
pumping

# Andrews Sykes Group plc

# Interim Financial Statements 2007

air conditioning



heating

Interim Financial Statements 2007

**core business** core values

ANDREWS SYKES
GROUP PLC

www.andrews-sykes.com

ANDREWS AIR CONDITIONING

ANDREWS HEAT FOR HIRE

ANDREWS CHILLERS

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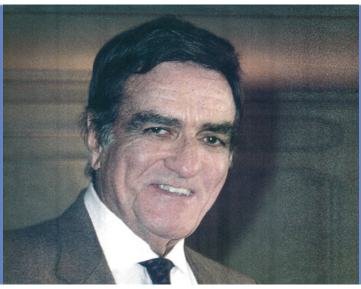

JG MURRAY Chairman

## Overview and financial highlights

I am pleased to be able to report that, despite unfavourable weather conditions, the underlying Group trading profit has been maintained at a similar level compared with the same period in 2006. This is due to our continuing cost control and diversification strategies which ensure that satisfactory results can be achieved even in the face of less than ideal trading conditions.

The financial highlights of this period compared with the first half of 2006 are as follows:

| | **2007**<br>**£'000** | 2006<br>£'000 |
|---|---|---|
| Revenue | **27,185** | 27,609 |
| Trading profit before pension curtailment charge | **5,665** | 5,442 |
| EBITDI* | **6,635** | 7,211 |
| Profit for the financial period | **2,857** | 3,340 |
| Adjusted basic earnings per share from continuing operations excluding pension curtailment charge | **7.88 pence** | 7.50 pence |
| Basic earnings per share from continuing operations | **6.41 pence** | 7.50 pence |
| Net cash inflow from operating activities | **3,414** | 3,691 |

* Earnings Before Interest, Taxation, Depreciation and Impairment provisions as reconciled on the face of the Consolidated Income Statement.

## Operations review

Continued close and detailed operational, marketing and financial management have delivered a very good result in the face of unhelpful climate conditions. We regard good customer relations as key to maintaining and developing market share in highly competitive markets. Thus the much lower temperatures in the UK in the early summer compared with 2006, though reducing our comfort air conditioning revenues, have not had a proportionate effect on our market share which has held up in difficult times.

We have also started, very cautiously, using our group expertise and resources to open new depots in Holland and Belgium as well as a company specialising in air conditioning in Florida, USA. Initial results from these start ups are encouraging.

## Pension curtailment offer

During the financial period an offer was made to all deferred members of our defined benefit pension scheme giving them the opportunity to transfer their accrued pension rights to an alternative pension scheme provider. Whilst it will take several months for this offer to be finalised, the anticipated financial effects have been reflected in these interim financial statements.

In summary it is expected that the cash cost to the group will be approximately £4.6 million, of which £0.1 million had been paid by the period end, and this will be financed primarily by new bank borrowings. It is anticipated that the offer will result in a reduction in the pension scheme deficit of approximately £3.7 million and a charge to the income statement of £0.9 million.

## Prospects

The continuation of unfavourable weather conditions in the UK and Northern Europe has resulted in air conditioning revenues below those of the remarkable summer of 2006. We have however held onto our market share but lower temperatures have impacted on the opening months of the second half. Fortunately the pump division continues to perform well, ahead of both last year and our expectations.

Nevertheless, overall, I am confident that I will still be able to report a reasonable result for the second half of 2007.

**JG Murray**
*Chairman*
27 September 2007

# Consolidated Income Statement

For the 26 weeks ended 30 June 2007 (unaudited)

| | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | **27,185** | 27,609 | 59,768 |
| Cost of sales | **(12,696)** | (13,434) | (26,918) |
| **Gross profit** | **14,489** | 14,175 | 32,850 |
| Distribution costs | **(4,250)** | (4,433) | (9,471) |
| Administrative expenses | **(4,574)** | (4,300) | (8,107) |
| **Trading profit before pension curtailment charge** | **5,665** | 5,442 | 15,272 |
| Pension curtailment charge (see note 5) | **(934)** | – | – |
| **Operating profit** | **4,731** | 5,442 | 15,272 |
| **EBITDI*** | **6,635** | 7,211 | 18,887 |
| Depreciation and impairment losses | **(2,255)** | (2,012) | (4,153) |
| Profit on the sale of property, plant and equipment | **351** | 243 | 538 |
| **Operating profit** | **4,731** | 5,442 | 15,272 |
| Finance income | **1,480** | 1,197 | 2,277 |
| Finance costs | **(1,910)** | (1,855) | (3,549) |
| **Profit before taxation** | **4,301** | 4,784 | 14,000 |
| Taxation | **(1,444)** | (1,444) | (4,150) |
| **Profit for the period from continuing operations** | **2,857** | 3,340 | 9,850 |
| **Discontinued operations** | | | |
| Loss for the period from discontinued operations | **–** | – | (142) |
| **Profit for the financial period** | **2,857** | 3,340 | 9,708 |
| **Earnings per share from continuing operations** | | | |
| Basic (pence) | **6.41p** | 7.50p | 22.11p |
| Diluted (pence) | **6.41p** | 7.49p | 22.10p |
| **Earnings per share from total operations** | | | |
| Basic (pence) | **6.41p** | 7.50p | 21.79p |
| Diluted (pence) | **6.41p** | 7.49p | 21.79p |

* Earnings Before Interest, Taxation, Depreciation and Impairment provisions

As at 30 June 2007 (unaudited)

| | 30 June 2007 £'000 | 1 July 2006 £'000 | 31 December 2006 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | **15,340** | 13,205 | 15,201 |
| Goodwill | **–** | 31 | 31 |
| Lease prepayments | **224** | 234 | 229 |
| Trade investments | **164** | 164 | 164 |
| Deferred tax asset | **2,361** | 3,223 | 3,201 |
| Derivative financial instruments | **161** | – | 23 |
| | **18,250** | 16,857 | 18,849 |
| **Current assets** | | | |
| Stocks | **5,830** | 4,475 | 4,336 |
| Trade and other receivables | **15,318** | 14,528 | 16,217 |
| Cash and cash equivalents | **11,908** | 11,435 | 10,190 |
| Assets held for sale | – | 188 | – |
| | **33,056** | 30,626 | 30,743 |
| **Current liabilities** | | | |
| Trade and other payables | **(14,436)** | (8,560) | (10,108) |
| Current tax liabilities | **(1,343)** | (2,133) | (2,292) |
| Bank loans | **(5,000)** | (5,000) | (5,000) |
| Obligations under finance leases | **(233)** | (233) | (233) |
| Provisions | **(15)** | (495) | (24) |
| | **(21,027)** | (16,421) | (17,657) |
| **Net current assets** | **12,029** | 14,205 | 13,086 |
| **Total assets less current liabilities** | **30,279** | 31,062 | 31,935 |
| **Non-current liabilities** | | | |
| Bank loans | **(20,000)** | (25,000) | (20,000) |
| Obligations under finance leases | **(1,078)** | (1,214) | (1,147) |
| Retirement benefit obligations | **(2,190)** | (5,633) | (6,577) |
| | **(23,268)** | (31,847) | (27,724) |
| **Net assets / (liabilities)** | **7,011** | (785) | 4,211 |
| **Equity** | | | |
| Share capital | **446** | 446 | 446 |
| Retained earnings | **6,701** | (1,366) | 3,854 |
| Translation reserve | **(368)** | (97) | (321) |
| Other reserves | **222** | 222 | 222 |
| **Surplus / (deficit) attributable to the parent's shareholders** | **7,001** | (795) | 4,201 |
| Minority interest | **10** | 10 | 10 |
| **Total equity** | **7,011** | (785) | 4,211 |

# **Consolidated** Cash Flow Statement

For the 26 weeks ended 30 June 2007 (unaudited)

| | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | **5,259** | 5,356 | 15,935 |
| Interest paid | **(211)** | (877) | (1,591) |
| Net UK Corporation tax paid | **(1,352)** | (600) | (2,465) |
| Withholding tax paid | **(69)** | (52) | (52) |
| Overseas tax paid | **(213)** | (136) | (290) |
| **Net cash flow from operating activities** | **3,414** | 3,691 | 11,537 |
| **Investing activities** | | | |
| Disposal costs paid less consideration received on prior year disposals | **295** | (138) | (183) |
| Sale of property, plant and equipment | **389** | 342 | 526 |
| Purchase of property, plant & equipment | **(2,408)** | (2,804) | (7,067) |
| Interest received | **136** | 164 | 476 |
| **Net cash flow from investing activities** | **(1,588)** | (2,436) | (6,248) |
| **Financing activities** | | | |
| Loan repayments | **–** | – | (5,000) |
| Finance lease capital repayments | **(69)** | (64) | (131) |
| Purchase of own shares | **–** | (16) | (16) |
| Sale of own shares by ESOP | **–** | 4 | 4 |
| **Net cash flow from financing activities** | **(69)** | (76) | (5,143) |
| **Net increase in cash and cash equivalents** | **1,757** | 1,179 | 146 |
| Cash and cash equivalents at beginning of period | **10,190** | 10,342 | 10,342 |
| Effect of foreign exchange rate changes | **(39)** | (86) | (298) |
| **Cash and cash equivalents at end of period** | **11,908** | 11,435 | 10,190 |

## Reconciliation of net cash flow to movement in net debt in the period

| | | | |
|---|---|---|---|
| Net increase in cash and cash equivalents | **1,757** | 1,179 | 146 |
| Cash outflow from the decrease in debt | **69** | 64 | 5,131 |
| Non cash movements in the fair value of derivatives | **138** | – | 23 |
| **Movement in net debt during the period** | **1,964** | 1,243 | 5,300 |
| Opening net debt at the beginning of period | **(16,167)** | (21,169) | (21,169) |
| Effect of foreign exchange rate changes | **(39)** | (86) | (298) |
| **Closing net debt at the end of period** | **(14,242)** | (20,012) | (16,167) |

# **Consolidated** Statement of Recognised Income and Expense

For the 26 weeks ended 30 June 2007 (unaudited)

| | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
|---|---|---|---|
| Actual return less expected return on pension scheme assets | **–** | – | 636 |
| Experience gains and losses arising on plan obligation | **–** | – | (340) |
| Changes in demographic and financial assumptions underlying the present value of plan obligations | **–** | – | (1,937) |
| Currency translation differences on foreign currency net investments | **(46)** | (97) | (321) |
| Deferred tax on items posted directly to equity | **(11)** | – | 493 |
| **Net expense recognised directly in equity** | **(57)** | (97) | (1,469) |
| Profit for the period attributable to equity shareholders | **2,857** | 3,340 | 9,708 |
| **Total recognised income and expense for the period attributable to equity shareholders** | **2,800** | 3,243 | 8,239 |

ANDREWS AIR CONDITIONING ANDREWS HEAT FOR HIRE ANDREWS CHILLERS

## 1. General information

### Basis of preparation

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

The information for the 52 weeks ended 31 December 2006 does not constitute the Group's statutory accounts for 2006 as defined in Section 240 of the Companies Act 1985. Statutory accounts for 2006 have been delivered to the Registrar of Companies. The Auditors' report on those accounts was unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985. These interim Financial Statements, which were approved by the Board of Directors on 26 September 2007, have not been audited or reviewed by the Auditors.

The interim financial statement has been prepared using the historical cost basis of accounting except for:

i) Properties held at the date of transition to IFRS which are stated at deemed cost;

ii) Assets held for sale which are stated at the lower of fair value less anticipated disposal costs and carrying value and

iii) Derivative financial instruments (including embedded derivatives) which are valued at fair value.

### Functional and presentational currency

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

### First time adoption of International Financial Reporting Standards

This is the Group's first interim statement that has been prepared in accordance with IFRS. The Group's transition date for adoption of IFRS is 1 January 2006. An explanation of how the transition to IFRS has affected the Group's financial position at the date of transition, 1 July 2006 (the date of the last interim report prepared in accordance with UK GAAP) and 31 December 2006 (the last reporting date under UK GAAP) together with a reconciliation of the results for the 26 weeks ended 1 July 2006 and 52 weeks ended 31 December 2006 under UK GAAP to IFRS are given in note 11.

The Group has revised its accounting policies where applicable to conform with IFRS and the significant policies having an effect on the interim statement are set out below. These policies have been applied consistently to all the periods presented across all group companies and in preparing the opening balance sheet as at 1 January 2006 for the purpose of transition to IFRS.

The Group has taken advantage of the following exemptions on transition to IFRS as permitted by paragraph 13 of IFRS 1:

- The requirements of IFRS 3 – Business Combinations – have not been applied to business combinations that occurred before the date of transition to IFRS.

- The carrying values of freehold and leasehold properties are based on previously adopted UK GAAP valuations and these are now taken as deemed cost on transition to IFRS.

## 2. Significant accounting policies

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June 2007. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

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

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

### Business combinations and goodwill

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

In accordance with the options that are available under IFRS 1, the Group has elected not to apply IFRS 3 retrospectively to past business combinations that occurred before the date of transition to IFRS. Accordingly goodwill amounting to £37,206,000 that had previously been offset against reserves under UK GAAP has not been recognised in the opening IFRS balance sheet.

### Trade investments

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

### Property, plant and equipment

Property is carried at deemed cost at the date of transition to IFRS based on the previous UK GAAP valuations adopted in 1998. Plant and equipment held at the date of transition and subsequent additions to property, plant and equipment are stated at purchase cost including directly attributable costs. The Group does not have a revaluation policy.

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

| | |
|---|---|
| Property: | |
| Freehold buildings and long leasehold property | 2% |
| Short leasehold buildings | Period of the lease |

## 2. Significant accounting policies (continued)

| | |
|---|---|
| Equipment for hire: | |
| Heating, air conditioning and other environmental control equipment | 20% |
| Pumping equipment | 10% to 33% |
| Accessories | 33% |
| Motor vehicles | 20% to 25% |
| Plant and machinery | 7.5% to 33% |
| Fixtures and fittings | 20% |

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

## Leased assets

### Lessor accounting

The group does not hold any assets for hire under finance leases.

Assets held for use under operating leases are recorded as hire fleet assets within property, plant and equipment and are depreciated over their useful lives to their estimated residual value.

### Lessee accounting

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

As permitted by IFRS 1 at the date of transition to IFRS, the carrying value of long leasehold properties are based on the previous UK GAAP valuations adopted in 1998 and this has been taken as deemed cost.

Immaterial peppercorn rentals and ground rents in respect of all properties are expensed to the profit and loss account on an accruals basis.

The group does not have any items of plant and equipment financed by finance leases or similar hire purchase agreements.

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

## Non-current assets held for sale

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

## 2. Significant accounting policies (continued)

### Impairment of non-financial assets

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

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

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

### Deferred and current taxation

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

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

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

### Stocks

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

### Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

#### Derivative financial instruments and hedge accounting

The Group's borrowings are subject to floating rates based on LIBOR plus a margin of between 0.5% and 1.25%. The Group uses financial derivatives to cap the term loan (£20 million at 30 June 2007) exposure to LIBOR to a maximum of 5.5% throughout its term.

## 2. Significant accounting policies (continued)

The Group's policy is not to hedge its international assets with respect to foreign currency balance sheet translation exposure, nor against foreign currency transactions. The Group does not use financial instruments for speculative purposes.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts.

Derivative financial instruments are initially measured at cost and are remeasured at fair value at the balance sheet date. Changes in the fair value of derivative financial instruments that are designated and are effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

### Trade and other receivables

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

### Cash and cash equivalents

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

### Trade and other payables

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

### Bank loans

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

### Provisions

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

### Defined benefit retirement benefit costs

The interest cost and the expected return on assets are included within finance costs and finance income respectively within the income statement. Actuarial gains and losses are recognised immediately in the consolidated Statement of Recognised Income and Expense (SORIE).

## 2. Significant accounting policies (continued)

The defined benefit scheme is funded with the assets of the scheme held separately in trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained triennially and are updated at each year end balance sheet date in accordance with IAS 19. The assumptions used in the half year interim statements are normally consistent with the previous year end unless the directors are aware of any significant factors which would render these assumptions invalid.

Net defined benefit pension scheme deficits are presented separately on the balance sheet within non-current liabilities before tax relief. The attributable deferred tax asset is included within deferred tax and is subject to the recognition criteria as set out in the accounting policy on deferred and current taxation. Net defined benefit pension scheme surpluses are only recognised to the extent of any refunds and reductions in future contributions to the scheme.

## Net debt

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

## Revenue recognition

### Revenue

Revenue represents the fair value of the consideration received and receivable for the hire, sale and installation of environmental control products after deducting trade discounts and volume rebates. Revenue is recognised for sales on despatch of goods and for short term hire items on a straight line basis over the period of the hire. Installation revenue is recognised as the contract progresses on the basis of work completed. Revenue excludes Value added Tax.

### Investment and interest income

Dividend income is recognised in the income statement when the shareholder's right to receive payment has been established.

Interest income from bank deposit accounts is accrued on a time basis calculated by reference to the principal on deposit and the effective interest rate applicable.

## Foreign currencies

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

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

## Operating profit

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

## 2. Significant accounting policies (continued)

### Finance costs

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

## 3 Revenue

An analysis of the Group's revenue is as follows:

| | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Hire | **19,693** | 19,151 | 43,088 |
| Sales | **4,084** | 4,539 | 8,762 |
| Installations | **3,408** | 3,919 | 7,918 |
| Group consolidated revenue from the sale of goods and services | **27,185** | 27,609 | 59,768 |
| Finance income | **1,480** | 1,197 | 2,277 |
| **Gross consolidated revenue** | **28,665** | 28,806 | 62,045 |

## 4 Business and Geographical Segmental Analysis

### Explanation

The Group operates in the United Kingdom, Northern Europe, the United Arab Emirates and America providing the hire and sale of a range of environmental control equipment. It also installs fixed air conditioning equipment within the United Kingdom.

The directors consider that the nature of the risks and returns within the hire and sales market are comparable across the geographical sectors within which the group operates. However different risks and returns are faced by the fixed air conditioning installation business.

The Group hires and sells similar equipment to the same market from its depot network. The integrated nature of this operation does not permit a meaningful analysis of profit, assets or liabilities between hire and sales.

Principal business segment are therefore as follows:

The hire and sale of environmental control equipment – Hire & sales
The installation and maintenance of fixed air conditioning equipment – Fixed installation UK

Direct costs are allocated to each segment, central costs are included in unallocated overheads and expenses.

## 4 Business and Geographical Segmental Analysis (continued)

Principal geographical segments are:

United Kingdom
Rest of Europe
Middle East and Africa

The Group was also previously involved in the hire and sale of accommodation units and the sale of light engineering products in the UK. There were no sales of these products in either the current or preceding financial periods, the discontinued activities relate to adjustments made following the disposal of these businesses (see note 6 ).

Segmental information about these businesses is presented below. Inter segment sales are charged at arms length prices.

### Business Segments

**Income statement analysis**
**26 weeks ended 30 June 2007**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| External sales | 23,777 | 3,408 | 27,185 | – | 27,185 |
| Inter-segment sales | 42 | 7 | 49 | (49) | – |
| Total revenue | 23,819 | 3,415 | 27,234 | (49) | 27,185 |
| **Segment result** | 5,813 | 160 | 5,973 | (7) | 5,966 |
| Unallocated overheads and expenses | | | | | (301) |
| Pension curtailment charge | | | | | (934) |
| **Operating profit** | | | | | 4,731 |
| Finance income | | | | | 1,480 |
| Finance costs | | | | | (1,910) |
| **Profit before taxation** | | | | | 4,301 |
| Taxation | | | | | (1,444) |
| **Profit for the financial period** | | | | | 2,857 |

## 4 Business and Geographical Segmental Analysis (continued)

**Balance sheet information**
**As at 30 June 2007**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| Segment assets | 44,614 | 3,293 | 47,907 | (42) | 47,865 |
| Trade investments | | | | | 164 |
| Deferred tax asset | | | | | 2,361 |
| Derivative financial instruments | | | | | 161 |
| Unallocated corporate assets | | | | | 755 |
| **Consolidated total assets** | | | | | 51,306 |
| Segment liabilities | (12,670) | (1,147) | (13,817) | 42 | (13,775) |
| Current tax liabilities | | | | | (1,343) |
| Bank loans | | | | | (25,000) |
| Obligations under finance leases | | | | | (1,311) |
| Provisions | | | | | (15) |
| Pensions | | | | | (2,190) |
| Unallocated corporate liabilities | | | | | (661) |
| **Consolidated total liabilities** | | | | | (44,295) |

**Other information**
**26 weeks ended 30 June 2007**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| Capital additions | 2,380 | 28 | 2,408 | – | 2,408 |
| Depreciation | 2,156 | 68 | 2,224 | – | 2,224 |

## 4 Business and Geographical Segmental Analysis (continued)

**Income statement analysis**
**26 weeks ended 1 July 2006**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| External sales | 23,690 | 3,919 | 27,609 | – | 27,609 |
| Inter-segment sales | 47 | 12 | 59 | (59) | – |
| Total revenue | 23,737 | 3,931 | 27,668 | (59) | 27,609 |
| **Segment result** | 5,811 | 149 | 5,960 | (9) | 5,951 |
| Unallocated overheads and expenses | | | | | (509) |
| **Operating profit** | | | | | 5,442 |
| Finance income | | | | | 1,197 |
| Finance costs | | | | | (1,855) |
| **Profit before taxation** | | | | | 4,784 |
| Taxation | | | | | (1,444) |
| **Profit for the financial period** | | | | | 3,340 |

## 4 Business and Geographical Segmental Analysis (continued)

**Balance sheet information**
**As at 1 July 2006**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| Segment assets | 38,893 | 3,110 | 42,003 | (23) | 41,980 |
| Trade investments | | | | | 164 |
| Deferred tax asset | | | | | 3,223 |
| Assets held for sale | | | | | 188 |
| Unallocated corporate assets | | | | | 1,928 |
| **Consolidated total assets** | | | | | 47,483 |
| Segment liabilities | (7,052) | (1,168) | (8,220) | 23 | (8,197) |
| Current tax liabilities | | | | | (2,133) |
| Bank loans | | | | | (30,000) |
| Obligations under finance leases | | | | | (1,447) |
| Provisions | | | | | (495) |
| Pensions | | | | | (5,633) |
| Unallocated corporate liabilities | | | | | (363) |
| **Consolidated total liabilities** | | | | | (48,268) |

**Other information**
**26 weeks ended 1 July 2006**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| Capital additions | 2,800 | 5 | 2,805 | – | 2,805 |
| Depreciation | 1,922 | 90 | 2,012 | – | 2,012 |

## 4 Business and Geographical Segmental Analysis (continued)

**Income statement analysis**
**52 weeks ended 31 December 2006**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| External sales | 51,850 | 7,918 | 59,768 | – | 59,768 |
| Inter-segment sales | 109 | 16 | 125 | (125) | – |
| Total revenue | 51,959 | 7,934 | 59,893 | (125) | 59,768 |
| **Segment result** | 15,862 | 269 | 16,131 | (19) | 16,112 |
| Unallocated overheads and expenses | | | | | (840) |
| **Operating profit** | | | | | 15,272 |
| Finance income | | | | | 2,277 |
| Finance costs | | | | | (3,549) |
| **Profit before taxation** | | | | | 14,000 |
| Taxation | | | | | (4,150) |
| **Profit for the period from continuing operations** | | | | | 9,850 |
| Post tax profit for the period from discontinued operations | | | | | (142) |
| **Profit for the financial period after taxation and discontinued operations** | | | | | 9,708 |

## 4 Business and Geographical Segmental Analysis (continued)

**Balance sheet information**
**As at 31 December 2006**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| Segment assets | 41,591 | 3,543 | 45,134 | (345) | 44,789 |
| Trade investments | | | | | 164 |
| Deferred tax asset | | | | | 3,201 |
| Derivative financial instruments | | | | | 23 |
| Unallocated corporate assets | | | | | 1,415 |
| **Consolidated total assets** | | | | | 49,592 |
| Segment liabilities | (8,724) | (1,586) | (10,310) | 345 | (9,965) |
| Current tax liabilities | | | | | (2,292) |
| Bank loans | | | | | (25,000) |
| Obligations under finance leases | | | | | (1,380) |
| Provisions | | | | | (24) |
| Pensions | | | | | (6,577) |
| Unallocated corporate liabilities | | | | | (143) |
| **Consolidated total liabilities** | | | | | (45,381) |

**Other information**
**52 weeks ended 31 December 2006**

| | Hire & sales £'000 | Fixed installation £'000 | Sub total £'000 | Eliminations £'000 | Consolidated results £'000 |
|---|---|---|---|---|---|
| Capital additions | 7,060 | 7 | 7,067 | – | 7,067 |
| Depreciation | 3,984 | 169 | 4,153 | – | 4,153 |

## 4 Business and Geographical Segmental Analysis (continued)

### Geographical segments

The geographical analysis of the Group's revenue was as follows:

| | By origin | | | By destination | | |
|---|---|---|---|---|---|---|
| | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
| United Kingdom | **22,761** | 22,487 | 50,254 | **21,987** | 22,137 | 49,070 |
| Rest of Europe | **2,095** | 3,131 | 5,435 | **2,854** | 3,180 | 6,240 |
| Middle East and Africa | **2,172** | 1,991 | 4,079 | **2,173** | 2,027 | 4,116 |
| Rest of the world | **157** | – | – | **171** | 265 | 342 |
| | **27,185** | 27,609 | 59,768 | **27,185** | 27,609 | 59,768 |

The carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located are as follows:

| | Segment assets | | | Additions to property, plant and equipment | | |
|---|---|---|---|---|---|---|
| | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
| United Kingdom | **41,769** | 36,532 | 39,265 | **2,050** | 2,484 | 6,374 |
| Rest of Europe | **2,979** | 2,734 | 2,767 | **163** | 182 | 487 |
| Middle East and Africa | **2,876** | 2,714 | 2,757 | **111** | 139 | 206 |
| Rest of the world | **241** | – | – | **84** | – | – |
| | **47,865** | 41,980 | 44,789 | **2,408** | 2,805 | 7,067 |

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## 5 Pension curtailment charge

| | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
|---|---|---|---|
| Pension curtailment charge | **(934)** | – | – |

During the financial period an offer was made to all deferred members of the Andrews Sykes Group Pension Scheme (a closed defined benefit scheme) to transfer their accrued pension rights to an alternative pension scheme provider of their choice. Independent Financial Advice was made available free of charge to all deferred members. In summary the offer was to increase each individual member's transfer value by 40% compared with the amount that was then available from the scheme, this bonus could be paid either as a cash payment direct to the member or as an enhanced transfer value to the member's new pension scheme provider.

These interim financial statements include estimated reserves of the likely cost of this offer, including legal expenses, employment costs and curtailment settlement gains and losses. However as the process of transferring the member's pension rights was still in progress when these interim financial statements were prepared, the estimated liabilities will be recalculated in the year end financial statements.

It is currently estimated that the net cash outflow as a result of this offer will be approximately £4,582,000 of which £66,000 had been spent at 30 June 2007. The movement in the Retirement benefit obligation during the period is as follows:

| | **£'000** |
|---|---|
| Liability at the beginning of the period before deferred tax | 6,577 |
| Ordinary contributions paid during the period | (750) |
| Expected return on assets | (1,050) |
| Interest on liabilities | 1,061 |
| Anticipated effect of transfer value offer | (3,648) |
| Liability at the end of the period before deferred tax | 2,190 |

In accordance with the Group's accounting policies, the actuarial assumptions used to calculate the above obligation are those applied in the last annual report and financial statements. These assumptions will be reviewed in detail at the end of the financial year.

## 6 Discontinued activities

| | 26 weeks ended 30 June 2007 £'000 | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
|---|---|---|---|
| Adjustments directly related to prior period disposals | | | |
| Provisions for onerous lease commitments | **–** | – | 115 |
| Profit adjustments in respect of the sale of subsidiary undertakings | **–** | – | 27 |
| Loss for the period before taxation | **–** | – | 142 |
| Attributable tax charge | **–** | – | – |
| Loss for the period from discontinued operations | **–** | – | 142 |

During the 52 weeks ended 31 December 2005 the Group sold two subsidiary undertakings, Accommodation Hire Limited and Engineering Appliances Limited realising a combined profit on disposal of £6,564,000 under UK GAAP. During the 52 weeks ended 31 December 2006 certain adjustments were made to both the deferred consideration receivable and legal costs payable which resulted in the net charge of £27,000 under UK GAAP last year.

The Group has various onerous property lease commitments inherited from the Cox Plant business which was sold during 2002. During the previous financial years the directors re-assessed the level of provisions required in respect of these commitments and have accordingly adjusted the onerous lease provision. This resulted in a charge to the income statement of £115,000 under UK GAAP during the 52 weeks ended 31 December 2005.

Cash flows attributable to the above discontinued activities have been included within the following categories in the cash flow statement:

| | 26 weeks ended 30 June 2007 £'000 | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
|---|---|---|---|
| Investing activities | **295** | (138) | (183) |

## 7 Earnings per share

### Basic earnings per share

The basic figures have been calculated by reference to the weighted average number of ordinary shares in issue, excluding those in the ESOP reserve, and the earnings as set out below:

| | **26 weeks to 30 June 2007** | | |
|---|---|---|---|
| | **Continuing earnings £'000** | **Total earnings £'000** | **Number of shares** |
| Basic earnings/weighted average number of shares | **2,857** | **2,857** | **44,552,715** |
| Basic earnings per ordinary share (pence) | **6.41p** | **6.41p** | |

| | 26 weeks to 1 July 2006 | | |
|---|---|---|---|
| | Continuing earnings £'000 | Total earnings £'000 | Number of shares |
| Basic earnings/weighted average number of shares | 3,340 | 3,340 | 44,562,701 |
| Basic earnings per ordinary share (pence) | 7.50p | 7.50p | |

| | 52 weeks to 31 December 2006 | | |
|---|---|---|---|
| | Continuing earnings £'000 | Total earnings £'000 | Number of shares |
| Basic earnings/weighted average number of shares | 9,850 | 9,708 | 44,557,701 |
| Basic earnings per ordinary share (pence) | 22.11p | 21.79p | |

### Adjusted basic earnings per share excluding pension curtailment charge

The basic figures excluding the pension curtailment charge have been calculated by reference to the weighted average number of ordinary shares in issue, excluding those in the ESOP reserve, and the earnings as set out below:

| | **26 weeks to 30 June 2007** | | |
|---|---|---|---|
| | **Continuing earnings £'000** | **Total earnings £'000** | **Number of shares** |
| Basic earnings/weighted average number of shares | **2,857** | **2,857** | **44,552,715** |
| Add back pension curtailment charge net of tax | **654** | **654** | |
| Adjusted basic earnings/weighted average number of shares | **3,511** | **3,511** | **44,552,715** |
| Adjusted basic earnings per ordinary share (pence) excluding pension curtailment charge | **7.88p** | **7.88p** | |

The pension curtailment charge has no impact on the calculation of the basic earnings per ordinary share for either the 26 weeks ended 1 July 2006 or the 52 weeks ended 31 December 2006.

# 7 Earnings per share (continued)

## Diluted earnings per share

The calculation of the diluted earnings per ordinary share is based on the profits and shares as set out in the tables below. The share options have a dilutive effect for the period calculated as follows:

| | **26 weeks to 30 June 2007** | | |
|---|---|---|---|
| | **Continuing earnings £'000** | **Total earnings £'000** | **Number of shares** |
| Basic earnings/weighted average number of shares | **2,857** | **2,857** | **44,552,715** |
| Weighted average number of shares under option | | | **15,000** |
| Number of shares that would have been issued at fair value | | | **(8,001)** |
| Earnings/ diluted weighted average number of shares | **2,857** | **2,857** | **44,559,714** |
| Diluted earnings per ordinary share (pence) | **6.41p** | **6.41p** | |

| | 26 weeks to 1 July 2006 | | |
|---|---|---|---|
| | Continuing earnings £'000 | Total earnings £'000 | Number of shares |
| Basic earnings/weighted average number of shares | 3,340 | 3,340 | 44,562,701 |
| Weighted average number of shares under option | | | 16,194 |
| Number of shares that would have been issued at fair value | | | (13,369) |
| Earnings/ diluted weighted average number of shares | 3,340 | 3,340 | 44,565,526 |
| Diluted earnings per ordinary share (pence) | 7.49p | 7.49p | |

| | 52 weeks to 31 December 2006 | | |
|---|---|---|---|
| | Continuing earnings £'000 | Total earnings £'000 | Number of shares |
| Basic earnings/weighted average number of shares | 9,850 | 9,708 | 44,557,701 |
| Weighted average number of shares under option | | | 15,603 |
| Number of shares that would have been issued at fair value | | | (11,132) |
| Earnings/ diluted weighted average number of shares | 9,850 | 9,708 | 44,562,172 |
| Diluted earnings per ordinary share (pence) | 22.10p | 21.79p | |

## 7 Earnings per share (continued)

### Adjusted diluted earnings per share excluding pension curtailment charge

The calculation of the diluted earnings per ordinary share excluding the pension curtailment charge is based on the profits and shares as set out in the table below. The share options have a dilutive effect for the period calculated as follows:

| | 26 weeks to 30 June 2007 | | |
|---|---|---|---|
| | **Continuing earnings £'000** | **Total earnings £'000** | **Number of shares** |
| Basic earnings/weighted average number of shares | **2,857** | **2,857** | **44,552,715** |
| Add back pension curtailment charge net of tax | **654** | **654** | |
| Weighted average number of shares under option | | | **15,000** |
| Number of shares that would have been issued at fair value | | | **(8,001)** |
| Adjusted earnings/ diluted weighted average number of shares | **3,511** | **3,511** | **44,559,714** |
| Adjusted diluted earnings per ordinary share (pence) excluding pension curtailment charge | **7.88p** | **7.88p** | |

The pension curtailment charge has no impact on the calculation of the diluted earnings per ordinary share for either the 26 weeks ended 1 July 2006 or the 52 weeks ended 31 December 2006.

## 8 Share capital

| | **30 June 2007 £'000** | 1 July 2006 £'000 | 31 December 2006 £'000 |
|---|---|---|---|
| Authorised: | | | |
| 1,398,170,943 ordinary shares of one pence each | **13,982** | 13,982 | 13,982 |
| Issued and fully paid: | | | |
| 44,552,865 ordinary shares of one pence each *(1 July 2006: 44,552,865, 31 December: 44,552,865 ordinary shares of one pence each)* | **446** | 446 | 446 |

During the period the company did not buy back any shares for cancellation (26 weeks ended 1 July 2006: 15,000 shares).

The company has one class of ordinary shares which carry no right to fixed income.

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## 8 Share capital (continued)

At 30 June 2007 cash options to subscribe for ordinary shares under the executive share option scheme were held as follows:

| Date of Grant | Date normally exercisable | Subscription price per share | Number of one pence ordinary shares 30 June 2007 | 1 July 2006 | 31 December 2006 |
|---|---|---|---|---|---|
| November 2001 | November 2004 to October 2011 | 89.5 pence | **15,000** | 15,000 | 15,000 |

No share options were granted, forfeited or expired during either the current or previous financial periods.

No share options were exercised during the period.
*(26 weeks ended 1 July 2006: 5,000 share options on 16 February 2006 when the average share price was £1.115).*

## 9 Cash generated from operations

| | **26 weeks ended 30 June 2007 £'000** | 26 weeks ended 1 July 2006 £'000 | 52 weeks ended 31 December 2006 £'000 |
|---|---|---|---|
| Profit for the period attributable to equity shareholders | **2,857** | 3,340 | 9,708 |
| Adjustments for: | | | |
| Loss from discontinued operations | **–** | – | 142 |
| Taxation charge | **1,444** | 1,444 | 4,150 |
| Finance costs | **1,910** | 1,855 | 3,549 |
| Finance income | **(1,480)** | (1,197) | (2,277) |
| Profit on the sale of property, plant and equipment | **(351)** | (243) | (538) |
| Depreciation and amortisation | **2,224** | 2,012 | 4,153 |
| Impairment losses | **31** | – | – |
| Excess of pension contributions compared with service cost | **(750)** | (750) | (1,503) |
| Cash generated from operations before movements in working capital | **5,885** | 6,461 | 17,384 |
| (Increase) / decrease in stocks | **(1,493)** | 57 | 196 |
| Decrease / (increase) in trade and other receivables | **760** | (1,247) | (2,829) |
| Increase in trade and other payables | **116** | 59 | 1,544 |
| (Decrease) / increase in provisions | **(9)** | 26 | (360) |
| Cash generated from operations | **5,259** | 5,356 | 15,935 |

## 10 Analysis of net debt

| | 30 June 2007 £'000 | 1 July 2006 £'000 | 31 December 2006 £'000 |
|---|---|---|---|
| Cash and cash equivalents per cash flow statement | **11,908** | 11,435 | 10,190 |
| Derivative financial instruments | **161** | – | 23 |
| Financial assets | **161** | – | 23 |
| Bank loans | **(25,000)** | (30,000) | (25,000) |
| Obligations under finance leases | **(1,311)** | (1,447) | (1,380) |
| Financial liabilities | **(26,311)** | (31,447) | (26,380) |
| Net debt | **(14,242)** | (20,012) | (16,167) |

## 11 Explanation of transition to IFRS

This is the first period that the group has prepared its consolidated financial statements under IFRS. The following disclosures are required in the year of transition to explain the financial impact of adopting IFRS on the group. The last financial statements under UK GAAP were for the 52 weeks ended 31 December 2006 and the date of transition to IFRS was 1 January 2006.

### Reconciliation of equity as at 1 January 2006 (date of transition to IFRS)

| | UK GAAP £'000 | Reclass-ifications Note 1 £'000 | IFRS 1 First time adoption Note 2 £'000 | IAS 17 Leases Note 4 £'000 | IAS 19 Employee benefits Note 5 £'000 | IFRS £'000 |
|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | |
| Goodwill | 31 | – | – | – | – | 31 |
| Property, plant & equipment | 12,011 | – | – | 699 | – | 12,710 |
| Lease prepayments | – | – | – | 239 | – | 239 |
| Trade investments | 164 | – | – | – | – | 164 |
| Deferred tax asset | – | 2,672 | – | 169 | 17 | 2,858 |
| | 12,206 | 2,672 | – | 1,107 | 17 | 16,002 |
| **Current assets** | | | | | | |
| Stocks | 4,532 | – | – | – | – | 4,532 |
| Trade and other receivables | 13,929 | (772) | – | 10 | – | 13,167 |
| Cash and cash equivalents | 10,342 | – | – | – | – | 10,342 |
| | 28,803 | (772) | – | 10 | – | 28,041 |
| **Current liabilities** | | | | | | |
| Trade and other payables | (14,687) | 6,060 | – | – | – | (8,627) |
| Current tax liabilities | – | (1,060) | – | – | – | (1,060) |
| Bank loans | – | (5,000) | – | – | – | (5,000) |
| Obligations under finance leases | – | – | – | (233) | – | (233) |
| Provisions | – | (469) | – | – | – | (469) |
| | (14,687) | (469) | – | (233) | – | (15,389) |
| **Net current assets** | 14,116 | (1,241) | – | (223) | – | 12,652 |
| **Total assets less current liabilities** | 26,322 | 1,431 | – | 884 | 17 | 28,654 |
| **Non-current liabilities** | | | | | | |
| Bank loans | (25,000) | – | – | – | – | (25,000) |
| Obligations under finance leases | – | – | – | (1,278) | – | (1,278) |
| Pension liabilities | (4,434) | (1,900) | – | – | (58) | (6,392) |
| Provisions | (469) | 469 | – | – | – | – |
| | (29,903) | (1,431) | – | (1,278) | (58) | (32,670) |
| **Net liabilities** | (3,581) | – | – | (394) | (41) | (4,016) |
| **Equity** | | | | | | |
| Called-up share capital | 446 | – | – | – | – | 446 |
| ESOP reserve | (6) | – | – | – | – | (6) |
| Retained earnings | (4,994) | – | 741 | (394) | (41) | (4,688) |
| Revaluation reserve | 741 | – | (741) | – | – | – |
| Other reserves | 222 | – | – | – | – | 222 |
| **Deficit attributable to equity holders of the parent** | (3,591) | – | – | (394) | (41) | (4,026) |
| Minority interest | 10 | – | – | – | – | 10 |
| **Total equity** | (3,581) | – | – | (394) | (41) | (4,016) |

## 11 Explanation of transition to IFRS (continued)

### Reconciliation of equity as at 1 July 2006 (date of last UK GAAP Interim Statement)

| | UK GAAP £'000 | Reclass-ifications Note 1 £'000 | IFRS 1 First time adoption Note 2 £'000 | IFRS 3 Business combinations Note 3 £'000 | IAS 17 Leases Note 4 £'000 | IAS 19 Employee benefits Note 5 £'000 | IFRS 5 Asset held for sale Note 7 £'000 | IFRS £'000 |
|---|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | | |
| Goodwill | 24 | – | – | 7 | – | – | – | 31 |
| Property, plant & equipment | 12,741 | – | – | – | 652 | – | (188) | 13,205 |
| Lease prepayments | – | – | – | – | 234 | – | – | 234 |
| Trade investments | 164 | – | – | – | – | – | – | 164 |
| Deferred tax asset | – | 3,041 | – | – | 165 | 17 | – | 3,223 |
| | 12,929 | 3,041 | – | 7 | 1,051 | 17 | (188) | 16,857 |
| **Current assets** | | | | | | | | |
| Stocks | 4,475 | – | – | – | – | – | – | 4,475 |
| Trade and other receivables | 15,886 | (1,368) | – | – | 10 | – | – | 14,528 |
| Cash and cash equivalents | 11,435 | – | – | – | – | – | – | 11,435 |
| Assets held for sale | – | – | – | – | – | – | 188 | 188 |
| | 31,796 | (1,368) | – | – | 10 | – | 188 | 30,626 |
| **Current liabilities** | | | | | | | | |
| Trade and other payables | (8,560) | – | – | – | – | – | – | (8,560) |
| Current tax liabilities | (2,133) | – | – | – | – | – | – | (2,133) |
| Bank loans | (5,000) | – | – | – | – | – | – | (5,000) |
| Obligations under finance leases | – | – | – | – | (233) | – | – | (233) |
| Provisions | – | (495) | – | – | – | – | – | (495) |
| | (15,693) | (495) | – | – | (233) | – | – | (16,421) |
| **Net current assets** | 16,103 | (1,863) | – | – | (223) | – | 188 | 14,205 |
| **Total assets less current liabilities** | 29,032 | 1,178 | – | 7 | 828 | 17 | – | 31,062 |
| **Non-current liabilities** | | | | | | | | |
| Bank loans | (25,000) | – | – | – | – | – | – | (25,000) |
| Obligations under finance leases | – | – | – | – | (1,214) | – | – | (1,214) |
| Pension liabilities | (3,902) | (1,673) | – | – | – | (58) | – | (5,633) |
| Provisions | (495) | 495 | – | – | – | – | – | – |
| | (29,397) | (1,178) | – | – | (1,214) | (58) | – | (31,847) |
| **Net assets** | (365) | – | – | 7 | (386) | (41) | – | (785) |
| **Equity** | | | | | | | | |
| Called-up share capital | 446 | – | – | – | – | – | – | 446 |
| Retained earnings | (1,776) | 92 | 738 | 7 | (386) | (41) | – | (1,366) |
| Translation reserve | – | (97) | – | – | – | – | – | (97) |
| Revaluation reserve | 738 | – | (738) | – | – | – | – | – |
| Other reserves | 217 | 5 | – | – | – | – | – | 222 |
| **Surplus attributable to equity holders of the parent** | (375) | – | – | 7 | (386) | (41) | – | (795) |
| Minority interest | 10 | – | – | – | – | – | – | 10 |
| **Total equity** | (365) | – | – | 7 | (386) | (41) | – | (785) |

## 11 Explanation of transition to IFRS (continued)

### Reconciliation of equity as at 31 December 2006 (date of last UK GAAP Financial Statements)

| | UK GAAP £'000 | Reclass-ifications Note 1 £'000 | IFRS 1 First time adoption Note 2 £'000 | IFRS 3 Business combinations Note 3 £'000 | IAS 17 Leases Note 4 £'000 | IAS 39 Fair value adjustments Note 6 £'000 | IFRS £'000 |
|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | |
| Goodwill | 17 | – | – | 14 | – | – | 31 |
| Property, plant & equipment | 14,599 | – | – | – | 602 | – | 15,201 |
| Lease prepayments | – | – | – | – | 229 | – | 229 |
| Trade investments | 164 | – | – | – | – | – | 164 |
| Deferred tax asset | – | 3,046 | – | – | 162 | (7) | 3,201 |
| Derivative financial instruments | – | – | – | – | – | 23 | 23 |
| | 14,780 | 3,046 | – | 14 | 993 | 16 | 18,849 |
| **Current assets** | | | | | | | |
| Stocks | 4,336 | – | – | – | – | – | 4,336 |
| Trade and other receivables | 17,280 | (1,073) | – | – | 10 | – | 16,217 |
| Cash and cash equivalents | 10,190 | – | – | – | – | – | 10,190 |
| | 31,806 | (1,073) | – | – | 10 | – | 30,743 |
| **Current liabilities** | | | | | | | |
| Trade and other payables | (17,400) | 7,292 | – | – | – | – | (10,108) |
| Current tax liabilities | – | (2,292) | – | – | – | – | (2,292) |
| Bank loans | – | (5,000) | – | – | – | – | (5,000) |
| Obligations under finance leases | – | – | – | – | (233) | – | (233) |
| Provisions | – | (24) | – | – | – | – | (24) |
| | (17,400) | (24) | – | – | (233) | – | (17,657) |
| **Net current assets** | 14,406 | (1,097) | – | – | (223) | – | 13,086 |
| **Total assets less current liabilities** | 29,186 | 1,949 | – | 14 | 770 | 16 | 31,935 |
| **Non-current liabilities** | | | | | | | |
| Bank loans | (20,000) | – | – | – | – | – | (20,000) |
| Obligations under finance leases | – | – | – | – | (1,147) | – | (1,147) |
| Pension liabilities | (4,604) | (1,973) | – | – | – | – | (6,577) |
| Provisions | (24) | 24 | – | – | – | – | – |
| | (24,628) | (1,949) | – | – | (1,147) | – | (27,724) |
| **Net assets** | 4,558 | – | – | 14 | (377) | 16 | 4,211 |
| **Equity** | | | | | | | |
| Called-up share capital | 446 | – | – | – | – | – | 446 |
| Retained earnings | 3,153 | 312 | 736 | 14 | (377) | 16 | 3,854 |
| Translation reserve | – | (321) | – | – | – | – | (321) |
| Revaluation reserve | 736 | – | (736) | – | – | – | – |
| Other reserves | 213 | 9 | – | – | – | – | 222 |
| **Surplus attributable to equity holders of the parent** | 4,548 | – | – | 14 | (377) | 16 | 4,201 |
| Minority interest | 10 | – | – | – | – | – | 10 |
| **Total equity** | 4,558 | – | – | 14 | (377) | 16 | 4,211 |

## 11 Explanation of transition to IFRS (continued)

### Reconciliation of profit for the 26 weeks ended 1 July 2006

| | UK GAAP £'000 | Reclass-ifications Note 1 £'000 | IFRS 3 Business combinations Note 3 £'000 | IAS 17 Leases Note 4 £'000 | IAS 19 Employee benefits Note 5 £'000 | IAS 39 Fair value adjustments Note 6 £'000 | IFRS £'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | 27,609 | – | – | – | – | – | 27,609 |
| Cost of sales | (13,441) | – | 7 | – | – | – | (13,434) |
| **Gross profit** | 14,168 | – | 7 | – | – | – | 14,175 |
| Distribution costs | (4,433) | – | – | – | – | – | (4,433) |
| Administrative expenses | (4,372) | – | – | 72 | – | – | (4,300) |
| **Operating profit** | 5,363 | – | 7 | 72 | – | – | 5,442 |
| Finance income | 282 | – | – | – | 915 | – | 1,197 |
| Finance costs | (880) | – | – | (60) | (915) | – | (1,855) |
| **Profit before taxation** | 4,765 | – | 7 | 12 | – | – | 4,784 |
| Taxation | (1,440) | – | – | (4) | – | – | (1,444) |
| **Profit for the financial period** | 3,325 | – | 7 | 8 | – | – | 3,340 |

### Reconciliation of profit for the 52 weeks ended 31 December 2006

| | UK GAAP £'000 | Reclass-ifications Note 1 £'000 | IFRS 3 Business combinations Note 3 £'000 | IAS 17 Leases Note 4 £'000 | IAS 19 Employee benefits Note 5 £'000 | IAS 39 Fair value adjustments Note 6 £'000 | IFRS £'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | 59,768 | – | – | – | – | – | 59,768 |
| Cost of sales | (26,932) | – | 14 | – | – | – | (26,918) |
| **Gross profit** | 32,836 | – | 14 | – | – | – | 32,850 |
| Distribution costs | (9,471) | – | – | – | – | – | (9,471) |
| Administrative expenses | (8,458) | 206 | – | 145 | – | – | (8,107) |
| **Operating profit** | 14,907 | 206 | 14 | 145 | – | – | 15,272 |
| Finance income | 477 | – | – | – | 1,777 | 23 | 2,277 |
| Finance costs | (1,651) | – | – | (121) | (1,777) | – | (3,549) |
| Profit on the sale of property | 206 | (206) | – | – | – | – | – |
| Loss on disposal of business - discontinued | (142) | 142 | – | – | – | – | – |
| **Profit before taxation** | 13,797 | 142 | 14 | 24 | – | 23 | 14,000 |
| Taxation | (4,136) | – | – | (7) | – | (7) | (4,150) |
| **Profit for the period from continuing operations** | 9,661 | 142 | 14 | 17 | – | 16 | 9,850 |
| Loss for the period from discontinued operations | – | (142) | – | – | – | – | (142) |
| **Profit for the financial period** | 9,661 | – | 14 | 17 | – | 16 | 9,708 |

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## 11 Explanation of transition to IFRS (continued)

### Notes to the reconciliations of equity and profit

1 Reclassifications are required as certain items are shown differently under IFRS compared with UK GAAP. Reclassifications relate to ( i ) disclosing the defined benefit pension obligation gross of deferred tax under IFRS compared with net under UK GAAP, ( ii ) the disclosure of current tax liabilities and financial liabilities as separate items on the face of the balance sheet under IFRS, ( iii ) the split of provisions for liabilities between current and long term creditors under IFRS, (iv) the reclassification of profit on sale of property within administration expenses under IFRS and (v) the disclosure of loss on disposal of business as a discontinued operation. In addition the foreign exchange translation adjustments are disclosed as a separate reserve under IFRS from the date of transition.

2 As permitted by IFRS 1 – First time adoption of IFRS, the group has elected to treat the October 1998 revaluation of the UK freehold and long leasehold properties as deemed cost at that date. The valuation was carried out by DTZ Debenham Tie Leung, Chartered Surveyors, at open market value for existing use in accordance with the RICS Statement of Asset Valuation Practice and Guidance notes. The aggregate deemed gross cost included within property, plant and equipment is £2,731,000. Although no adjustment is required to the carrying value of property, plant and equipment; the revaluation reserve carried under UK GAAP has been transferred to retained earnings as a consequence of this election.

3 As required by IFRS 3 - Business Combinations, purchased goodwill is not amortised and is stated at it's carrying value at the date of transition to IFRS. Accordingly goodwill amortisation charged in accordance with UK GAAP has been reversed.

4 IFRS requires property leases to be split into two elements, Land and Buildings. Each element is then considered independently and treated as a finance or operating lease as appropriate. This treatment differs to UK GAAP which requires the whole property lease to be considered in its entirety. Consequently certain leasehold buildings have been brought onto the balance sheet under IFRS and conversely certain leasehold land, that was previously treated as a finance lease under UK GAAP, has been reclassified as an off balance sheet operating lease. Lease premiums relating to land have been reclassified as prepayments.

5 The calculation of the defined benefit pension scheme liability under IFRS requires the schemes assets to be valued at the lower bid market value compared with mid market value required by UK GAAP. In addition the disclosure requirements under IAS 19 differ in certain respects to FRS 17 with interest charges being disclosed on a gross rather than net basis.

6 IAS 39 requires all derivative financial instruments to be valued and brought onto the balance sheet. There was no equivalent requirement under UK GAAP. During the second half of 2006 the group purchased an interest rate cap and this has been brought onto the balance sheet at fair value at 31 December 2006.

7 At 30 June 2006 the group held certain assets whose carrying value was recovered primarily through a sales transaction rather than by continuing use. In accordance with IFRS 5 – Non-current assets held for sale and discontinued operations – these have been reclassified as a separate non-current asset and are carried at the lower of the previous accounts written down value and the net anticipated sale proceeds.

Other than presentational differences, there are no material adjustments to the previous cash flow statements presented under UK GAAP.

## 12 Distribution of interim financial statements

A copy of these interim financial statements has been posted to all shareholders and is available from the Company's registered office at Premier House, Darlington Street, Wolverhampton, WV1 4JJ. A copy is also available on the Company's website, www.andrews-sykes.com.

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