations of the income statement (previously profit and loss account), balance sheet and cash flow statement from previously reported UK GAAP to IFRS are shown in note 7.

The consolidated interim statements are prepared on the basis of all International Accounting Standards (IAS) and IFRS published by the International Accounting Standards Board (IASB) that are currently in issue. An element of uncertainty still surrounds the application of IFRS as the EU may not endorse all IASB pronouncements, new interpretations may be issued by the International Financial Reporting Interpretations Committee (IFRIC) on existing standards and best practice continues to evolve. It is therefore possible that the accounting policies set out below may be updated by the time the Group prepares its first full set of financial statements under IFRS for the year ending 30 September 2006.

The information relating to the six months ended 31 March 2006 and 31 March 2005 is unaudited and does not constitute statutory accounts. The comparative figures for the year ended 30 September 2005 are not the company's statutory accounts for that financial year. The statutory accounts for the year ended 30 September 2005, prepared under UK GAAP, 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 a statement under section 237(2) or (3) of the Companies Act 1985. The interim financial statements are unaudited but have been reviewed by the auditors and their report to the Board of Treatt PLC is set out at the end of this document.

### (2) Accounting Policies

The interim financial statements have been prepared on the basis of the accounting policies set out in the Group's 30 September 2005 annual report other than the following changes which reflect the implementation of International Financial Reporting Standards (see note 1):

(a) Presentation of Financial Statements

The primary statements within the financial information contained in this document have been presented in accordance with IAS 1, "Presentation of Financial Statements".

(b) Defined Benefit Pension Scheme

In accordance with IAS 19, "Employee Benefits", the deficit, net of deferred tax, in the defined benefit pension scheme for certain UK employees is recognised as a liability of the Group under non-current liabilities. This was previously disclosed as a note to the financial statements under the transitional arrangements under FRS17 in accordance with UK GAAP.

In addition, the service cost and expected return on assets net of interest on scheme liabilities is reflected in the income statement for the period, in place of the actual cash contribution made. All experience gains or losses on the assets and liabilities of the scheme, together with the effect of changes in assumptions, is reflected as a gain or loss in the Statement of Recognised Income and Expense (previously the Statement of Total Recognised Gains and Losses).

**(2) Accounting Policies (continued)**

(c) Share-based Payments

IFRS 2, "Share-based Payments", requires that an expense for equity instruments granted be recognised in the financial statements based on their fair value at the date of grant. This expense, which is in relation to employee share option schemes for staff in the UK and US, is recognised over the vesting period of the scheme.

IFRS 2 has been applied to all options granted after 7 November 2002 and not fully vested by 31 March 2006. The Group has adopted the Black Scholes model for the purposes of computing fair value of options under IFRS.

(d) Post Balance Sheet Events and Dividends

IAS 10, "Events after the Balance Sheet Date" requires that final dividends proposed after the balance sheet date should not be recognised as a liability at that balance sheet date, as the liability does not represent a present obligation as defined by IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Instead, final dividends for Treatt Plc should only be recognised as a liability once formally approved at the Annual General Meeting. Furthermore, interim dividends, in accordance with ICAEW Technical Release 57/05, are no longer recognised as a liability until paid.

The interim and final dividends in relation to the financial years ended 30 September 2004 and 2005 of £893,000 and £949,000 have, therefore, been reversed in the respective balance sheets and the interim dividend for the year ended 30 September 2006 of £340,000 (2005: £310,000) will be accounted for in the results for the year ended 30 September 2007.

(e) Effect of Changes in Foreign Exchange Rates
Under IAS 21, "The Effects of Changes in Foreign Exchange Rates", cumulative translation differences, which are recognised in the Statement of Recognised Income and Expense, are separately accounted for within reserves and are transferred from equity to the income statement in the event of the disposal of a foreign operation. All such foreign exchange differences arising on the net investment in the Group's US subsidiary, Treatt USA, since its formation in 1990, have been transferred from the 'Profit and Loss Reserve' to this newly created 'Foreign Exchange Reserve'.

(f) Computer Software

In accordance with IAS 38 "Intangible Assets" computer software is now required to be disclosed as a class of intangible assets rather than be included as part of tangible fixed assets, as was the case under UK GAAP.

(g) Cash Flow

The cash flow statement has been restated to explain the movement in short term cash and cash equivalents, instead of the movement in total short and long term cash.

(h) IFRS Comparatives

For a reconciliation from UK GAAP to IFRS for prior period comparatives see note 7.

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**(3) Turnover by destination**

| | Six months ended | | Year ended |
|---|---|---|---|
| | **31 March** | 31 March | 30 September |
| | **2006** | 2005 | 2005 |
| | **(Unaudited)** | (Unaudited - restated) | (Audited - restated) |
| | **£'000** | £'000 | £'000 |
| United Kingdom | **3,118** | 2,907 | 6,314 |
| Rest of Europe | **4,998** | 4,092 | 9,331 |
| The Americas | **5,420** | 3,941 | 8,816 |
| Rest of the World | **3,786** | 3,773 | 8,060 |
| | **17,322** | 14,713 | 32,521 |

**(4) Taxation**

Taxation has been provided at 31.3% (2005: 31.4%) which is the effective group rate currently anticipated for the financial year ending 30 September 2006.

**(5) Earnings per share**

(a) Basic earnings per share for the six months ended 31 March 2006 are based on the weighted average number of shares in issue and ranking for dividend in the period of 9,991,890 (2005: 10,109,727) and earnings of £1,113,000 (2005: £883,000) being the profit after taxation.

(b) Diluted earnings per share for the six months ended 31 March 2006 are based on the weighted average number of shares in issue in the period, adjusted for the effects of all dilutive potential ordinary shares of 10,041,628 (2005: 10,127,653) and the same earnings as above.

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## (6) Dividends

| | Six months ended 31 March 2006 (Unaudited) £'000 | 31 March 2005 (Unaudited - restated) £'000 | Year ended 30 September 2005 (Audited - restated) £'000 |
|---|---|---|---|
| **Equity dividends on ordinary shares:** | | | |
| Interim dividend for year ended 30 September 2004 - 2.7p | **-** | 278 | 278 |
| Final dividend for year ended 30 September 2004 - 6.1p | **-** | 615 | 615 |
| Interim dividend for year ended 30 September 2005 - 3.1p | **310** | - | - |
| Final dividend for year ended 30 September 2005 - 6.4p | **639** | - | - |
| Over accrual from previous year | **-** | - | (12) |
| | **949** | 893 | 881 |

The declared interim dividend for the year ended 30 September 2006 of 3.4p was approved by the Board on 19 May 2006 and in accordance with IFRS has not been included as a deduction from equity at 31 March 2006. The dividend will be paid on 2 October 2006 to those shareholders on the register at 1 September 2006 and will, therefore, be accounted for in the results for the year ended 30 September 2007.

## (7) IFRS reconciliation of prior period comparatives

(a) Income Statement for the six months ended 31 March 2005

| | Notes | UK GAAP 31/03/2005 £'000 | IFRS Adjustments £'000 | IFRS 31/03/2005 £'000 |
|---|---|---|---|---|
| Revenue | | 14,713 | | 14,713 |
| Cost of sales | | (10,314) | | (10,314) |
| Gross profit | | 4,399 | - | 4,399 |
| Administrative expenses | 2b,c | (3,042) | 12 | (3,030) |
| Group operating profit | | 1,357 | 12 | 1,369 |
| Finance revenue | | - | | - |
| Finance costs | 2b | (54) | (27) | (81) |
| Profit before tax | | 1,303 | (15) | 1,288 |
| Taxation | | (408) | 3 | (405) |
| Profit for the year attributable to equity shareholders | | 895 | (12) | 883 |
| Earnings per share - basic | | 8.9p | | 8.7p |
| Earnings per share - diluted | | 8.8p | | 8.7p |

## (7) IFRS reconciliation of prior period comparatives (continued)

(b) Statement of recognised income and expense for the six months ended 31 March 2005

| | Notes | UK GAAP 31/03/2005 £'000 | IFRS Adjustments £'000 | IFRS 31/03/2005 £'000 |
|---|---|---|---|---|
| Profit for the period | | 895 | (12) | 883 |
| Currency translation on foreign currency net investment | | (160) | | (160) |
| Total recognised net income for the period | | 735 | (12) | 723 |

(c) Income Statement for the year ended 30 September 2005

| | Notes | UK GAAP 30/09/2005 £'000 | IFRS Adjustments £'000 | IFRS 30/09/2005 £'000 |
|---|---|---|---|---|
| Revenue | | 32,521 | | 32,521 |
| Cost of sales | | (21,952) | | (21,952) |
| Gross profit | | 10,569 | - | 10,569 |
| Administrative expenses | 2b,c | (7,023) | 3 | (7,020) |
| Group operating profit | | 3,546 | 3 | 3,549 |
| Finance revenue | | 176 | | 176 |
| Finance costs | 2b | (266) | (53) | (319) |
| Profit before tax | | 3,456 | (50) | 3,406 |
| Taxation | | (1,082) | 12 | (1,070) |
| Profit for the year attributable to equity shareholders | | 2,374 | (38) | 2,336 |
| Earnings per share - basic | | 23.7p | | 23.3p |
| Earnings per share - diluted | | 23.6p | | 23.2p |

(d) Statement of recognised income and expense for the year ended 30 September 2005

| | Notes | UK GAAP | IFRS Adjustments | IFRS |
|---|---|---|---|---|
| Profit for the financial year | | 2,374 | (38) | 2,336 |
| Currency translation on foreign currency net investment | | 123 | | 123 |
| Actuarial loss on defined benefit pension scheme | 2b | - | (257) | (257) |
| Deferred tax on actuarial loss | | - | 77 | 77 |
| Total recognised net income for the period | | 2,497 | (218) | 2,279 |

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## (7) IFRS reconciliation of prior period comparatives (continued)

(e) Balance Sheet for the six months ended 31 March 2005

| | Notes | UK GAAP 31/03/2005 £'000 | IFRS Adjustments £'000 | IFRS 31/03/2005 £'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 2f | - | 840 | 840 |
| Property, plant and equipment | | 9,142 | (840) | 8,302 |
| Deferred tax | 2b | - | 375 | 375 |
| | | 9,142 | 375 | 9,517 |
| **Current assets** | | | | |
| Inventories | | 9,774 | | 9,774 |
| Trade and other receivables | | 6,224 | | 6,224 |
| Cash and cash equivalents | | 67 | | 67 |
| | | 16,065 | 0 | 16,065 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Bank loans and overdrafts | | (426) | | (426) |
| Trade and other payables | 2d | (4,473) | 308 | (4,165) |
| Corporation tax payable | | (315) | | (315) |
| | | (5,214) | 308 | (4,906) |
| **Net current assets** | | 10,851 | 308 | 11,159 |
| **Non-current liabilities** | | | | |
| Bank loans | | (2,175) | | (2,175) |
| Post-employment benefits | 2b | - | (2,952) | (2,952) |
| Deferred tax liabilities | | (511) | 511 | - |
| | | (2,686) | (2,441) | (5,127) |
| **Net assets** | | 17,307 | (1,758) | 15,549 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Called up share capital | | 1,029 | | 1,029 |
| Share premium account | | 2,143 | | 2,143 |
| Own shares in share trust | | (723) | | (723) |
| Employee Share Option Reserve | 2c | - | 9 | 9 |
| Foreign Exchange Reserve | 2e | - | (982) | (982) |
| Retained earnings | 2b,c,d,e | 14,858 | (785) | 14,073 |
| **Total Shareholders' Equity** | | 17,307 | (1,758) | 15,549 |

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## (7) IFRS reconciliation of prior period comparatives (continued)

(f) Balance Sheet for the year ended 30 September 2005

| | Notes | UK GAAP 30/09/2005 £'000 | IFRS Adjustments £'000 | IFRS 30/09/2005 £'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 2f | - | 730 | 730 |
| Property, plant and equipment | | 9,374 | (730) | 8,644 |
| Deferred tax | 2b | - | 521 | 521 |
| | | 9,374 | 521 | 9,895 |
| **Current assets** | | | | |
| Inventories | | 11,395 | | 11,395 |
| Trade and other receivables | | 5,718 | | 5,718 |
| Cash and cash equivalents | | 297 | | 297 |
| | | 17,410 | 0 | 17,410 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Bank loans and overdrafts | | (144) | | (144) |
| Trade and other payables | 2d | (4,883) | 949 | (3,934) |
| Corporation tax payable | | (589) | | (589) |
| | | (5,616) | 949 | (4,667) |
| **Net current assets** | | 11,794 | 949 | 12,743 |
| **Non-current liabilities** | | | | |
| Bank loans | | (2,179) | | (2,179) |
| Post-employment benefits | 2b | - | (3,239) | (3,239) |
| Deferred tax liabilities | | (451) | 451 | - |
| | | (2,630) | (2,788) | (5,418) |
| **Net assets** | | 18,538 | (1,318) | 17,220 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Called up share capital | | 1,029 | | 1,029 |
| Share premium account | | 2,143 | | 2,143 |
| Own shares in share trust | | (625) | | (625) |
| Employee Share Option Reserve | 2c | - | 14 | 14 |
| Foreign Exchange Reserve | 2e | - | (699) | (699) |
| Retained earnings | 2b,c,d,e | 15,991 | (633) | 15,358 |
| **Total Shareholders' Equity** | | 18,538 | (1,318) | 17,220 |

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## (7) IFRS reconciliation of prior period comparatives (continued)

(g) Cash Flow for the six months ended 31 March 2005

| | Notes | UK GAAP 31/03/2005 £'000 | IFRS Adjustments £'000 | IFRS 31/03/2005 £'000 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Profit before taxation | | 1,303 | (15) | 1,288 |
| Adjusted for: | | | | |
| Foreign exchange gain/(loss) | 2g | 2 | (102) | (100) |
| Depreciation of property, plant and equipment | | 466 | | 466 |
| Share option charge | | - | 7 | 7 |
| Pension funding | | - | 8 | 8 |
| | | 1,771 | (102) | 1,669 |
| Changes in working capital: | | | | |
| Decrease/(increase) in inventories | | (1,419) | | (1,419) |
| Decrease/(increase) in trade and other receivables | | (217) | | (217) |
| Increase/(decrease) in trade and other payables | | 846 | | 846 |
| Cash generated from operations | | 981 | (102) | 879 |
| Tax paid | | (352) | | (352) |
| Net cash from operating activities | | 629 | (102) | 527 |
| **Cash flow from investing activities** | | | | |
| Purchase of property, plant and equipment | | (234) | | (234) |
| **Cash flow from financing activities** | | | | |
| Dividends paid | | (881) | | (881) |
| Net acquisition of own shares by share trust | | (445) | | (445) |
| | | (1,326) | 0 | (1,326) |
| Net decrease in cash and cash equivalents | | (931) | (102) | (1,033) |
| Cash and cash equivalents at beginning of period | 2g | (1,603) | 2,412 | 809 |
| **Cash and cash equivalents at end of period** | | **(2,534)** | **2,310** | **(224)** |

The effect of transition on the cash flow noted above relates to changes in the composition of cash and cash equivalents as detailed below:

| | 31/03/2005 £'000 |
|---|---|
| ***Reconciliation of cash flow for period to 31 March 2005*** | |
| Net debt under UK GAAP | (2,534) |
| Long term loans excluded from cash and cash equivalents | 2,310 |
| Cash and cash equivalents under IFRS | (224) |
| | |
| ***Cash and cash equivalents consist of:*** | |
| Cash at bank | 67 |
| Bank overdraft | (291) |
| | (224) |

## (7) IFRS reconciliation of prior period comparatives (continued)

(h) Cash Flow for the year ended 30 September 2005

| | Notes | UK GAAP 30/09/2005 £'000 | IFRS Adjustments £'000 | IFRS 30/09/2005 £'000 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Profit before taxation | | 3,456 | (50) | 3,406 |
| Adjusted for: | | | | |
| Foreign exchange gain/(loss) | 2g | 49 | 55 | 104 |
| Depreciation of property, plant and equipment | | 963 | | 963 |
| Loss on disposal of property, plant and equipment | | 135 | | 135 |
| Share option charge | | - | 12 | 12 |
| Pension funding | | - | 38 | 38 |
| | | 4,603 | 55 | 4,658 |
| Changes in working capital: | | | | |
| Decrease/(increase) in inventories | | (3,040) | | (3,040) |
| Decrease/(increase) in trade and other receivables | | 288 | | 288 |
| Increase/(decrease) in trade and other payables | | 642 | | 642 |
| Cash generated from operations | | 2,493 | 55 | 2,548 |
| Tax paid | | (812) | | (812) |
| Net cash from operating activities | | 1,681 | 55 | 1,736 |
| **Cash flow from investing activities** | | | | |
| Purchase of property, plant and equipment | | (862) | | (862) |
| **Cash flow from financing activities** | | | | |
| Repayment of bank loans | 2f | | (144) | (144) |
| Dividends paid | | (895) | | (895) |
| Net acquisition of own shares by share trust | | (347) | | (347) |
| | | (1,242) | (144) | (1,386) |
| Net decrease in cash and cash equivalents | | (423) | (89) | (512) |
| Cash and cash equivalents at beginning of period | 2g | (1,603) | 2,412 | 809 |
| **Cash and cash equivalents at end of period** | | **(2,026)** | **2,323** | **297** |

| The effect of transition on the cash flow noted above relates to changes in the composition of cash and cash equivalents as detailed below: | 30/09/2005 £'000 |
|---|---|
| ***Reconciliation of cash flow for period to 30 September 2005*** | |
| Net debt under UK GAAP | (2,026) |
| Long term loans excluded from cash and cash equivalents | 2,323 |
| Cash and cash equivalents under IFRS | 297 |

***Cash and cash equivalents consist of:***

| | |
|---|---|
| Cash at bank | 297 |

TREATT
PLC

## INDEPENDENT REVIEW REPORT TO TREATT PLC

### *Introduction*

We have been instructed by the company to review the financial information for the six months ended 31 March 2006 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Shareholders' Equity, Consolidated Cash Flow Statement, Consolidated Statement of Recognised Income and Expense and the related notes 1 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report, including the conclusion, has been prepared for, and only for, the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, therefore, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with those IFRSs adopted for use by the European Union. This interim report has been prepared in accordance with the requirements of IFRS 1, "First Time Adoption of International Financial Reporting Standards".

The accounting policies are consistent with those that the directors intend to use in the next annual financial statements.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the disclosed accounting policies have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly, we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2006.

**BAKER TILLY**
Registered Auditor
Chartered Accountants
Abbotsgate House
Hollow Road
Bury St Edmunds
Suffolk
IP32 7FA

19 May 2006