

C.H. BAILEY PLC

Chairman's statement and financial results for the six months ended 30th September 2008 (unaudited)

Interim Statement and results

Results for the 6 month period ended 30th September 2008, show a loss of £600,326 (2007: loss £785,307). Turnover has decreased by £272,062 with a decrease in the gross profit of 31.5%.

UK Operations

In my year end statement for March 2008, I mentioned some hard decisions would have to be made. Since then, we have closed Midway Precision Engineering, the Caerphilly branch of the Bailey Industrial Engineering division. This decision was made to stem continued losses and a cash drain on this division and to allow the remainder of the division to trade profitably, which it has continued to do.

Modular Automation International Limited (MAIL) has been faced with particularly difficult market conditions and reported a loss for the period. The company has been able to downsize and reduce its overheads. As a result of these measures, and the receipt of some confirmed new orders, the Board believes that Modular is in a position to survive the current downturn.

Modular has received offers from possible strategic partners, which the Board has rejected, due to the low value placed on the company by these potential partners. The Board is still interested in this process of identifying a strategic partner but is for now concentrating on managing the business through the current difficult economic climate.

Malta

Our hotel in Malta has made a profit of £176,133 compared to £39,527 in the six months ended 30th September 2007. This has been achieved through higher occupancy levels, new revenue streams and better and more efficient service delivery. However, this business is seasonal and revenues in the second half will as always be minimal.

Plans to re-develop the hotel have moved ahead and discussions continue with the relevant government authorities to allow the company to maximise the potential of the site.

We announced in October the sale of the *Bellavista* hotel in Malta for €4,193,000. The proceeds from this sale have been used to reduce borrowings and provide the Group with additional working capital, as well as allowing the Group to continue with its restructuring and developments in Malta and Tanzania.

Tanzania

The new Oyster Bay hotel has been trading for a year and occupancy is lower than expected. We expect occupancy to increase as the market understands the concept the property provides the high end tourist clients visiting Tanzania. It has recently been included in the *Tatler*, as one of their 101 best hotels in the World.

Bed nights have declined at Beho Beho but revenues are on par with last year. We have seen a drop in bookings for the quarter January to March but bookings for 2009/10 season are better than expected and are up on last year. This we believe is mainly due to Beho Beho's reputation as a market leader, even with new safari camps opening in the Selous Game Reserve.

Our Mikumi Wildlife Camp has not been affected by the decline in tourism and bednights have increased as the majority of the guests are residents, living in Tanzania. With Mikumi National Park the closest to Dar es Salaam

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we expect bed nights to be maintained at current levels for 2009. Plans to refurbish the camp are still under consideration but we are still waiting for the Tanzanian government to confirm their position on park fees. We will then be able to assess how this might affect the local market and the future development of the overseas market for this Park.

In the accounts to the end March 2008, I reported that we expected the new Oyster Bay offices to be completed in October and I am pleased to report that the offices are fully let and the tenants are now in situ or are in the process of their fit out. Enquiries for space are still being received and we are now looking into the possibilities of expanding the offices if we can reach any pre-let agreements with new tenants.

We are not sure how badly tourism will be affected in 2009 due to the global economic climate, but we are confident that the Oyster Bay Hotel will better the bed nights achieved this year, the camp at Mikumi will maintain its present occupancy levels and Beho Beho will remain a market leader.

Investments

In the accounts to the end of March 2008, I stated that with the turmoil in the Global markets it was difficult to predict what lay ahead. Since that date the pound has seen a significant decline against the US Dollar and also the Euro. As we are operating in both the Dollar and Euro zones this has increased the value of the fund and a majority of the investments have been able to either hold their value or incur only small losses.

Current Trading and outlook

The trading performance has been affected by the lack of sales and throughput at Modular. There is no doubt that markets will continue to be difficult well into 2009. We expect all of our businesses to be affected, and the Board will continue to take such further action as may be required to safeguard the Group's long-term future.

Charles. H. Bailey
22nd December 2008

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Consolidated Income Statement for the six months ended 30th September 2008 (unaudited)

	Six months ended 30th September 2008 £	Six months ended 30th September 2007 £	Year ended 31st March 2008 £
Revenue	4,946,091	5,218,153	11,458,760
Cost of sales	(4,224,115)	(4,163,765)	(9,142,597)
Gross profit	721,976	1,054,388	2,316,163
Administrative expenses	(1,551,946)	(1,777,719)	(4,077,001)
Trading (loss)	(829,970)	(723,331)	(1,760,838)
Investment activities and other income	476,833	(52,357)	(35,032)
Operating (loss)	(353,137)	(775,688)	(1,795,870)
EBITDA*	(177,135)	(609,404)	(936,363)
Depreciation	(176,888)	(166,284)	(294,266)
Goodwill impairment	-	-	(565,087)
Profit (loss) on the sale of property, plant and equipment	886	-	(154)
Operating (loss)	(353,137)	(775,688)	(1,795,870)
Finance income	1,762	958	5,500
Finance costs	(210,449)	(86,464)	(220,837)
(Loss) before taxation	(561,824)	(861,194)	(2,011,207)
Taxation	(36,353)	11,635	(24,886)
Minority interest	(2,149)	64,252	(126,694)
(Loss) for the financial period	(600,326)	(785,307)	(2,162,787)
(Loss) per share from continuing operations	(7.33p)	(9.59p)	(26.40p)
(Loss) per share from total operations	(7.33p)	(9.59p)	(26.40p)

All of the activities of the group are classed as continuing.

*Earnings before interest, taxation, depreciation and impairment charges.

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Consolidated Balance Sheet as at 30th September 2008 (unaudited)

	30th September 2008 £	30th September 2007 £	31st March 2008 £
Non-current assets			
Goodwill	107,694	629,387	107,694
Property, plant and equipment	11,362,117	8,834,687	10,353,515
Lease prepayments	38,474	47,996	38,474
Deferred tax asset	488,083	774,593	524,436
	<u>11,996,368</u>	<u>10,286,663</u>	<u>11,024,119</u>
Current assets			
Stocks	165,598	225,594	156,834
Trade and other receivables	2,501,460	3,625,771	2,976,789
Current asset investments	1,124,456	1,840,638	1,320,753
Cash and cash equivalents	638,416	226,336	416,180
	<u>4,429,930</u>	<u>5,918,339</u>	<u>4,870,556</u>
Current liabilities			
Trade and other payables	(4,955,729)	(4,531,719)	(4,050,832)
Bank loans and overdrafts	(1,748,310)	(824,946)	(1,517,909)
Other loans	(658,856)	(653,459)	(652,754)
Obligations under finance leases	(63,657)	(59,599)	(69,274)
Provisions	(225,000)	(217,235)	(259,180)
	<u>(7,651,552)</u>	<u>(6,286,958)</u>	<u>(6,549,949)</u>
Net current assets	(3,221,622)	(368,619)	(1,679,393)
Total assets less current liabilities	8,774,746	9,918,044	9,344,726
Non-current liabilities			
Bank loans	(2,337,489)	(1,759,857)	(2,007,148)
Obligations under finance leases	(62,794)	(53,339)	(79,033)
Cumulative preference shares	(530,180)	(530,180)	(530,180)
Deferred tax liabilities	(813,641)	(713,636)	(819,303)
Net assets	<u>5,030,642</u>	<u>6,861,032</u>	<u>5,909,062</u>
Equity			
Called-up share capital	833,541	833,541	833,541
Share premium account	609,690	609,690	609,690
Capital redemption reserve	5,163,332	5,163,332	5,163,332
Investment in own shares	(187,528)	(187,528)	(187,528)
Translation reserve	230,104	1,371,718	195,695
Retained earnings	(1,653,720)	(766,812)	(739,048)
Surplus attributable to the parent's shareholders	<u>4,995,419</u>	<u>7,023,941</u>	<u>5,875,682</u>
Minority interest	35,223	(162,909)	33,380
Total equity	<u>5,030,642</u>	<u>6,861,032</u>	<u>5,909,062</u>

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Consolidated Cash Flow Statement for the six months ended 30th September 2008 (unaudited)

	Six months ended 30th September 2008	Six months ended 30th September 2007	Year ended 31st March 2008
	£	£	£
Cash flows from operating activities			
Cash generated from operations	(287,510)	(72,345)	(714,897)
Interest paid	(210,449)	(86,464)	(220,837)
Net cash flow from operating activities	(497,959)	(158,809)	(935,734)
Investing activities			
Sale of property, plant and equipment	966	-	8,145
Purchase of property, plant and equipment	(739,281)	(1,089,736)	(1,921,014)
Sale of investments	14,214	43,737	364,224
Purchase of investments	(792)	(103,222)	(142,451)
Interest received	1,762	958	5,500
Net cash flow from investing activities	(723,131)	(1,148,263)	(1,685,596)
Financing activities			
Movement in bank loans	173,622	1,041,505	1,229,412
Movement in directors' loans	1,035,021	29,837	636,292
Movement in other loans	6,102	6,124	5,419
Movement in capital element of finance leases	(21,856)	(29,382)	5,987
Net cash flow from financing activities	1,192,889	1,048,084	1,877,110
Net decrease in cash and cash equivalents	(28,201)	(258,988)	(744,220)
Cash and cash equivalents at beginning of the period	(1,101,729)	(332,139)	(332,139)
Exchange differences	20,036	(7,483)	(25,370)
Cash and cash equivalents at end of the period	(1,109,894)	(598,610)	(1,101,729)
Reconciliation of net cash flow to movement in net debt in the period			
Net decrease in cash and cash equivalents	(28,201)	(258,988)	(744,220)
Cash inflow from the increase in debt	(157,868)	(1,018,247)	(1,240,818)
Movement in net debt during the period	(186,069)	(1,277,235)	(1,985,038)
Net debt at the beginning of period	(3,909,938)	(1,846,485)	(1,846,485)
Exchange differences	(136,683)	(1,144)	(78,415)
Net debt at the end of the period	(4,232,690)	(3,124,864)	(3,909,938)

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Consolidated Statement of Recognised Income and Expense for the six months ended 30th September 2008 (unaudited)

	Six months ended 30th September 2008 £	Six months ended 30th September 2007 £	Year ended 31st March 2008 £
(Loss) for the period attributable to parent's equity shareholders	(600,326)	(785,307)	(2,162,787)
Exchange differences	(279,937)	139,844	569,147
Total recognised income and expense for the period attributable to parent's equity shareholders	(880,263)	(645,463)	(1,593,640)

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Notes to the Consolidated Interim Financial Statements for the six months ended 30th September 2008 (unaudited)

1. General Information

Basis of preparation

These interim financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted by the European Union and with the Companies Act 1985. They comply with the requirements of IAS 34 – Interim Financial Reporting.

The interim financial statements have been prepared using the historical cost basis of accounting except for:

- i) Properties held at the date of transition to IFRS which are stated at deemed cost;
- ii) Assets held for sale which are stated at the lower of fair value less anticipated disposal costs and carrying value.

Functional and presentational currency

The financial statements are presented in pounds sterling because that is the functional currency of the primary economic environment in which the group operates.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 30th September 2008.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

Goodwill arising on consolidation represents the excess of consideration over the group's interest in the fair value of assets acquired. Goodwill is recognised as an asset and is not amortised. It is reviewed for impairment at each reporting date as detailed in "impairment of non-financial assets" below.

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Trade investments

The results of entities over which the group is not in a position to be able to exercise significant influence despite holding a significant shareholding are not accounted for as associates and therefore are not equity accounted. The companies are classified as trade investments and are carried at cost within non-current assets as they are held as a long term investments. Dividend income is recognised in the income statement on a cash basis when received.

Property, plant and equipment

Property is carried at deemed cost at the date of transition to IFRS based on the previous UK GAAP valuations. Property, plant and equipment are stated at purchase cost including directly attributable costs. The group does not have a revaluation policy.

Freehold land is not depreciated. Depreciation of other property, plant and equipment is provided on a straight line basis using rates calculated to write down the cost of each asset over its estimated useful life as follows:

Property:	
Freehold buildings and long leasehold property	1%
Short leasehold buildings	Period of the lease
Plant and equipment	Between 5% and 50%

Annual reviews are made of estimated useful lives and material residual values.

Leased assets

Lessee accounting

Property leases are split into two elements, land and buildings and each considered in isolation and each element is reviewed to determine if it is operating or finance in nature. Initial rental payments in respect of operating leases are included in current and non-current assets as appropriate and amortised to the income statement over the period of the lease. Ongoing rental payments are charged as an expense in the income statement on a straight line basis until the date of the rent review. Finance leases are capitalised and depreciated in accordance with the accounting policy for property, plant and equipment.

Rental costs arising from operating leases are charged as an expense in the income statement on a straight line basis over the period of the lease.

Non-current assets held for sale

Non-current assets are reclassified as assets held for sale if their carrying value will be recovered through a sale transaction on which is highly probable to be completed within 12 months of the initial classification. Assets held for sale are valued at the lower of carrying amount at the date of initial classification and fair value less costs to sell.

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Notes to the Consolidated Interim Financial Statements for the six months ended 30th September 2008 (unaudited)

Impairment of non-financial assets

Goodwill is tested annually for impairment, or more frequently if there are any changes in circumstances or events that indicate that a potential impairment may exist. Goodwill impairments cannot be reversed.

Property, plant and equipment are reviewed for indications of impairment when events or changes in circumstances indicate that the carrying amount may not be recovered. If there are indications then a test is performed on the asset affected to assess its recoverable amount against carrying value.

An asset impaired is written down to the higher of value in use or its fair value less cost to sell.

Deferred and current taxation

The charge for taxation is based on the taxable profit or loss for the period and takes into account taxation deferred because of differences between the treatment of certain items for taxation and for accounting purposes. Full provision is made for the tax effects of these differences. Deferred tax is provided on unremitted earnings from overseas subsidiaries where it is probable that these earnings will be remitted to the UK in the foreseeable future. Deferred tax is measured using tax rates that have been enacted, or substantively enacted, by the period end balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of the deferred tax assets is reviewed at each reporting balance sheet date to ensure that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. Assets and liabilities, in respect of both deferred and current tax, are only offset when there is a legally enforceable right to offset and the assets and liabilities relate to taxes levied by the same taxation authority.

Deferred and current tax are charged or credited in the income statement except when they relate to items charged directly to equity in which case the associated tax is also dealt with in equity.

Stocks

Stocks are valued at the lower cost of purchase and net realisable value. Cost comprises actual purchase price and where applicable associated direct costs incurred bringing the stock to its present location and condition. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

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Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Allowances for irrecoverable amounts, which are dealt with in the income statement, are calculated based on the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents includes cash-in-hand, cash at bank and short term highly liquid investments that are readily convertible into known amounts of cash within three months from the date of initial acquisition with an insignificant risk of a change in value.

Trade and other payables

Trade and other payables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective rate method.

Bank loans

Interest bearing bank loans are recorded at the proceeds received less capital repayments made. Finance charges are accounted for on an accruals basis in the income statement using the effective interest rate method. They are included within accruals to the extent that they are not settled in the period in which they arise.

Provisions

Provisions are created where the group has a present obligation (legal or constructive) as a result of a past event where it is probable that the group will be required to settle that obligation at the balance sheet date. Provisions are only discounted to present value where the effect is material.

Net debt

Net debt is defined as cash and cash equivalents, bank and other loans including finance lease obligations and derivative financial instruments stated at current fair value.

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Revenue recognition

Revenue

Revenue represents the fair value of the consideration received and receivable for services provided and goods supplied to third party customers. In respect of long term contracts and contracts for on-going services, revenue is recognised as the contract progresses on the basis of work completed. Revenue excludes value added tax.

Investment and interest income

Dividend income is recognised in the income statement when the shareholder's right to receive payment has been established. Interest income from bank deposit accounts is accrued on a time basis calculated by reference to the principal on deposit and effective interest rate applicable.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into pounds sterling at the financial reporting period end rates.

The results of overseas subsidiary undertakings, associates and trade investments are translated into pounds sterling at average rates for the period unless exchange rates fluctuate significantly during that period in which case exchange rates at the date of transactions are used. The closing balance sheets are translated at the period end rates and the exchange differences arising are transferred to the group's translation reserve as a separate component of equity and are reported within the Statement of Recognised Income and Expense. All other exchange differences are included within the Income Statement in the period.

Operating profit

Operating profit is defined as the profit for the period from continuing operating costs and income but before income from other participating interests, finance income, finance costs, other gains and losses and taxation. Operating profit is disclosed as a separate line on the face of the income statement.

Finance costs

Finance costs are recognised in the income statement on the accruals basis in the period in which they occurred.

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3. Segmental information

Classes of business		Turnover continuing operations £	Operating (loss) continuing operations £	Net assets £
Industrial:				
Six months to 30th September	2008	3,046,362	(575,678)	(156,236)
Six months to 30th September	2007	3,596,443	(341,535)	469,822
Year to 31st March	2008	8,371,601	(760,572)	76,701
Leisure:				
Six months to 30th September	2008	1,890,479	40,043	6,331,065
Six months to 30th September	2007	1,610,210	46,245	5,572,552
Year to 31st March	2008	3,068,659	(161,224)	6,051,359
Management and investment:				
Six months to 30th September	2008	9,250	182,498	1,144,187
Six months to 30th September	2007	11,500	(480,398)	818,658
Year to 31st March	2008	18,500	(874,074)	(218,998)
Total:				
Six months to 30th September	2008	4,946,091	(353,137)	5,030,642
Six months to 30th September	2007	5,218,153	(775,688)	6,861,032
Year to 31st March	2008	11,458,760	(1,795,870)	5,909,062
Geographical segments				
United Kingdom:				
Six months to 30th September	2008	3,306,299	(630,522)	(1,237,612)
Six months to 30th September	2007	3,507,316	(680,012)	925,189
Year to 31st March	2008	7,645,587	(1,685,617)	(125,684)
Malta, Tanzania and Rest of the World:				
Six months to 30th September	2008	1,639,792	277,385	6,268,254
Six months to 30th September	2007	1,710,837	(95,676)	5,935,843
Year to 31st March	2008	3,813,173	(110,253)	6,034,746
Total:				
Six months to 30th September	2008	4,946,091	(353,137)	5,030,642
Six months to 30th September	2007	5,218,153	(775,688)	6,861,032
Year to 31st March	2008	11,458,760	(1,795,870)	5,909,062

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4. Earnings per share

The earnings per share has been calculated by reference to the weighted average number of ordinary shares of 10p each in issue of 8,192,980 which excludes own shares held.

5. Called-up share capital

	30th September 2008	30th September 2007	31st March 2008
	£	£	£
Authorised: 60,000,000 ordinary shares of 10p each	6,000,000	6,000,000	6,000,000
Issued and fully paid: 8,335,414 ordinary shares of 10p each	833,541	833,541	833,541

The company retains as treasury shares 142,434 ordinary shares.

6. Cash generated from operations

	Six months ended 30th September 2008	Six months ended 30th September 2007	Year ended 31st March 2008
	£	£	£
Operating loss	(353,137)	(775,688)	(1,795,870)
Goodwill impairment	-	-	565,087
Depreciation	176,888	163,110	294,266
(Profit) loss on sale of property, plant and equipment	(886)	-	154
Loss (profit) on sale of current asset investments	4,833	(11,984)	(37,034)
Fair value movement of investments	161,122	28,551	343,203
Provision on current asset investments	16,920	67,895	16,920
Exchange differences	(595,511)	6,902	(232,359)
Cashflow from operations before movements in working capital	(589,771)	(521,214)	(845,633)
(Increase) decrease in stocks	(8,764)	(45,010)	23,750
Lease prepayment released	3,174	3,174	6,348
Decrease in trade and other receivables	472,155	781,133	1,436,463
(Decrease) in trade and other payables	(164,304)	(290,428)	(1,335,825)
Cash generated from operations	(287,510)	(72,345)	(714,897)

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7. Cash and cash equivalents

	30th September 2008 £	30th September 2007 £	31st March 2008 £
Cash at bank and in hand	99,107	223,394	413,458
Deposit accounts	539,309	2,942	2,722
	<u>638,416</u>	<u>226,336</u>	<u>416,180</u>

Deposit accounts comprise short term bank deposits with an original maturity of three months or less.

8. Analysis of net debt

Cash and cash equivalents	638,416	226,336	416,180
Bank loans and overdraft	(1,748,310)	(824,946)	(1,517,909)
	<u>(1,109,894)</u>	<u>(598,610)</u>	<u>(1,101,729)</u>
Bank loans - non-current	(2,337,489)	(1,759,857)	(2,007,148)
Obligations under finance leases	(126,451)	(112,938)	(148,307)
Other loans	(658,856)	(653,459)	(652,754)
	<u>(4,232,690)</u>	<u>(3,124,864)</u>	<u>(3,909,938)</u>

9. Distribution of interim financial statements

A copy of these interim financial statements is available from the company's registered office and is also available on the company's website.