Zytronic plc

Implementation of International Financial Reporting Standards and Restatement of Financial Information

Contents

Sections

	Introduction	2
	Summary of impact	3
	Independent Auditors' Report	4
	Consolidated Income Statement	6
	Consolidated Balance Sheet	7
	Consolidated Statement of Recognised Income and Expense	8
	Note 1: IFRS Accounting Policies	9
	Note 2: Explanation of key UK GAAP to IFRS differences	17
	Note 3: Reconciliation of group equity from UK GAAP to IFRS	19
	Note 4: Reconciliation of movements in group equity	20

Appendices

1	Consolidated Balance Sheet at 30 September 2006	21
2	Consolidated Balance Sheet at 30 September 2007	22
3	Consolidated Income Statement for the year ended 30 September 2007	23
4	Consolidated Balance Sheet at 31 March 2007	24
5	Consolidated Income Statement for the six months ended 31 March 2007	25

Introduction

This report details the key changes to Zytronic plc (Zytronic) consolidated financial statements arising from the transition to International Financial Reporting Standards ("IFRS"). There is no change to the group's underlying operations under IFRS and no impact on the group's cash flow.

The group's first full year results under IFRS will be published for the year ending 30 September 2008, with comparative results for 2007 also restated to IFRS. The transition date for conversion to IFRS is therefore 1 October 2006. IFRSs are subject to amendment and interpretation by the IASB and there is an ongoing process of review and endorsement by the European Union. IFRS in this document refers to standards that have been, or are expected to be, issued by the IASB, endorsed by the European Union and are applicable to the group for the year ending 30 September 2008.

This report provides a narrative explanation and reconciliations between IFRS and previously reported financial information under UK Generally Accepted Accounting Policies (UK GAAP) as at 30 September 2006, 31 March 2007 and 30 September 2007. The group's accounting policies have been amended, where applicable, to comply with IFRS.

The interim statement to 31 March 2008, announced concurrently with this report on 29 May 2008, has also been prepared in accordance with the accounting policies that the group expects to apply in its 2008 year end financial statements.

The restatement of the annual financial statements for the year to 30 September 2007 and the transition balance sheet at 30 September 2006 have been audited and the auditors' report is included in this document. The interim results for the period to 31 March 2007 are not reviewed by Ernst & Young LLP and accordingly no opinion has been given on the restatement of the interim results for the period to 31 March 2007.

Zytronic intends to apply IFRS only to its consolidated accounts. The financial statements of the parent company and subsidiaries will continue to be reported in accordance with UK GAAP.

The directors are responsible for the preparation of the IFRS Transition Report and the financial information set out in the appendices to it, which was approved by the Board on 22 May 2008.

Summary of impact

The significant issues relating to IFRS that impact the group's financial statements can be summarised as follows:

Decrease in profit after tax for the year ended 30 September 2007 of £7,000, comprising:

- Reversal of goodwill amortisation of £21,000;
- Movement in holiday pay accrual of £21,000; and
- Impact of IAS 12 on tax balances totalling £49,000, primarily relating to the deferred tax treatment of share based payment charges.

Increase in profit after tax for the six months ended 31 March 2007 of £43,000, comprising:

- Reversal of goodwill amortisation of £11,000;
- Movement in holiday pay accrual of £19,000; and
- Impact of IAS 12 on tax balances totalling £13,000.

The net effect of the application of IFRS is to increase net assets by £1,000 at 30 September 2007, by £92,000 at 31 March 2007 and by £60,000 at 30 September 2006,

Further details explaining these adjustments are given in Note 2 on page 17.

Independent Auditors' Report

Independent Auditors' Report to the Company on the preliminary IFRS Financial Statements for the year ended 30 September 2007

We have audited the accompanying preliminary International Financial Reporting Standards ("IFRS") financial statements of the group for the year ended 30 September 2007 which comprise the opening IFRS Consolidated Balance Sheet as at 30 September 2006, the Consolidated Income Statement and the Consolidated Statement of Recognised Income and Expense for the year ended 30 September 2007 and the Consolidated Balance Sheet as at 30 September 2007, together with the related accounting policies and notes set out on pages 9 to 16.

This report is made solely to the company in accordance with our engagement letter dated 16 April 2008. Our audit work has been undertaken so that we might state to the company those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

These preliminary IFRS financial statements are the responsibility of the company's directors and have been prepared as part of the company's conversion to IFRS. They have been prepared in accordance with the basis set out in Notes 1 and 2, which describe how IFRS have been applied under IFRS 1, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 30 September 2008.

Our responsibility is to express an independent opinion on the preliminary IFRS financial statements based on our audit. We read the other information accompanying the preliminary IFRS financial statements and consider whether it is consistent with the preliminary IFRS financial statements. This other information comprises the Introduction, Summary of impact, Reconciliation of group equity from UK GAAP to IFRS and Reconciliation of movements in group equity and Appendices 1 to 5 on pages 21 to 25. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary IFRS financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary IFRS financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the preliminary IFRS financial statements for the year ended 30 September 2007 have been prepared, in all material respects, in accordance with the basis set out in Notes 1 and 2, which describe how IFRS have been applied under IFRS 1, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 30 September 2008.

Independent Auditors' Report

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, under IFRS only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the group's financial position, results of operations and cash flows in accordance with IFRS.

Ernst & Young LLP
Newcastle upon Tyne
27 May 2008

Notes :

1. The maintenance and integrity of the Zytronic plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

	Six months to 31 Mar 2007 Unaudited £'000	*Year to 30 Sep 2007 Audited £'000*
Group revenue	**5,960**	**11,437**
Cost of sales	(4,090)	(7,971)
Gross profit	**1,870**	**3,466**
Distribution costs	(108)	(197)
Administrative expenses	(1,288)	(2,556)
Group operating profit	**474**	**713**
Other operating income	16	36
Group operating profit from continuing operations	**490**	**749**
Finance costs	(38)	(73)
Finance revenue	6	7
Profit from continuing operations before taxation	**458**	**683**
Tax expense	(77)	(149)
Profit for the period from continuing operations	**381**	**534**

Earnings per share

- basic	2.6p	3.6p
- diluted	2.6p	3.6p

Consolidated Balance Sheet

	30 Sep 2006 Audited £'000	*31 Mar 2007 Unaudited £'000*	*30 Sep 2007 Audited £'000*
Assets			
Non-current assets			
Property, plant and equipment	3,737	3,918	5,208
Intangible assets	2,120	2,104	2,122
Trade and other receivables	-	-	194
	5,857	6,022	7,524
Current assets			
Inventories	1,706	1,871	1,828
Trade and other receivables	2,852	2,586	2,767
Cash and short term deposits	931	403	317
	5,489	4,860	4,912
Total assets	**11,346**	**10,882**	**12,436**
Equity and liabilities			
Current liabilities			
Trade and other payables	(1,167)	(812)	(1,376)
Financial liabilities	(653)	(312)	(621)
Accruals and deferred income	(466)	(494)	(399)
Taxation liabilities	(28)	-	-
	(2,314)	(1,618)	(2,396)
Non-current liabilities			
Financial liabilities	(658)	(624)	(1,340)
Deferred tax liabilities	(266)	(432)	(479)
	(924)	(1,056)	(1,819)
Total liabilities	**(3,238)**	**(2,674)**	**(4,215)**
Net assets	**8,108**	**8,208**	**8,221**
Capital and reserves			
Equity share capital	146	146	147
Share premium	6,450	6,450	6,473
Revenue reserve	1,512	1,612	1,601
Equity shareholders' funds	**8,108**	**8,208**	**8,221**

Consolidated Statement of Recognised Income and Expense

	Six months to 31 Mar 2007 Unaudited £'000	*Year to 30 Sep 2007 Audited £'000*
Income and expense recognised directly in equity		
Tax recognised directly in equity	(11)	(52)
Net income recognised directly in equity	(11)	(52)
Profit for the period	381	534
Total recognised income and expense for the period	**370**	**482**

Note 1: IFRS Accounting Policies

Basis of preparation

This report has been prepared using those IFRSs that the group expects to be endorsed and applicable when its first IFRS financial statements are prepared for the year ending 30 September 2008.

The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand pound (£'000) except where otherwise indicated.

Previously the group reported under UK GAAP. The accounting policies used in this statement are consistent with those expected to be applied in the September 2008 annual report. The interim report for the six months ended 31 March 2008 represents the group's first interim financial statements prepared using these accounting policies.

Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the Directors to make judgements and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported income and expense during the period. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ from those estimates.

In the process of applying the group's accounting policies, the Directors have made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Taxation

The company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with HMRC. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with HMRC.

Impairment of non-financial assets

The group assesses whether there are any indicators of impairment as at the transition date and thereafter for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Share-based payments

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The estimation of the share-based payment cost requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs which arise from judgements relating to the probability of meeting non-market performing performance conditions and the continuing participation of employees.

Note 1: IFRS Accounting Policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Development costs

Development costs are capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone.

Basis of consolidation and goodwill

The consolidated financial statements comprise the financial statements of Zytronic plc and its subsidiaries as at 30 September each year.

All intra-group balances and transactions, including unrealised profits arising from them, are eliminated.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases.

Acquisitions are accounted for using the purchase method. Goodwill arising on acquisitions is initially measured at cost, being the excess of the cost of the acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, is capitalised and classified as an asset on the balance sheet and is not amortised. Goodwill recognised as an asset as at 30 September 2006 is recorded at its carrying amount under UK GAAP and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated.

When subsidiaries are sold, the difference between the selling price and the net assets plus un-impaired goodwill is recognised in the consolidated income statement.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Note 1: IFRS Accounting Policies (continued)

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment charges. Such costs include those directly attributable to making the asset capable of operating as intended and the cost of replacing significant parts of such plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is provided on all property, plant and equipment other than freehold land at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:-

Freehold property	-	50 years
Short leasehold property	-	over the term of the lease
Plant and machinery	-	varying rates between 5% and 25% per annum

Any gain or loss arising on disposal of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted, if appropriate.

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's fair value, or the cash generating unit's fair value of which it forms part, less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is deemed to be their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Other than capitalised development costs, internally generated intangible assets are not capitalised.

Intangible assets are amortised on a straight line basis over their useful economic lives and reviewed for impairment at each financial year end. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset. The estimated useful lives are as follows:-

Licences	-	period of licensing agreements (10 and 17 years)
Capitalised development expenditure	-	4 to 10 years

Note 1: IFRS Accounting Policies (continued)

Research and development costs

Research expenditure is written off as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested annually for impairment. Following the initial recognition of the development expenditure, the cost model (as defined in IFRS) is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials and consumables	–	purchase cost on a first-in, first-out basis;
Finished goods and work in progress	–	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an initial maturity of three months or less. Bank overdrafts are shown within financial liabilities in current liabilities on the balance sheet. For the purpose of the cash flow statement cash and cash equivalents comprise these balances, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

Note 1: IFRS Accounting Policies (continued)

Derecognition of financial assets and liabilities

A financial asset or financial liability is derecognised when the contract that gives rise to it is discharged, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Pension and other post-employment benefits

The group operates a group personal pension scheme, which is a defined contribution scheme, for its employees. Contributions are recognised in the income statement as they become payable in accordance with the rules of the scheme.

Leases

Group as a lessee

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

The same policy is adopted for assets acquired under hire purchase arrangements.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Assets leased under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Share-based payment transactions

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Note 1: IFRS Accounting Policies (continued)

Share-based payment transactions (continued)

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

IFRS 2 'Share-based Payments' has only been applied to grants of equity instruments after 7 November 2002 that had not vested at 1 October 2006. For awards granted before 7 November 2002, the group recognises only the intrinsic value or cost of these potential awards as an expense. This is accrued over the performance period of each plan based on the intrinsic value of the equity settled awards.

Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. This is when the goods have been dispatched or made available to the customer, an invoice has been raised for them and the group's obligations to the customer have been met. There is not usually any significant delay between the occurrence of these three events.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes. Appropriate provisions for returns are deducted from revenue.

Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with, normally when a grant claim has been approved by the Government authority and the grant monies have been received. The fair value of grants is credited to a deferred income account and released to the income statement over the life of the projects to which they relate.

Note 1: IFRS Accounting Policies (continued)

Royalty payments

Under the terms of its patent licence, Zytronic Displays Limited (‘ZDL’) pays royalties to the patent owner on the value of the touch sensors which it sells. An agreed annual payment is made by monthly instalment under the licence.

In the event that the actual quarterly royalties due from ZDL exceed the payments on account for that quarter, ZDL pays the balance to the patent owner.

In the event that the payments on account for that quarter exceed the actual royalties due to that date, the excess payment is treated by ZDL as a prepayment of royalties that will become due in the future. Similarly, should the annual agreed payment be in excess of the royalties due for the year, the difference is rolled over and deducted from future years’ royalty calculations.

Management reviews its forecasts of future sales to determine whether any impairment has occurred which might affect the carrying value of the prepayment.

From 1 January 2008, and for each subsequent calendar year, the annual payment will increase either by the greater of RPI or to the level of the previous year’s actual royalties.

Deferred tax

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the related asset or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Note 1: IFRS Accounting Policies (continued)

New standards and interpretations not applied

IASB and IFRIC have issued the following standards and interpretations which are not mandatory for the financial year ending 30 September 2008:

International Accounting Standards (IAS / IFRSs)		***Effective date****
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

IAS 23 has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional provisions in the Standard, the group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date for capitalisation on or after 1 January 2009. No changes will be made for borrowing costs incurred prior to this date that have been expensed.

Whilst the revised IAS 1 will have no impact on the measurement of the group's results or net assets, it is likely to result in certain changes in the presentation of the group's financial statements from 2009 onwards.

IFRS 8 requires disclosure based on information presented to the board. Whilst this is not expected to change the business segments about which information is given, the secondary segment information will be replaced by group-wide analysis of revenues and non-current assets by major geographic area. We anticipate that we will have certain customers that individually account for more than 10% of total revenues.

Note 2: Explanation of key UK GAAP to IFRS differences

First time adoption (IFRS1)

In accordance with the requirements of IFRS1 'First-time Adoption of International Financial Reporting Standards', the group is subject to a number of voluntary and mandatory exemptions from full restatement to the requirements of IFRS, which have been applied as follows:

- IFRS 2 'Share-based Payments' has only been applied to grants of equity instruments after 7 November 2002 that had not vested at 1 October 2006.
- The group has taken the option not to apply IFRS 3 'Business Combinations' retrospectively to acquisitions that occurred prior to 1 October 2006.

IFRS 3 - Business combinations

IFRS 3 does not permit the annual amortisation of goodwill, but does require an annual impairment review of carrying values. Under UK GAAP goodwill was amortised over the anticipated useful economic life of the transaction giving rise to the goodwill. Goodwill amortisation of £21,000 has been reversed in the year ended 30 September 2007 and £11,000 in the six months to 31 March 2007.

IAS 12 – Income taxes

Under UK tax legislation relating to share-based payments, corporation tax is recovered on the excess of the value of the shares on the date of exercise over the option price paid. Under IFRS 2, the cumulative expense recognised is based on the grant date fair value of those options. Accordingly under IAS 12, a temporary difference exists to the extent that the exercise price on outstanding options as at the balance sheet date differs from their grant date fair value. The requirement to recognise such a temporary difference applies even in cases where (because the options vested before 1 October 2006) no charge has been made under IFRS 2. As a result an additional deferred tax asset of £87,000 has been recognised as at 30 September 2006. Movements after that date giving rise to an additional asset of £11,000 as at 30 September 2007 and an asset of £95,000 as at 31 March 2007 have been taken to the income statement and equity, in accordance with IAS 12.

The deferred tax temporary difference on industrial buildings under IAS 12 gives rise to an increase of £18,000 in the deferred tax liability at 30 September 2007 (£Nil at 31 March 2007 and 30 September 2006) compared to the timing difference under UK GAAP.

IAS 19 – Employee benefits

IAS 19 requires an entity to recognise a liability when an employee has provided service in exchange for benefits that arise in the future. Holiday pay provisions for salaried employees were not accounted for under UK GAAP but now give rise to an adjustment under IFRS. The value of this adjustment in the financial statements is £18,000 at 30 September 2007, £20,000 at 31 March 2007 and £39,000 at 30 September 2006. In accordance with IAS 12 above, a deferred tax asset of £5,000, £6,000 and £12,000 has been recognised respectively at each of these balance sheet dates.

IAS 38 – Intangible assets

Under IAS 16 some items of software, which do not meet the criteria for recognition as plant and equipment have been reclassified as intangible assets. The adjustment was £142,000 at 30 September 2007, £128,000 at 31 March 2007 and £94,000 at 30 September 2006.

Note 2: Explanation of key UK GAAP to IFRS differences (continued)

IAS1 - Presentation of financial statements

IAS1 requires the split between current and non-current assets and liabilities on the face of the balance sheet. As a result the reconciliations set out in note 3 include adjustments to reclassify assets and liabilities where required and provides a summary of the key reconciling items set out in appendices 1 to 5.

Cash balances have been reclassified to gross up for negative balances on various bank accounts, which had been netted off in the UK GAAP financial statements.

In addition, the layout and presentation of the cash flow statement in the 2008 Annual Report will be amended in accordance with IAS 7, which will show cash flows analysed between operating, investing and finance activities.

Note 3: Reconciliation of group equity from UK GAAP to IFRS

	30 Sep 2006 Audited £'000	*31 Mar 2007 Unaudited £'000*	*30 Sep 2007 Audited £'000*
Shareholders' equity under UK GAAP	8,048	8,116	8,220
Adjustments to conform with IFRS:			
IFRS 3- Non-amortisation of goodwill	-	11	21
IAS 12 – Tax credit/(charge) on share-based payments, employee benefits and change in treatment of IBA's	99	101	(2)
IAS 19 – Employee benefits – holiday provision	(39)	(20)	(18)
Total equity under IFRS	8,108	8,208	8,221

Note 4: Reconciliation of movements in group equity

Year ended 30 September 2007	Equity share capital	Share premium	Revenue Reserve	Total
At 1 October 2006	146	6,450	1,512	8,108
Total recognised income and expense	-	-	482	482
Exercise of share options	1	23	-	24
Share based payment	-	-	46	46
Dividends	-	-	(439)	(439)
At 30 September 2007	147	6,473	1,601	8,221

Six month period ended 31 March 2007	Equity share capital	Share premium	Revenue Reserve	Total
At 1 October 2006	146	6,450	1,512	8,108
Total recognised income and expense	-	-	370	370
Share based payment	-	-	23	23
Dividends	-	-	(293)	(293)
At 31 March 2007	146	6,450	1,612	8,208

Appendix 1: Consolidated Balance Sheet at 30 September 2006

	Previously reported under UK GAAP	Reclassification	IAS 19 Employee benefits	IAS 12 Deferred tax on share based payments and employee benefits	30 Sep 06 Restated under IFRS (audited)
	£'000	£'000	£'000	£000	£'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	3,831	(94)	-	-	3,737
Intangible assets	2,026	94	-	-	2,120
	5,857	-	-	-	5,857
CURRENT ASSETS					
Inventories	1,706	-	-	-	1,706
Trade and other receivables	2,852	-	-	-	2,852
Cash and short term deposits	493	438	-	-	931
	5,051	438	-	-	5,489
TOTAL ASSETS	10,908	438	-	-	11,346
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	(1,167)	-	-	-	(1,167)
Financial liabilities	(215)	(438)	-	-	(653)
Accruals and deferred income	(427)	-	(39)	-	(466)
Taxation liabilities	(28)	-	-	-	(28)
	(1,837)	(438)	(39)	-	(2,314)
Non-current liabilities					
Financial liabilities	(658)	-	-	-	(658)
Deferred tax liabilities	(365)	-	-	99	(266)
	(1,023)	-	-	99	(924)
TOTAL LIABILITIES	(2,860)	(438)	(39)	99	(3,238)
NET ASSETS	8,048	-	(39)	99	8,108
CAPITAL AND RESERVES					
Equity share capital	146	-	-	-	146
Share premium	6,450	-	-	-	6,450
Revenue reserves	1,452	-	(39)	99	1,512
Equity shareholders' funds	8,048	-	(39)	99	8,108

Appendix 2: Consolidated Balance Sheet at 30 September 2007

	Previously reported under UK GAAP	Reclassification	IFRS 3 Goodwill amortisation	IAS 19 Employee benefits	IAS 12 Deferred tax on share based payments, employee benefits and change in treatment of IBA's	30 Sep 07 Restated under IFRS (audited)
	£'000	£'000	£'000	£'000	£000	£'000
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	5,350	(142)	-	-	-	5,208
Intangible assets	1,959	142	21	-	-	2,122
Trade and other receivables	194	-	-	-	-	194
	7,503	-	21	-	-	7,524
CURRENT ASSETS						
Inventories	1,828	-	-	-	-	1,828
Trade and other receivables	2,767	-	-	-	-	2,767
Cash and short term deposits	140	177	-	-	-	317
	4,735	177	-	-	-	4,912
TOTAL ASSETS	12,238	177	21	-	-	12,436
EQUITY AND LIABILITIES						
Current liabilities						
Trade and other payables	(1,376)	-	-	-	-	(1,376)
Financial liabilities	(444)	(177)	-	-	-	(621)
Accruals and deferred income	(381)	-	-	(18)	-	(399)
	(2,201)	(177)	-	(18)	-	(2,396)
Non-current liabilities						
Financial liabilities	(1,340)	-	-	-	-	(1,340)
Deferred tax liabilities	(477)	-	-	-	(2)	(479)
	(1,817)	-	-	-	(2)	(1,819)
TOTAL LIABILITIES	(4,018)	(177)	-	(18)	(2)	(4,215)
NET ASSETS	8,220	-	21	(18)	(2)	8,221
CAPITAL AND RESERVES						
Equity share capital	147	-	-	-	-	147
Share premium	6,473	-	-	-	-	6,473
Revenue reserves	1,600	-	21	(18)	(2)	1,601
Equity shareholders' funds	8,220	-	21	(18)	(2)	8,221

Appendix 3: Consolidated Income Statement for the year ended 30 September 2007

	Previously reported under UK GAAP	Reclassification	IFRS 3 Goodwill amortisation	IAS 19 Employee benefits	IAS 12 Deferred tax on share based Payments, employee benefits and change in treatment of IBA's	30 Sep 07 restated under IFRS (audited)
	£'000	£'000	£'000	£'000	£000	£'000
GROUP REVENUE	11,434	3	-	-	-	11,437
Cost of sales	(7,989)	(3)	21	-	-	(7,971)
GROSS PROFIT	3,445	-	21	-	-	3,466
Distribution Costs	(197)	-	-	-	-	(197)
Administrative Expenses	(2,541)	(36)	-	21	-	(2,556)
GROUP OPERATING PROFIT	707	(36)	21	21	-	713
Other operating income	-	36	-	-	-	36
GROUP OPERATING PROFIT FROM CONTINUING OPERATIONS	707	-	21	21	-	749
Finance costs	(73)	-	-	-	-	(73)
Finance revenue	7	-	-	-	-	7
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION	641	-	21	21	-	683
Tax expense	(100)	-	-	-	(49)	(149)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	541	-	21	21	(49)	534

Appendix 4: Consolidated Balance Sheet at 31 March 2007

	Previously reported under UK GAAP	Reclassification	IFRS 3 Goodwill amortisation	IAS 19 Employee benefits	IAS 12 Deferred tax on employee benefits and share based payments	31-Mar-07 Restated under IFRS (unaudited)
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	4,046	(128)	-	-	-	3,918
Intangible assets	1,965	128	11	-	-	2,104
	6,011	-	11	-	-	6,022
CURRENT ASSETS						
Inventories	1,871	-	-	-	-	1,871
Trade and other receivables	2,586	-	-	-	-	2,586
Cash and short term deposits	191	212	-	-	-	403
	4,648	212	-	-	-	4,860
TOTAL ASSETS	10,659	212	11	-	-	10,882
EQUITY AND LIABILITIES						
Current liabilities						
Trade and other payables	(812)	-	-	-	-	(812)
Financial liabilities	(100)	(212)	-	-	-	(312)
Accruals and deferred income	(474)	-	-	(20)	-	(494)
	(1,386)	(212)	-	(20)	-	(1,618)
Non-current liabilities						
Financial liabilities	(624)	-	-	-	-	(624)
Deferred tax liabilities	(533)	-	-	-	101	(432)
	(1,157)	-	-	-	101	(1,056)
TOTAL LIABILITIES	(2,543)	(212)	-	(20)	101	(2,674)
NET ASSETS	8,116	-	11	(20)	101	8,208
CAPITAL AND RESERVES						
Equity share capital	146	-	-	-	-	146
Share premium	6,450	-	-	-	-	6,450
Revenue reserves	1,520	-	11	(20)	101	1,612
Equity shareholders' funds	8,116	-	11	(20)	101	8,208

Appendix 5: Consolidated Income Statement for the six months ended 31 March 2007

	Previously reported under UK GAAP	Reclassification	IFRS 3 Goodwill amortisation	IAS 19 Employee benefits	IAS 12 Deffered tax on employee benefits and share based payments	31 Mar 07 restated under IFRS (unaudited)
	£'000	£'000	£'000	£'000	£'000	£'000
GROUP REVENUE	5,960	-	-	-	-	5,960
Cost of sales	(4,101)	-	11	-	-	(4,090)
GROSS PROFIT	1,859	-	11	-	-	1,870
Distribution Costs	(108)	-	-	-	-	(108)
Administrative Expenses	(1,291)	(16)	-	19	-	(1,288)
GROUP OPERATING PROFIT	460	(16)	11	19	-	474
Other operating income	-	16	-	-	-	16
GROUP OPERATING PROFIT FROM CONTINUING OPERATIONS	460	-	11	19	-	490
Finance costs	(38)	-	-	-	-	(38)
Finance revenue	6	-	-	-	-	6
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION	428	-	11	19	-	458
Tax expense	(90)	-	-	-	13	(77)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	338	-	11	19	13	381