

Redhall Group plc

Adoption of International Financial Reporting Standards

Redhall Group plc ("Redhall" or "the Group"), the specialist engineering support services group has previously prepared its financial statements using United Kingdom Generally Accepted Accounting Practice ("UK GAAP") but will report its results for the year ending 30 September 2008 under International Financial Reporting Standards ("IFRS").

The Group's first published financial statements under IFRS will be for the six month period ending 31 March 2008, which will include comparative numbers for the six month period ended 31 March 2007 and also for the year ended 30 September 2007 restated to IFRS from UK GAAP. Redhall's date of transition to IFRS was 1 October 2006.

The Directors have prepared a document ("Transition Document") which explains the impact of the adoption of IFRS on the trading results and net assets of the Group. The Transition Document, which can be viewed on the Group's website (www.redhallgroup.co.uk/ir-pr.asp), shows that the adoption of IFRS has not, overall, had a material impact. Other than presentational differences for both periods, the most significant impact has been a reduction in amortisation charges, an increase in the tax charge and a decrease in the deferred tax asset on the balance sheet for the year ended 30 September 2007. For the period ended 31 March 2007 the most material impact has been a decrease in amortisation charges and a decrease in the deferred tax asset on the balance sheet. The Group's adjusted diluted earnings per share are reduced under IFRS due to an increase in the tax charge because of the differing treatment of deferred tax under IFRS compared with UK GAAP.

The adoption of IFRS has no effect on the Group's strategy, cash flows or net debt position.

The following table summarises the impact of IFRS on key elements of the Group's results:

	Year ended 30 September 2007		Period ended 31 March 2007	
	UK GAAP audited £'000	IFRS unaudited £'000	UK GAAP unaudited £'000	IFRS unaudited £'000
Consolidated income statement				
Revenue	57,049	57,049	22,268	22,268
Operating profit	2,211	2,324	784	793
Adjusted EBITA*	2,467	2,467	918	918
Profit before tax	2,169	2,282	760	769
Adjusted PBTA**	2,425	2,425	894	894
Basic earnings per share (pence per share)	11.02p	11.42p	4.67p	4.75p
Diluted earnings per share (pence per share)	10.75p	11.14p	4.53p	4.61p
Adjusted diluted earnings per share (pence per share)***	12.14p	11.72p	4.71p	4.71p
Consolidated balance sheet				
Net assets	17,962	17,907	4,600	4,333
Net (debt)/cash	(1,294)	(1,294)	1,025	1,025
Consolidated statement of cash flows				
Cash generated from operations****	2,583	2,583	675	675

*Adjusted EBITA comprises profit on ordinary activities before interest, tax, amortisation of intangible assets and share based payment charge.

** Adjusted PBTA comprises profit before tax, amortisation of intangible assets and share based payment charge.

***Adjusted to exclude the effect of the amortisation of intangible assets and share based payment charge.

****Adjusted to exclude special pension contribution.

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Transition to International Financial Reporting Standards

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1 Introduction

Redhall has previously prepared its consolidated financial statements in accordance with UK GAAP. Following changes in EU legislation and the AiM rules, Redhall will prepare its consolidated financial statements for all accounting periods beginning on or after 1 October 2007 in accordance with IFRS and will also restate comparative information in accordance with IFRS.

This document explains how the Group's balance sheets reported under UK GAAP at 1 October 2006 (the date of transition to IFRS ("transition date")), 31 March 2007 and 30 September 2007 would have been reported under IFRS. The document also explains how the Group's results reported under UK GAAP for the period ended 31 March 2007 and year ended 30 September 2007 would have been reported under IFRS. Although the adoption of IFRS has no impact on cash flows, the format of the cash flow statement will change. Accordingly, for completeness, IFRS cash flow statements have also been included for the period ended 31 March 2007 and year ended 30 September 2007.

The Group's accounting policies, updated for IFRS, are set out in Section 5.

The adoption of IFRS by the Group has had the following main impacts on the financial statements:

- Intangible assets acquired through business combinations since 1 October 2006 are separately reported and amortised over their useful economic lives. Purchased goodwill arising on those acquisitions is not amortised, but rather is subject to impairment reviews at least annually.
- Deferred tax liabilities are established in connection with intangible assets acquired through business combinations and are released as the intangible assets are amortised.
- Deferred tax assets and liabilities are recognised for the estimated future tax effects of temporary differences between the tax basis of an asset or liability and its basis in the financial statements. Such deferred tax assets and liabilities have arisen principally in connection with property revaluations and share based payments.

2 Basis of preparation and first time adoption of IFRS

The UK GAAP information used in this document has been extracted from the Group's financial statements for the years ended 30 September 2006 and 30 September 2007, both of which contained unqualified audit reports and from the Group's Interim Report for the period ended 31 March 2007, which was unaudited. The adjustments to the UK GAAP information and IFRS restated financial information are provisional and unaudited.

The adjustments and IFRS financial information presented in this document have been prepared on the basis of:

- All IFRS and International Financial Reporting Interpretations Committee interpretations (“IFRICs”) issued and required to be adopted at the date of preparing this document.
- Accounting policies selected by the directors to be both suitable for the Group and which comply with each IFRS that is mandatory for accounting periods ending on 30 September 2008.
- A format of the primary financial statements which is appropriate for the Group, is helpful to users of the financial statements and complies with IAS 1 “Presentation of financial statements”.

However, changes in the financial information reported in this document may occur until the first set of audited IFRS financial statements are completed for the year ending 30 September 2008 as a consequence of:

- Amendments to existing IFRS and IFRICs.
- Issuance of new IFRS and IFRICs.
- Changes to accounting policies or the presentation of financial statements in the light of emerging industry consensus on the practical application of IFRS.

IFRS 1 “First Time Adoption of IFRS” sets out exemptions from the full requirements of IFRS for companies complying with them for the first time. Where material to the financial information presented, the choices made by the Group in respect of these optional exemptions have been described in Section 3 below.

3 Impact of transition from UK GAAP to IFRS

An explanation of the major adjustments arising from the transition to IFRS and the application of exemptions allowed under IFRS 1 are set out below.

3.1 IAS 1 - Presentation of financial statements

The format of primary financial statements under UK GAAP is governed by the Companies Act 1985. IAS 1 “Presentation of Financial Statements” is less prescriptive in terms of the items that are required to be disclosed. The transition to IFRS has resulted in the Group changing the format of its income statement, balance sheet and statement of cash flows.

The IFRS statement of cash flows will explain the change in cash and cash equivalents rather than just cash as under UK GAAP. Currently the Group has no short term investments that would fall into the IFRS definition of cash and cash equivalents. Although the format of the statement of cash flows will change, net cash flows are not impacted. A reconciliation of the net debt position will continue to be provided as additional information.

3.2 IFRS 3 - Business combinations

Business combinations completed before the transition date

IFRS 1 allows first time adopters not to apply IFRS 3 “Business Combinations” retrospectively. The Directors have availed themselves of this exemption and have not restated any business combinations prior to 1 October 2006. Goodwill arising in respect of acquisitions completed prior to the transition date had been fully amortised under UK GAAP and will remain so under IFRS.

Business combinations completed after the transition date

IFRS 3 has to be applied in full to acquisitions made on or after the transition date. It requires that goodwill is measured as the excess of cost of business combinations over the net fair value of identifiable assets, including intangible assets identified under IAS 38 (see below), liabilities and contingent liabilities. The standard states that goodwill should not be amortised, but should be subject to regular impairment reviews.

The Group has completed two acquisitions since the transition date, being Steels Engineering Services Limited and Steels Engineering and Design Limited (collectively "Steels") on 31 January 2007 and Jex Engineering Company Limited ("Jex") on 31 May 2007. The results for the period ended 31 March 2007 and year ended 30 September 2007 have been restated to reverse the goodwill amortisation charge recorded under UK GAAP of £18,000 and £219,000 respectively. The reversal of the goodwill amortisation charge has not affected the Group's tax charge, because goodwill amortisation is not a deductible expense for tax purposes. Impairment reviews of the goodwill arising under IFRS were carried out as at 31 March 2007 and 30 September 2007 in accordance with IAS 36 "Impairment of Assets" and it was concluded that there has not been any impairment loss.

A fair value adjustment was made to properties upon the acquisition of Jex. In accordance with IAS 12 "Income Taxes", a deferred tax liability has been recognised in respect of the surplus on revaluation with a corresponding increase in goodwill arising on acquisition.

3.3 IAS 38 - Intangible assets

IAS 38 applies, inter alia, to intangible assets acquired in business combinations accounted for under IFRS 3 and sets out the criteria under which they should be recognised and valued. It also requires that intangible assets with a finite life should be amortised over that life.

Intangible assets comprising customer contracts and customer relationships in connection with the acquisitions of Steels and Jex have been separately identified and valued (£531,000 and £1,062,000 respectively) and are now being amortised over their useful economic lives (10 years and 5 years respectively). The amortisation charge in relation to these assets was £9,000 for the period ended 31 March 2007 and £106,000 for the year ended 30 September 2007.

In accordance with IAS 12 "Income Taxes", a deferred tax liability has been recognised in relation to separately identifiable intangible assets and there has been a corresponding increase in the goodwill arising on acquisition. The deferred tax liability is amortised over the useful economic lives of the intangible assets to which it relates and amounted to £3,000 for the period ended 31 March 2007 and £30,000 for the year ended 30 September 2007.

3.4 Fixed assets - Revaluation of property, plant and equipment

Under UK GAAP, Redhall adopted a policy of periodic revaluation with regard to freehold land and buildings. These assets were last valued by independent valuers in September 2007. IFRS 1 permits previous UK GAAP revaluations of property, plant and equipment, at or before the date of transition to IFRS, to be treated as the deemed cost at the date of transition. However, it is currently the Directors intention to continue to revalue property on a regular basis.

3.5 IAS 19 - Employee benefits - Reclassification difference

In accordance with IAS 19, the Directors have reclassified the deferred tax asset arising on the defined benefit pension scheme deficit within non-current assets whereas previously under UK GAAP it was netted off against the pension scheme deficit.

3.6 IAS 12 - Deferred tax

IAS 12 requires deferred tax assets and liabilities to be recognised for the estimated future tax effects of temporary differences between the tax basis of an asset or liability and its basis in the financial statements that will result in taxable or deductible amounts in future periods when the carrying amount is recovered or settled. Temporary differences under IFRS are generally more comprehensive than timing differences recognised under UK GAAP. This has led to additional deferred tax liabilities being recognised on property related aspects under IFRS.

The group receives tax relief upon the exercise of share options, based on the excess of the market value of the option above exercise price. It is necessary to also recognise deferred tax on the expected future tax relief on share options not yet exercised. Under UK GAAP, the deferred tax asset recognised is restricted to the income statement charge for the period.

Under IFRS, there is no restriction on the amount of deferred tax asset which can be recognised in respect of the future tax relief on share options. However, the excess of the deferred tax recognised above the charge in the income statement is accounted for within equity.

The 2007 budget introduced the withdrawal of balancing allowances or balancing charges on the sale of an Industrial building, as well as outlining the future phased withdrawal of Industrial Buildings Allowances (“IBAs”). Under UK GAAP, it is necessary to reverse out any previously recorded deferred tax asset or liability in respect of Industrial Buildings allowances. Under IFRS, no adjustment is required until the phased withdrawal of IBAs is introduced in the Finance Act 2008. As such, the UK GAAP adjustment in respect of IBAs is required to be reversed under IFRS.

Deferred tax adjustments are summarised in the following table:

Adjustment	Charge to income statement in period	Charge to equity in period	Adjustment to transitional balance sheet	IFRS balance sheet position
	£'000	£'000	£'000	£'000
1 October 2006 and 31 March 2007:				
Property revaluations	-	-	(302)	(302)
Non-qualifying building	-	-	(38)	(38)
Share options	-	-	61	61
	-	-	(279)	(279)
30 September 2007:				
Property revaluations	-	(11)	(302)	(313)
Non-qualifying buildings	10	-	(38)	(28)
Share options	-	166	61	227
Reversal of UK GAAP IBA adjustment	(84)	-	-	(84)
	(74)	155	(279)	(198)

4 Restated primary financial statements

4.1 Consolidated income statement for the period ended 31 March 2007

	UK GAAP £'000	3.2 Goodwill amortisation £'000	3.3 Intangible assets amortisation £'000	IFRS £'000
Revenue	22,268			22,268
Cost of sales	(18,584)			(18,584)
Gross profit	3,684			3,684
Administrative expenses	(2,900)	18	(9)	(2,891)
Operating profit	784	18	(9)	793
Adjusted EBITA*	918			918
Exceptional item	(102)			(102)
Amortisation of intangible assets	(18)	18	(9)	(9)
Share based payments charge	(14)			(14)
Operating profit	784	18	(9)	793
Financial income	391			391
Financial expenses	(415)			(415)
Profit before tax	760	18	(9)	769
Adjusted PBTA**	894			894
Exceptional item	(102)			(102)
Amortisation of intangible assets	(18)	18	(9)	(9)
Share based payments charge	(14)			(14)
Profit before tax	760	18	(9)	769
Tax on profit on ordinary activities	(57)		3	(54)
Retained profit for the period	703	18	(6)	715
Basic EPS	4.67p			4.75p
Diluted EPS	4.53p			4.61p
Adjusted basic EPS***	4.86p			4.86p
Adjusted diluted EPS***	4.71p			4.71p

* Adjusted EBITA is earnings before interest, tax, exceptional items, amortisation of intangible assets and share based payments charges.

** Adjusted PBTA is profit before tax, exceptional items, amortisation of intangible assets and share based payments charges.

*** Adjusted EPS calculations reflect earnings before exceptional items, amortisation of intangible assets and share based payment charge.

4.2 Consolidated income statement for the year ended 30 September 2007

	UK GAAP £'000	3.2 Goodwill amortisation £'000	3.3 Intangible assets amortisation £'000	3.6 Taxation £'000	IFRS £'000
Revenue	57,049				57,049
Cost of sales	(47,349)				(47,349)
Gross profit	9,700				9,700
Administrative expenses	(7,489)	219	(106)		(7,376)
Operating profit	2,211	219	(106)		2,324
Adjusted EBITA*	2,467				2,467
Amortisation of intangible assets	(219)	219	(106)		(106)
Share based payments charge	(37)				(37)
Operating profit	2,211	219	(106)		2,324
Financial income	951				951
Financial expenses	(993)				(993)
Profit before tax	2,169	219	(106)		2,282
Adjusted PBTA**	2,425				2,425
Amortisation of intangible assets	(219)	219	(106)		(106)
Share based payments charge	(37)				(37)
Profit before tax	2,169	219	(106)		2,282
Tax on profit on ordinary activities	(264)		30	(74)	(308)
Retained profit for the year	1,905	219	(76)	(74)	1,974
Basic EPS	11.02p				11.42p
Diluted EPS	10.75p				11.14p
Adjusted basic EPS***	12.44p				12.02p
Adjusted diluted EPS***	12.14p				11.72p

* Adjusted EBITA is earnings before interest, tax, amortisation of intangible assets and share based payments charges.

** Adjusted PBTA is profit before tax, amortisation of intangible assets and share based payments charges.

*** Adjusted EPS calculations reflect earnings before amortisation of intangible assets and share based payment charge.

4.3 Consolidated balance sheet at 1 October 2006 (Transition date)

	UK GAAP	3.5 Pension deferred tax	3.6 Deferred tax	IFRS
	£'000	£'000	£'000	£'000
Assets				
Non-current assets				
Purchased goodwill	-			-
Intangible assets	-			-
Property, plant and equipment	2,543			2,543
Deferred tax assets	257	1,231	(279)	1,209
	2,800	1,231	(279)	3,752
Current assets				
Inventories	218			218
Trade and other receivables	9,873			9,873
Cash and cash equivalents	723			723
	10,814			10,814
Liabilities				
Current liabilities				
Trade and other payables	(8,737)			(8,737)
Current tax payable	-			-
Loans and borrowings	(14)			(14)
	(8,751)			(8,751)
Non-current liabilities				
Loans and borrowings	(8)			(8)
Retirement benefit obligations*	(2,871)	(1,231)		(4,102)
	(2,879)	(1,231)		(4,110)
Net assets excluding retirement benefit obligation and related deferred tax				
	4,855	-	(279)	4,576
Net assets				
	1,984	-	(279)	1,705
Shareholders equity				
Share capital	3,664			3,664
Share premium account	1,110			1,110
Merger reserve	294			294
Revaluation reserve	1,005		(302)	703
Other reserves	-			-
Retained earnings	(4,089)		23	(4,066)
	1,984	-	(279)	1,705

* A special contribution of £3 million was paid into the pension scheme during the year ended 30 September 2007 to resolve the actuarial deficit identified by the latest triennial valuation conducted at 5 April 2006.

4.4 Consolidated balance sheet at 31 March 2007

	UK GAAP	3.2 Goodwill amortisation	3.3 Intangible assets recognition	3.3 Deferred tax on intangible assets	3.3 Intangible assets amortisation	3.5 Pension deferred tax	3.6 Deferred tax	IFRS
	£'000					£'000	£'000	£'000
Assets								
Non-current assets								
Purchased goodwill	2,115	18	(531)	149				1,751
Intangible assets	-		531		(9)			522
Property, plant and equipment	2,663							2,663
Deferred tax assets	257			(149)	3	1,231	(279)	1,063
	5,035	18	-	-	(6)	1,231	(279)	5,999
Current assets								
Inventories	262							262
Trade and other receivables	13,374							13,374
Cash and cash equivalents	1,038							1,038
	14,674							14,674
Liabilities								
Current liabilities								
Trade and other payables	(12,245)							(12,245)
Current tax payable	(57)							(57)
Loans and borrowings	(13)							(13)
	(12,315)							(12,315)
Non-current liabilities								
Loans and borrowings	-							-
Retirement benefit obligations*	(2,794)					(1,231)		(4,025)
	(2,794)					(1,231)		(4,025)
Net assets excluding retirement benefit obligation and related deferred tax								
	7,394	18	-	-	(6)	-	(279)	7,127
Net assets								
	4,600	18	-	-	(6)	-	(279)	4,333
Shareholders equity								
Share capital	3,966							3,966
Share premium account	1,117							1,117
Merger reserve	2,042							2,042
Revaluation reserve	1,005						(302)	703
Other reserve	14							14
Retained earnings	(3,544)	18			(6)		23	(3,509)
	4,600	18	-	-	(6)	-	(279)	4,333
Equity shareholders funds								

* A special contribution of £3 million was paid into the pension scheme during the year ended 30 September 2007 to resolve the actuarial deficit identified by the latest triennial valuation conducted at 5 April 2006.

4.5 Consolidated balance sheet at 30 September 2007

	UK GAAP	3.2 Goodwill amortisation	3.3 Intangible assets recognition	3.3 Deferred tax on intangible assets	3.3 Intangible assets amortisation	3.5 Pension deferred tax	3.6 Deferred tax	IFRS
	£'000					£'000	£'000	£'000
Assets								
Non-current assets								
Purchased goodwill	10,908	219	(1,593)	446			105	10,085
Intangible assets	78		1,593		(106)			1,565
Property, plant and equipment	4,391							4,391
Deferred tax assets	931			(446)	30	181	(303)	393
	16,308	219	-	-	(76)	181	(198)	16,434
Current assets								
Inventories	303							303
Trade and other receivables	21,609							21,609
Cash and cash equivalents	3,658							3,658
	25,570							25,570
Liabilities								
Current liabilities								
Trade and other payables	(18,450)							(18,450)
Current tax payable	(48)							(48)
Loans and borrowings	(125)							(125)
	(18,623)							(18,623)
Non-current liabilities								
Loans and borrowings	(4,827)							(4,827)
Retirement benefit obligations*	(466)					(181)		(647)
	(5,293)					(181)		(5,474)
Net assets excluding retirement benefit obligation and related deferred tax								
	18,428	219	-	-	(76)	-	(198)	18,373
Net assets								
	17,962	219	-	-	(76)	-	(198)	17,907
Shareholders equity								
Share capital	5,331							5,331
Share premium account	1,116							1,116
Merger reserve	12,679							12,679
Revaluation reserve	1,117						(313)	804
Other reserve	37							37
Retained earnings	(2,318)	219			(76)		115	(2,060)
	17,962	219	-	-	(76)	-	(198)	17,907

* A special contribution of £3 million was paid into the pension scheme during the year ended 30 September 2007 to resolve the actuarial deficit identified by the latest triennial valuation conducted at 5 April 2006.

4.6 Consolidated statement of cash flows

	Period ended 31 March 2007 £'000	Year ended 30 September 2007 £'000
Cash flows from operating activities		
Profit after taxation	715	1,974
Adjustments for:		
Depreciation	148	349
Amortisation of intangible assets	9	106
Difference between pension charge and cash contributions	(133)	(185)
Profit on sale of property, plant and equipment	-	(1)
Share based payments charge	14	37
Financial income	(391)	(951)
Financial expenses	415	993
Taxation expense recognised in income statement	54	308
Increase in trade and other receivables	(2,326)	(2,857)
Increase in inventories	(44)	(25)
Increase in trade and other payables	2,214	2,835
Cash generated from operations before special pension contribution	675	2,583
Special pension contribution	-	(3,000)
Cash generated from operations	675	(417)
Interest paid	(3)	(136)
Income taxes paid	-	(602)
Net cash from operating activities	672	(1,155)
Cash flows from investing activities		
Acquisition of Steels and Jex businesses net of cash acquired	(16)	(102)
Purchase of property, plant and equipment	(236)	(487)
Purchase of intangible assets	-	(78)
Proceeds from sale of equipment	-	8
Interest received	35	163
Net cash used in investing activities	(217)	(496)
Cash flows from financing activities		
Proceeds from issue of share capital	27	27
Proceeds from long-term borrowing	-	5,000
Cost of long-term borrowing	-	(57)
Payment of finance lease liabilities	(9)	(13)
Dividends paid	(158)	(371)
Net cash used in financing activities	(140)	4,586
Net increase in cash and cash equivalents	315	2,935
Cash and cash equivalents at beginning of period	723	723
Cash and cash equivalents at end of period	1,038	3,658

5 Accounting policies

The principal accounting policies applied in the preparation of this consolidated financial information are set out below.

Basis of preparation

The consolidated financial information has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards in issue and as adopted by the European Union ("EU") and are effective at 30 September 2008 or are expected to be adopted and effective at 30 September 2008, our first annual reporting date at which we are required to use IFRS accounting standards adopted by the EU.

The financial statements have been prepared under the historical cost convention except that they have been modified to include the revaluation of certain non-current assets. The measurement bases and principal accounting policies of the Group are set out below.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in section 3 above, and the reconciliation of opening balances is set out in section 4 above. The date of transition to IFRS was 1 October 2006 ("transition date").

The Group has taken advantage of certain exemptions available under IFRS 1 "First-time Adoption of International Financial Reporting Standards". The exemptions used are explained under the respective accounting policies.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in this financial information. These accounting policies comply with each IFRS that is expected to be mandatory for accounting periods ending on 30 September 2008.

The financial information set out in this Transition Document does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 30 September 2007, prepared under UK GAAP, have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain statements under Section 237(2) or Section 237(3) of the Companies Act 1985.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to the period end. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 “Business Combinations” retrospectively to business combinations prior to date of transition.

Accordingly the classification of the combination (acquisition) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

Goodwill

Goodwill, representing the excess of the cost of each acquisition over the fair value of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

Goodwill written off to reserves prior to date of transition to IFRS remains in reserves. There is no re-instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding trade discounts and VAT. Revenue is recognised upon the performance of services or transfer of risk to the customer.

Revenue from contracts is recognised in accordance with the Group’s accounting policy on contracts (see below).

Contracts

Revenue from fixed-price contracts represents the sales value of work done in the period. Profit is recognised where the final outcome of the contract can be assessed with a reasonable degree of certainty. Profit is calculated by reference to the degree of completion of the contract expressed as the percentage of costs incurred to total anticipated costs. Full provision is made for known or anticipated losses at the time they are forecast.

Revenue from cost-plus contracts represents the sales value of work done calculated as the direct costs incurred in the period plus the agreed mark-up for overhead and profit. Any irrecoverable costs are written off as incurred.

Variations in contract work and claims are only included to the extent that they are agreed with the client or there is reasonable assurance of their recovery.

The gross amounts due from customers for contract work are stated at cost plus recognised profits, less provision for recognised losses and progress billings. The balance is shown as due from clients on contracts within trade and other receivables. However, if progress billings exceed cost plus profits, less provision for recognised losses, the balance is shown as due to clients on contracts within trade and other payables.

Interest

Interest receivable or payable is credited or charged to the income statement using the effective interest method.

Intangible assets

Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs incurred are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include materials costs and employee costs incurred on product development along with an appropriate portion of relevant overheads.

Amortisation commences upon completion of the asset, and is included in administrative expenses.

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new products are continuously monitored by the Directors.

Assets acquired as part of a business combination

In accordance with IFRS 3 “Business Combinations”, an intangible asset acquired in a business combination is deemed to have a cost to the Group comprising its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. Where the individual fair value of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives.

Amortisation commences when the intangible asset is first available for use and is provided at rates calculated to write off the cost of each intangible asset over its expected useful life. Amortisation charges are included in administrative expenses.

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction. Leasehold property is included in property, plant and equipment only where it is held under a finance lease.

Borrowing costs on property, plant and equipment under construction are expensed as incurred.

Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale or revaluation of held for sale assets is included in "other income" or "other expense" in the income statement. Any revaluation surplus remaining in equity on disposal of the asset is transferred to retained earnings.

Assets carried at valuation

The only classes of asset that are carried at valuation are freehold and long leasehold property. Revaluation is to fair value. Fair value is determined in appraisals by external professional valuers once every three years, unless market-based factors indicate a material change in value. Any revaluation surplus is credited to "revaluation reserve" in equity, unless the carrying amount has previously suffered a revaluation decrease or impairment loss. To the extent that any decrease has previously been recognised in the income statement, a revaluation increase is recognised in the income statement, with the remaining part of the increase charged to equity. Downward revaluations are recognised upon appraisal or impairment testing, with the decrease being charged against any revaluation surplus in equity relating to this asset and any remaining decrease recognised in the income statement.

Depreciation

Depreciation is calculated to write down the cost or valuation less estimated residual value of all property, plant and equipment other than freehold land by equal annual instalments over their estimated useful economic lives. The rates or periods generally applicable are:

Freehold properties	2%
Leasehold properties	Period of lease
Plant and machinery	10% to 33.3%
Furniture, fixtures and fittings	10% to 20%
Computers and electronic equipment	10% to 20%
Motor vehicles	25%

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Non-current assets classified as held for sale

Assets held for sale include assets that the Group intends and expects to sell within one year from the date of classification as held for sale. Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortisation.

Leased assets

Finance leases which transfer substantially all the risks and rewards related to the ownership of the leased asset to the Group are capitalised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the Group. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is calculated using the first in first out method.

Provision is made for obsolescence or other losses where necessary.

Taxation

Income tax comprises current tax which is the tax currently payable based on taxable profit for the period; and deferred tax which is provided on temporary differences between the carrying amount of assets and liabilities in the financial statements and the amounts used for taxation purposes.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income.

Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Financial instruments

Financial instruments are classified into different categories by management on initial recognition. Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group and their accounting treatment are as follows:

Trade receivables are measured initially at fair value and subsequently measured at amortised cost using the effective interest rate. Irrecoverable amounts are charged to the income statement when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The quantum of the irrecoverable amount is determined as the difference between the asset's carrying amount and the present value of estimated cash flows.

Cash and cash equivalents comprise cash in hand, on demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Interest bearing bank loans and overdrafts are initially stated at fair value, being the amounts received after deduction of issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured initially at fair value and subsequently measured at amortised cost using the effective interest rate.

A financial asset is derecognised only where the contractual rights to cash flows from the asset expire, or the financial asset is transferred and that transfer qualifies for derecognition. A transfer qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains or transfers substantially all of the risks and rewards of ownership but does transfer control of that asset.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Financial instruments - hedging activities

Derivative financial instruments are used by the Group mainly for the management of its foreign currency and interest rate exposures.

The Group enters into forward foreign exchange contracts to reduce its exposure to movements in the future value of foreign currency receipts and payments.

Hedge accounting is not applied and movements in the fair value of derivative instruments are recognised in cost of sales within the income statement.

Dividends

Dividends are recorded in the Group's consolidated financial statements in the period in which they are approved by the Company's shareholders.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Merger reserve" represents the excess over nominal value of the fair value of consideration received for equity shares allotted in connection with the acquisition of subsidiary undertakings, net of expenses of the share allotment.
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Revaluation reserve" represents gains and losses due to the revaluation of property.
- "Retained earnings" represents retained profits.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise.

Employee benefits

Defined contribution pension scheme

The Group operates a number of defined contribution pension schemes. Contributions to these schemes are charged to the income statement as incurred.

Defined benefit pension scheme

The Group operates one defined benefit pension scheme, the Booth Industries Group PLC Staff Pension and Life Assurance Scheme, which was closed to new entrants in 1997. The Scheme's assets are measured at fair values. The Scheme's liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability. Appropriate adjustments are made for unrecognised actuarial gains or losses and past service costs. Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that benefits are already vested the Group recognises past service cost immediately.

Actuarial gains and losses are recognised immediately through the statement of recognised income and expense (SORIE). The net surplus or deficit is presented with other net assets on the balance sheet. The related deferred tax is shown with other deferred tax balances. A surplus is recognised only to the extent that it is recoverable by the Group.

The current service cost, past service cost and costs from settlements and curtailments are charged against administrative expenses. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs.

Share-based payment

Equity settled share-based payment

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 October 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Provision is made for employer National Insurance contributions on options granted under unapproved share options schemes over the period from the date of grant to the first date upon which the option could be exercised.

Exceptional items

Exceptional items are amounts charged or credited to the Income Statement and which are non-recurring and sufficiently material to warrant separate disclosure.

[End]