

Cosalt plc

("Cosalt" or "the Group")

Interim Results for the 26 weeks ended 30 April 2006

Financial Highlights

- Turnover of £57.09m (2005: £58.56m*)
- Profit before tax of £114,000 (2005: £260,000*)
- Earnings per share of 1.30p (2005: 1.34p*)
- Interim dividend maintained at 6.0p

*from continuing activities

Operational Highlights

- Actions being taken as part of strategic review:-
 - Sale of Banner Schoolwear/Childrenswear business underway
 - Actively appraising potential acquisitions in Marine & Industrial Safety
- Industrial Services: good order prospects in H2
- Holiday Homes: improved production efficiencies, stock control and market share
- Cash and working capital continues to be well managed

John Kelly, Chairman, commented:

"The marine safety business is trading well; at Cosalt:Ballyclare we will improve margins going forward, with a carefully planned initiative to increase procurement from our Far East sources; Banner, whilst being prepared for sale, is operating from a lower cost base following last year's rationalisation and Cosalt Holiday Homes will see an improved performance over last year.

"Cash is being well controlled and the 2006 year as a whole is expected to demonstrate a marked recovery in the Group's profitability."

27 June 2006

ENQUIRIES:

Cosalt plc
Bill Wood, Managing Director
Neil Carrick, Finance Director

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CHAIRMAN'S STATEMENT

INTRODUCTION

These interim results are reported for the first time under International Financial Reporting Standards (IFRS) adopted in the EU and the prior period information included in these results has been re-stated on a comparable basis. An explanation of the transition and the financial impact of the Group's IFRS conversion is included in the notes accompanying this Statement and Accounts.

Group turnover for the 26 weeks to 30 April 2006 at £57.09 million was similar to the £58.56 million achieved on continuing activities in the 26 weeks to 1 May 2005.

The Group achieved a profit of £114,000 before taxation, after taking into account a profit of £305,000 on the sale of the Atherton freehold. This is compared with a profit before tax of £260,000 at the Interim stage last year, after taking into account £100,000 of exceptional costs. Basic earnings per share in accordance with IFRS were 1.30p (2005: 1.34p) on continuing activities.

The Marine Safety business is performing particularly well and the results of Cosalt Holiday Homes for the full year are expected to be much better than those of 2005. Working capital is being well controlled and the Board is confident that the full year will demonstrate a marked recovery in the Group's profitability. This gives the Board confidence in maintaining the interim dividend at 6.00p. The dividend will be paid on 13 September 2006 to Shareholders on the register on 18 August 2006.

STRATEGIC REVIEW

In the Group's results for the 2004-05 financial year announced in January 2006, we outlined that the Board had decided to conduct an internal strategic review in order to gain scale in the Group's core activities and improve Shareholder value. That review is ongoing but has already led to the decision to seek offers for the Banner Schoolwear/Childrenswear business, as announced in May, with the aim of concentrating resources in the areas of the Group which the Board believes offer the greatest competitive advantage and potential for growth.

SUCCESSION PLANNING

The strategic review being undertaken by the Board will result in a more focussed business. As part of this review, the search has commenced to find a younger Chief Executive with international business experience to succeed Bill Wood. Bill, who is now 60, has served most of his working life with the Group. He has been Group Managing Director for the last 11 years and has decided to retire from executive responsibility on 31 December 2007. The timing of Mr. Wood's retirement is intended to give the Board sufficient time to secure the right successor and ensure an efficient hand over process.

REVIEW OF ACTIVITIES

The Group is structured into two divisions. **Industrial Services** consists of marine and industrial safety, safetywear and protective clothing, and schoolwear/childrenswear. **Leisure Products** incorporates caravan holiday homes and leisure custom homes.

INDUSTRIAL SERVICES

Turnover increased significantly to £35.87 million (2005: £33.51 million on continuing activities), resulting in an improved operating profit of £1.17 million (2005: £0.92 million on continuing activities before exceptional items).

Safety & Protection

Turnover increased to £18.97 million (2005: £16.68 million), resulting in an improved operating profit of £1.07 million (2005: £722,000 before exceptional items). We continue to make good progress in this activity, particularly in marine safety, specialist ropes and lifting and testing services.

We have taken advantage of new legislation, which has been introduced this year, requiring commercial cargo vessels to be equipped with immersion suits. At the half year stage, we have delivered immersion suits to our customers to a value of £2.3 million (compared with £113,000 in the first half of last year) and we have significant orders in hand for delivery in the second half.

Harnessing potential in the markets served by our leading Safety & Protection business is important to the Group and we continue actively to appraise several complementary acquisitions in the marine and industrial safety markets, both at home and abroad.

Safetywear & Protective Clothing

Turnover increased to £9.97 million (2005: £9.32 million), although the operating profit was reduced at £107,000 at the interim stage (2005: £185,000).

Some of the new business gained, including the Environment Agency, Tarmac and De Walt, is taking longer to come through than previously forecast. As reported in January 2006, Cosalt:Ballyclare was awarded a three year contract to supply Network Rail exclusively with high visibility protective garments and this will ensure a continuation of the successful relationship which the Group has enjoyed with Network Rail.

To improve margins in a very competitive trading environment we are undertaking a major initiative to move significant quantities of procured finished product from the current East European supply base to our more cost effective Far Eastern sources. We are confident that this initiative will facilitate margin improvement in the 2006/07 financial year.

Schoolwear/Childrenswear

Turnover was £6.94 million (2005: £7.52 million on continuing activities) resulting in an operating loss of £10,000 in this highly seasonal activity (2005: profit £9,000).

In the principal business of Schoolwear, the order position to date for the 2006 back to school season is broadly in line with budget and the 2005 season, although £400,000 of orders originally budgeted in the first half of this year are being delivered to customers in line with their requirements in May-July and will therefore be reflected in the full year numbers.

Cost savings resulting from last year's reorganisation of the Schoolwear U.K. manufacturing base are in line with plan and it is expected that this will lead to an improved result for the full year.

LEISURE PRODUCTS

Turnover at **Cosalt Holiday Homes** was £21.22 million (2005: £25.05 million), resulting in an operating loss at the interim stage of £794,000 (2005: profit £131,000).

These results mask our successful achievement in improving market share in the Caravan Holiday Homes business, in a market where industry statistics show a 31% reduction in the number of units produced by U.K. manufacturers as a whole in the six months to 30 April 2006. We have developed improved production systems and managed our working capital well in the winter/spring period resulting in a much lower level of finished stock. With a more comprehensive product range and a solid order book, we anticipate a much improved result for the full year.

As we outlined in the January 2006 results announcement, trading has become more difficult in our market leading Custom Homes business, which achieved record profits of £1.26 million in the 2005 financial year. Unit sales, compared with the first half of last year, were down 38% in a market that has been adversely affected by a deterioration in customer confidence and which has seen the recent entry of a number of park home manufacturers seeking to fill their factory capacity. As a result, operating profits from Custom Homes were £656,000 lower than at the interim stage last year. Whilst the order position has now improved, we are unlikely to recover the short fall in the full year and this will partly offset the improvement expected in the caravan Holiday Homes business in the current year.

PENSIONS

The Group's Defined Benefit Scheme continues to receive a high level of attention. The deficit under IAS19 is now shown gross on the balance sheet and at £13.47 million is similar to the year end position. Although an IAS19 valuation has not been undertaken at the half year stage, gilt yields have increased and consequently the valuation of scheme liabilities will be less. In addition, the scheme's assets have performed well and are greater than at October 2005. The scheme was closed to new entrants in 2000, pensionable salaries were frozen for three years from April 2002, early retirement benefits were reduced from April 2003 and members' contributions were increased significantly at that time.

We are presently examining a number of further measures, in conjunction with the Scheme's Trustees, in order to manage, as far as we can, our future risks.

BORROWINGS

The seasonally high level of capital employed in the Holiday Homes business at the interim stage has been managed better this season, with much lower stock levels. Borrowings overall at the half year were £3m less than at 1 May 2005. Gearing at 72% (excluding IAS19 pension scheme deficit and related deferred tax asset) was slightly better than the 74% achieved at 1 May 2005. We confidently expect lower borrowings at the October 2006 year end.

OUTLOOK

The marine safety business is trading well; at Cosalt:Ballyclare we will improve margins going forward, with a carefully planned initiative to increase procurement from our Far East sources; Banner, whilst being prepared for sale, is operating from a lower cost base following last year's rationalisation and Cosalt Holiday Homes will see an improved performance over last year.

Cash is being well controlled and the 2006 year as a whole is expected to demonstrate a marked recovery in the Group's profitability.

John Kelly
Chairman

26 June 2006

Consolidated income statement for the twenty-six weeks to 30 April 2006

	26 weeks ended 30 April 2006 £000	26 weeks ended 1 May 2005 £000	52 weeks ended 30 October 2005 £000
Revenue	57,092	58,561	117,645
Operating profit before exceptional costs	376	1,047	2,491
Redundancy, reorganisation and impairment	-	(100)	(1,853)
Profit on disposal of surplus properties	305	-	-
Operating profit	681	947	638
Financial income	30	20	40
Financing costs	(597)	(707)	(1,519)
Profit/(loss) before taxation	114	260	(841)
Income tax credit/(expense)	58	(80)	88
Profit/(loss) after taxation	172	180	(753)
Loss on sale and post tax loss of discontinued business	-	(51)	(117)
Profit/(loss) for period	172	129	(870)
Earnings per ordinary share			
Basic (total)	1.30p	0.96p	(6.58p)
Diluted (total)	1.29p	0.95p	(6.55p)
Basic (continuing operations)	1.30p	1.34p	(5.70p)
Diluted (continuing operations)	1.29p	1.34p	(5.68p)
Dividend per ordinary share			
Paid in the period	12.75p	12.75p	18.75p
Arising in respect of the period	6.00p	6.00p	18.75p

Consolidated balance sheet as at 30 April 2006

	As at 30 April 2006	As at 1 May 2005	As at 30 October 2005
	£000	£000	£000
ASSETS			
Non- current assets			
Intangible assets - goodwill	3,270	3,270	3,267
Intangible assets - other	1,406	1,199	1,421
Investment properties	1,226	1,281	1,281
Property plant and equipment	13,437	13,561	14,338
Investments	1,000	1,000	1,000
Deferred tax assets	4,064	3,351	4,064
	24,403	23,662	25,371
Current assets			
Inventories	22,309	28,238	20,181
Trade and other receivables	34,926	36,423	25,012
Cash and cash equivalents	557	164	232
	57,792	64,825	45,425
Total assets	82,195	88,487	70,796
LIABILITIES			
Non-current liabilities			
Interest bearing loans and borrowings	1,247	3,240	2,155
Deferred tax liabilities	743	867	742
Deferred Government grants	60	75	66
Provisions	103	212	290
Retirement benefit obligations	13,470	11,258	13,546
	15,623	15,652	16,799
Current liabilities			
Bank overdrafts	13,861	12,129	6,234
Interest bearing loans and borrowings	6,360	8,906	4,677
Provisions	461	387	1,283
Trade and other payables	26,193	26,697	20,524
	46,875	48,119	32,718
Total liabilities	62,498	63,771	49,517
Net assets	19,697	24,716	21,279
EQUITY			
Share capital	3,319	3,369	3,369
Share premium	4,547	4,547	4,547
Other reserves	1,148	1,148	1,148
Hedging reserve	(10)	-	-
Retained earnings	10,693	15,652	12,215
Total equity	19,697	24,716	21,279

Consolidated cash flow statement for the twenty-six weeks to 30 April 2006

	26 weeks ended 30 April 2006 £000	26 weeks ended 1 May 2005 £000	52 weeks ended 30 October 2005 £000
Cash generated from operations			
Profit/(loss) for the period	172	129	(870)
Adjustments for:			
Income tax expense	(58)	80	(88)
Depreciation	1,266	1,262	2,155
Deferred government grants released	(8)	(75)	(84)
Net finance costs	567	687	1,479
Share based payment charge	11	7	17
Profit on disposals of property, plant and equipment	(305)	-	-
Pension contributions in excess of charge	(76)	(53)	(406)
Loss on disposal of discontinued operations	-	51	117
Operating profit/(loss) of discontinued operations	-	33	62
Cash flow before changes in working capital	1,569	2,121	2,382
(Increase)/decrease in inventories	(2,138)	(3,144)	4,923
(Increase)/decrease in trade and other receivables	(9,869)	(5,708)	6,176
Increase/(decrease) in trade and other payables	5,585	(3,031)	(9,356)
(Decrease)/increase in provisions	(1,008)	(580)	515
Net cash (used in)/from operations	(5,861)	(10,342)	4,640
Interest paid	(462)	(675)	(1,511)
Interest element of finance lease rentals	(16)	(27)	(52)
Dividends paid on preference shares	(2)	(2)	(4)
Income tax paid	-	(5)	(140)
Net cash from operating activities	(6,341)	(11,051)	2,933
Cash flows from investing activities			
Acquisitions of subsidiaries (net of cash acquired)	-	(778)	(772)
Disposal of subsidiaries	-	2,344	2,344
Proceeds from sale of property, plant and equipment	1,405	68	84
Purchase of property, plant and equipment	(1,254)	(170)	(1,738)
Purchase of intangible assets - software	(96)	(594)	(910)
Net cash from/(used) in investing activities	55	870	(992)
Cash flows from financing activities			
Dividends paid to shareholders	(1,693)	(1,693)	(2,489)
Finance lease principal payments	(161)	(183)	(338)
Repayment of bank borrowing	(1,035)	(1,185)	(2,220)
Net cash used in financing activities	(2,889)	(3,061)	(5,047)
Net (decrease) in cash and cash equivalents	(9,175)	(13,242)	(3,106)
Cash and cash equivalents at beginning of period	(8,444)	(5,338)	(5,338)
Cash and cash equivalents at end of period	(17,619)	(18,580)	(8,444)

Note: The outflow of funds in the first half of the year is a normal feature of the Group's business.

**Consolidated statement of recognised income and expense
for the twenty-six weeks to 30 April 2006**

	26 weeks ended 30 April 2006 £000	26 weeks ended 1 May 2005 £000	52 weeks ended 30 October 2005 £000
Effective portion of cashflow hedges taken direct to equity	(180)	-	-
Actuarial losses on defined benefits scheme	-	-	(2,356)
Taxation on items taken directly to equity	54	-	707
	(126)	-	(1,649)
Profit/(loss) for the period	172	129	(852)
Total recognised income and expense	46	129	(2,501)

Effect of change in accounting policy

Effect of adoption of IAS32 and IAS39, net of tax,
on 31 October 2005

Share capital	(50)	-	-
Hedging reserve	116	-	-
Retained earnings	(13)	-	-
	53	-	-
Total recognised income and expense for the period	99	129	(2,501)

NOTES TO THE INTERIM STATEMENT

1. Basis of preparation

This interim report has been approved by the Directors on 26 June 2006. EU law (IAS Regulation EC1606/2002) requires that the next annual consolidated financial statement of the Company, for the year ending 29 October 2006, be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by EU ("adopted IFRSs").

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 29 October 2006 or are expected to be endorsed and effective (or available for early adoption) at 29 October 2006, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted and unadopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied, which are set out below, when the first annual IFRS financial statements are prepared for the year ending 29 October 2006.

In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 29 October 2006 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 29 October 2006.

The policies set out below have been consistently applied to all the periods presented except for those relating to the measurement of financial instruments. The Group has made use of the exemption available under IFRS1 First Time Adoption to only apply IAS32 and IAS39 from 30 October 2005.

The Group's consolidated financial statements were prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP) until 30 October 2005. The comparative figures for the financial year ended 30 October 2005 have been restated to comply with adopted IFRSs and are not the Company's statutory accounts for that financial year. Those accounts which are prepared under UK GAAP have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity and its net income are provided in the appendix to this document for the six months ended 1 May 2005 and for the year ended 30 October 2005.

2. Analysis by business segment

At 30 April 2006 the Group is organised into four main business segments: Safety & Protection, Safetywear and Protective Clothing, Schoolwear and Childrenswear and Holiday Homes.

The primary segment reporting format is determined to be the business segments as the Group's risks and returns are predominantly affected by differences in the products and services provided by these different activities. The operating business segments are organised and managed separately.

26 weeks ended 30 April 2006

	Industrial Services			Leisure Products			Total £000
	Safety & Protection £000	Safetywear & Protective Clothing £000	Schoolwear & Childrenswear £000	Holiday Homes £000	Continuing Activities £000	Discontinued Activities £000	
Revenue	18,970	9,965	6,939	21,218	57,092	-	57,092
Operating profit/(loss) before exceptional items	1,073	107	(10)	(794)	376	-	376
Profit on disposal of surplus properties	-	305	-	-	305	-	305
Operating profit/(loss)	1,073	412	(10)	(794)	681	-	681

26 weeks ended 1 May 2005

	Industrial Services			Leisure Products			Total £000
	Safety & Protection £000	Safetywear & Protective Clothing £000	Schoolwear & Childrenswear £000	Holiday Homes £000	Continuing Activities £000	Discontinued Activities £000	
Revenue	16,682	9,315	7,515	25,049	58,561	1,181	59,742
Operating profit before exceptional items	722	185	9	131	1,047	33	1,080
Exceptional items	(100)	-	-	-	(100)	-	(100)
Operating profit	622	185	9	131	947	33	980

52 weeks ended 30 October 2005

	Industrial Services			Leisure Products			Total £000
	Safety & Protection £000	Safetywear & Protective Clothing £000	Schoolwear & Childrenswear £000	Holiday Homes £000	Continuing Activities £000	Discontinued Activities £000	
Revenue	33,944	18,390	19,642	45,669	117,645	1,364	119,009
Operating profit/(loss) before exceptional items	2,016	572	1,089	(1,186)	2,491	62	2,553
Exceptional items	(300)	(179)	(450)	(924)	(1,853)	-	(1,853)
Operating profit/(loss)	1,716	393	639	(2,110)	638	62	700

3. Summary of movements in equity

	Share capital £000	Share premium £000	Other reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
52 weeks ended 30 October 2005						
Balance brought forward at transition	3,369	4,547	1,148	-	17,210	26,274
Loss for the period	-	-	-	-	(870)	(870)
Share option charge	-	-	-	-	17	17
Dividends paid	-	-	-	-	(2,493)	(2,493)
Movements in pension deficit and related taxation	-	-	-	-	(1,649)	(1,649)
Balance as at 30 October 2005	3,369	4,547	1,148	-	12,215	21,279

	Share capital £000	Share premium £000	Other reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
26 weeks ended 1 May 2005						
Balance brought forward at transition (1 November 2004)	3,369	4,547	1,148	-	17,210	26,274
Profit for the period	-	-	-	-	129	129
Share option charge	-	-	-	-	7	7
Dividends paid	-	-	-	-	(1,694)	(1,694)
Balance as at 1 May 2005	3,369	4,547	1,148	-	15,652	24,716

	Share capital £000	Share premium £000	Other reserves £000	Hedging reserve £000	Retained earnings £000	Total £000
26 weeks ended 30 April 2006						
Balance brought forward at 31 October 2005	3,369	4,547	1,148	-	12,215	21,279
Profit for the period	-	-	-	-	172	172
Share option charge	-	-	-	-	11	11
Effect of adoption of IAS32 and IAS39 net of tax on 31 October 2005	(50)	-	-	116	(13)	53
Effect of hedges paid in the period	-	-	-	(126)	-	(126)
Dividends paid	-	-	-	-	(1,692)	(1,692)
Balance as at 30 April 2006	3,319	4,547	1,148	(10)	10,693	19,697

4. Earnings per share

The basic earnings on total operations are calculated on the basis of total profits of £172,000 (£127,000 for 1 May 2005 and a loss of £874,000 for 30 October 2005 and the average number of shares in issue for the period, being 13,275,169 for 30 April 2006 (13,275,169 for 1 May 2005 and 13,275,169 for 30 October 2005).

The basic earnings per share on continuing activities are calculated on the basis of profits of £172,000 (£178,000 for 1 May 2005 and a loss of £757,000 for 30 October 2005 attributable to ordinary shareholders and the average number of shares in issue for the period, being 13,275,169 for 30 April 2006 (13,275,169 for 1 May 2005 and 13,275,169 for 30 October 2005).

The diluted earnings per share on total operations are calculated on the basis of the profits of £172,000 (£127,000 for 1 May 2005 and a loss of £874,000 for 30 October 2005 and the average number of shares in issue for the period plus the average maximum potential number of shares which could be issued under the various Executive Share Option Schemes. The total number of shares used to calculate the diluted earnings are 13,313,392 (13,337,894 for 1 May 2005 and 13,329,975 for 30 October 2005).

The diluted earnings per share on continuing activities of £172,000 (£178,000 for 1 May 2005 and a loss of £757,000 for 30 October 2005) are calculated on the basis of the continuing profits attributable to ordinary shareholders and the average number of shares in issue for the period plus the average maximum potential number of shares which could be issued under the various Executive Share Option Schemes. The total number of shares used to calculate the diluted earnings are 13,313,392 (13,337,894 for 1 May 2005 and 13,329,975 for 30 October 2005).

5. Interim dividend

The interim dividend of 6.00p per share will be paid on 13 September 2006 to shareholders on the register on 18 August 2006.

In accordance with the requirements of International Accounting Standards, the proposed interim dividend has not been accrued in the consolidated financial statements for the twenty-six weeks to 30 April 2006.

6. Taxation

The taxation charge for the interim period is based upon the estimated rate for the full year. The property disposals were not taxed due to the availability of capital losses

**Copies of this report are being sent to shareholders.
Further copies may be obtained from the Company's Registered Office at Fish Dock Road,
Grimsby North East Lincolnshire DN31 3NW**

Independent review report by KPMG Audit Plc to Cosalt:plc

Introduction

We have been engaged by the company to review the financial information for the twenty-six weeks ended 30 April 2006 which comprises a consolidated balance sheet as at 30 April 2006 and the related consolidated statements of income, cash flows and the statement of recognised income and expenses for the twenty-six weeks ended 30 April 2006 and related notes and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1 to the financial information, the next annual financial statements of the group will be prepared in accordance with IFRSs as adopted by the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs as adopted for use by the European Union.

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 26 weeks ended 30 April 2006.

KPMG Audit Plc

**Chartered Accountants
Leeds**

26 June 2006

Explanation of transition to IFRS

As stated in Note 1, these are the Group's first Consolidated Interim Financial Statements for part of the period covered by the first IFRS annual Consolidated Financial Statements prepared in accordance with IFRS.

The accounting policies noted below have been applied in preparing the Consolidated Interim Financial Statements for the twenty-six weeks ended 30 April 2006, the comparative information for the twenty-six weeks ended 1 May 2005 and for the year ended 30 October 2005 and the preparation of an opening IFRS balance sheet at 1 November 2004 (the Group's date of transition).

In preparing these statements the Group has adjusted amounts reported previously in Financial Statements prepared in accordance with UK GAAP.

An explanation for how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes on reconciliation of equity

The most significant adjustment relates to the derecognition of dividends not declared at the period end but proposed for that period which were previously accrued under UK GAAP.

Notes on reconciliation of profit

The most significant adjustments are in relation to the reversal of the goodwill amortisation charge that was previously recognised under UK GAAP and a charge for share based payments and interest rate and currency hedges which were not previously required under UK GAAP.

Exemptions taken

IFRS1 First Time Adoption of International Financial Reporting Standards - contains certain optional exemptions to assist companies in their transition to IFRS, including classifying revalued assets at deemed cost.

IFRS3 Business Combinations - advantage has been taken of the optional exemption from full retrospective application of IFRS3 and consequently this standard has not been applied to acquisitions made before November 2004.

IFRS2 - the Group has elected to only apply IFRS2 to the options that were granted after 7 November 2002 and had not vested at the date of transition to IFRS.

IAS32 and IAS39 Financial Instruments - under IFRS1 the Group can opt not to present comparative financial information and account for the related financial instruments under UK GAAP for these periods.

Accounting for pension costs

The Group adopted FRS17 in the last financial year and consequently there is little change in the accounting treatment under IFRS in the form of IAS19. However, for disclosure purposes the scheme deficit is shown gross (before deferred taxation) in the balance sheet under liabilities and the corresponding deferred tax asset is now shown in non-current assets under deferred tax assets. Past service costs, current service costs, gains and losses on settlements and curtailments, the expected return on assets and interest on scheme liabilities are included with operating costs.

Conclusion

The transition to IFRS has not had a material effect on the consolidated financial results of the Group.

There is no material impact on the Group's cash flow, effective tax rate (pre goodwill charges) and ability to pay dividends.

The group's banking arrangements are unaffected

Reconciliation of profit for the twenty-six weeks to 1 May 2005

	Previously reported under UK GAAP £000	IAS1 Presentation £000	IAS 12 Income Taxes £000	IAS 19 Employee Benefits £000	IFRS2 Share- based Payment £000	IFRS3 Business Combinations £000	IFRS5 Discontinued Operations £000	IAS10 Events after Balance Sheet date £000	Effect of Transition to IFRS £000	Restated under IFRS £000
Revenue	59,742	-	-	-	-	-	(1,181)	-	(1,181)	58,561
Operating profit before financing costs	1,041	-	-	(157)	(7)	92	(22)	-	(94)	947
Finance costs	(919)	(20)	-	210	-	-	22	-	212	(707)
Finance income	-	20	-	-	-	-	-	-	20	20
Profit before tax	122	-	-	53	(7)	92	-	-	138	260
Income tax expense	(43)	-	-	(16)	-	-	(21)	-	(37)	(80)
Profit after tax before loss on discontinued operations	79	-	-	37	(7)	92	(21)	-	101	180
Loss on sale of discontinued Operation, net of tax	(72)	-	-	-	-	-	21	-	21	(51)
Profit for the period	7	-	-	37	(7)	92	-	-	122	129
Dividends - ordinary	(796)	-	-	-	-	-	-	(896)	(896)	(1,692)
- preference	(2)	-	-	-	-	-	-	-	-	(2)
Transferred to reserves	(791)	-	-	37	(7)	92	-	(896)	(774)	(1,565)

Reconciliation of profit for the year 30 October 2005

	Previously reported under UK GAAP £000	IAS1 Presentation £000	IAS 12 Income Taxes £000	IFRS2 Share- based Payment £000	IFRS3 Business Combinations £000	IAS19 Employee Benefits £000	IFRS5 Discontinued Operations £000	IAS10 Events after Balance Sheet date £000	Effect of Transition to IFRS £000	Restated under IFRS £000
Revenue	119,009	-	-	-	-	-	(1,364)	-	(1,364)	117,645
Operating profit before financing costs	878	-	-	(17)	188	(360)	(51)	-	(240)	638
Finance costs	(1,858)	(40)	-	-	-	357	22	-	339	(1,519)
Finance income	-	40	-	-	-	-	-	-	40	40
Loss before tax	(980)		-	(17)	188	(3)	(29)	-	139	(841)
Income tax expense	128	-	(18)	-	-	1	(23)	-	(40)	88
Loss after tax before loss on discontinued operations	(852)	-	(18)	(17)	188	(2)	(52)	-	99	(753)
Loss on sale of discontinued Operation, net of tax	(169)	-	-	-	-	-	52	-	52	(117)
Loss for the period	(1,021)	-	(18)	(17)	188	(2)	-	-	151	(870)
Dividends - ordinary	(2,489)	-	-	-	-	-	-	-	-	(2,489)
- preference	(4)	-	-	-	-	-	-	-	-	(4)
Transferred to reserves	(3,514)	-	(18)	(17)	188	(2)	-	-	151	(3,363)

Reconciliation of equity as at 1 May 2005

	Previously		IAS 12 Income Taxes £000	IAS 38 Intangibles & Goodwill £000	IAS 19 Employee Benefits £000	IFRS3 Business Combinations £000	IAS10		Restated under IFRS £000
	reported	Reclassification £000					Events after Balance sheet date £000	Effect of transition to IFRS £000	
	under								
	UK GAAP £000								
Assets									
Property plant and equipment	14,760	-	-	(1,199)	-	-	-	(1,199)	13,561
Intangible assets	3,118	-	-	1,199	-	152	-	1,351	4,469
Investment properties	1,281	-	-	-	-	-	-	-	1,281
Other investments	750	250	-	-	-	-	-	250	1,000
Deferred tax assets	-	-	-	-	3,351	-	-	3,351	3,351
Total non-current assets	19,909	250	-	-	3,351	152	-	3,753	23,662
Inventories	28,238	-	-	-	-	-	-	-	28,238
Trade and other receivables	36,673	(250)	-	-	-	-	-	(250)	36,423
Cash and cash equivalents	164	-	-	-	-	-	-	-	164
Total current assets	65,075	(250)	-	-	-	-	-	(250)	64,825
Total assets	84,984	-	-	-	3,351	152	-	3,503	88,487
Liabilities									
Interest-bearing loans and borrowings	3,240	-	-	-	-	-	-	-	3,240
Employee benefits	7,916	-	-	-	3,342	-	-	3,342	11,258
Deferred government grants	75	-	-	-	-	-	-	-	75
Provisions	599	-	-	-	-	-	-	-	599
Deferred tax liabilities	829	-	38	-	-	-	-	38	867
Total non-current liabilities	12,659	-	38	-	3,342	-	-	3,380	16,039
Bank overdraft	12,129	-	-	-	-	-	-	-	12,129
Interest-bearing loans and borrowings	2,050	6,856	-	-	-	-	-	6,856	8,906
Trade and other payables	34,289	(6,856)	-	-	-	60	(796)	(7,592)	26,697
Total current liabilities	48,468	-	-	-	-	60	(796)	(736)	47,732
Total liabilities	61,127	-	38	-	3,342	60	(796)	2,644	63,771
Net Assets	23,857	-	(38)	-	9	92	796	859	24,716
Equity									
Issued capital	3,369	-	-	-	-	-	-	-	3,369
Share premium	4,547	-	-	-	-	-	-	-	4,547
Reserves	1,658	(510)	-	-	-	-	-	(510)	1,148
Retained earning	14,283	510	(38)	-	9	92	796	1,369	15,652
Total equity	23,857	-	(38)	-	9	92	796	859	24,716

Reconciliation of equity as at 30 October 2005

	Previously		IAS10						Restated under IFRS £000
	reported		IAS 12	IAS 38	IAS 19	IFRS3	Events after	Effect of	
	under		Income	Intangibles	Employee	Business	Balance	transition	
	UK GAAP	Reclassification	Taxes	& Goodwill	Benefits	Combinations	sheet date	to IFRS	
£000	£000	£000	£000	£000	£000	£000	£000	£000	
Assets									
Property plant and equipment	15,759	-	-	(1,421)	-	-	-	(1,421)	14,338
Intangible assets	3,079	-	-	1,421	-	188	-	1,609	4,688
Investment properties	1,281	-	-	-	-	-	-	-	1,281
Other investments	750	250	-	-	-	-	-	250	1,000
Deferred tax assets	-	-	-	-	4,064	-	-	4,064	4,064
Total non-current assets	20,869	250	-	-	4,064	188	-	4,502	25,371
Inventories	20,181	-	-	-	-	-	-	-	20,181
Income tax receivable	257	-	-	-	-	-	-	-	257
Trade and other receivables	25,005	(250)	-	-	-	-	-	(250)	24,755
Cash and cash equivalents	232	-	-	-	-	-	-	-	232
Total current assets	45,675	(250)	-	-	-	-	-	(250)	45,425
Total assets	66,544	-	-	-	4,064	188	-	4,252	70,796
Liabilities									
Interest-bearing loans and borrowings	2,155	-	-	-	-	-	-	-	2,155
Employee benefits	9,449	-	-	-	4,097	-	-	4,097	13,546
Deferred government grants	66	-	-	-	-	-	-	-	66
Provisions	1,573	-	-	-	-	-	-	-	1,573
Deferred tax liabilities	686	-	56	-	-	-	-	56	742
Total non-current liabilities	13,929	-	56	-	4,097	-	-	4,153	18,082
Bank overdraft	6,234	-	-	-	-	-	-	-	6,234
Interest-bearing loans and borrowings	1,925	2,752	-	-	-	-	-	2,752	4,677
Trade and other payables	24,968	(2,752)	-	-	-	-	(1,692)	(4,444)	20,524
Total current liabilities	33,127	-	-	-	-	-	(1,692)	(1,692)	31,435
Total liabilities	47,056	-	56	-	4,097	-	(1,692)	2,461	49,517
Net assets	19,488	-	(56)	-	(33)	188	1,692	1,791	21,279
Equity									
Issued capital	3,369	-	-	-	-	-	-	-	3,369
Share premium	4,547	-	-	-	-	-	-	-	4,547
Reserves	1,658	(510)	-	-	-	-	-	(510)	1,148
Retained earnings	9,914	510	(56)	-	(33)	188	1,692	2,301	12,215
Total equity	19,488	-	(56)	-	(33)	188	1,692	1,791	21,279

Reconciliation of equity as at 1 November 2004

	Previously reported under UK GAAP	Reclassification	IAS 12 Income Taxes	IAS 38 Intangibles & Goodwill	IAS 19 Employee Benefits	IAS10 Events after Balance sheet date	Effect of transition to IFRS	Restated under IFRS
	£000	£000	£000	£000	£000	£000	£000	£000
Assets								
Property plant and equipment	16,920	-	-	(743)	-	-	(743)	16,177
Investment properties	1,281	-	-	-	-	-	-	1,281
Intangible assets	2,740	-	-	743	-	-	743	3,483
Deferred tax assets	-	-	-	-	3,479	-	3,479	3,479
Total non-current assets	20,941	-	-	-	3,479	-	3,479	24,420
Inventories	25,673	-	-	-	-	-	-	25,673
Trade and other receivables	31,656	-	-	-	-	-	-	31,656
Cash and cash equivalents	1,743	-	-	-	-	-	-	1,743
Total current assets	59,072	-	-	-	-	-	-	59,072
Total assets	80,013	-	-	-	3,479	-	3,479	83,492
Liabilities								
Interest-bearing loans and borrowings	4,413	-	-	-	-	-	-	4,413
Employee benefits	8,089	-	-	-	3,507	-	3,507	11,596
Deferred government grants	150	-	-	-	-	-	-	150
Provisions	1,058	-	-	-	-	-	-	1,058
Deferred tax liabilities	823	-	38	-	-	-	38	861
Total non-current liabilities	14,533	-	38	-	3,507	-	3,545	18,078
Bank overdraft	2,176	-	-	-	-	-	-	2,176
Interest-bearing loans and borrowings	2,167	5,160	-	-	-	-	5,160	7,327
Trade and other payables	36,489	(5,160)	-	-	-	(1,692)	(6,852)	29,637
Total current liabilities	40,832	-	38	-	-	(1,692)	(1,692)	39,140
Total liabilities	55,365	-	38	-	3,507	(1,692)	1,853	57,218
Net assets	24,648	-	-	-	(28)	1,692	1,626	26,274
Equity								
Issued capital	3,369	-	-	-	-	-	-	3,369
Share premium	4,547	-	-	-	-	-	-	4,547
Reserves	1,658	(510)	-	-	-	-	(510)	1,148
Retained earnings	15,074	510	(38)	-	(28)	1,692	2,136	17,210
Total equity	24,648	-	(38)	-	(28)	1,692	1,626	26,274

Accounting policies

a Basis of accounting

The financial statements have been prepared on the historical cost basis except that derivative financial instruments and investment properties are stated at their fair value.

b Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

On acquisition, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

c Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date control passes of equity instruments issued, of assets given, less liabilities incurred or assumed, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 Business Combinations are recognised at their fair values at the acquisition date.

d Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses, measured annually (see note I).

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS was tested for impairment at the transition date and has been retained at its previous UK GAAP value. Positive goodwill arising on acquisitions prior to 1998 that was written off against reserves under UK GAAP, has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

e Foreign currencies

For the purposes of the consolidated financial statements, the results and financial position of each entity are expressed in pounds sterling, which is the functional currency of the Companies within the Group and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlement or retranslation of monetary items are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period.

f Operating profit and exceptional items

In order for users of the accounts to better understand the underlying performance of the group, the Board have separately disclosed transactions which, whilst falling within the ordinary activities of the group, are, by virtue of their size or incidence, considered to be exceptional in nature.

Non operating exceptional items arise from costs incurred or income received outside the ordinary course of the group's business. Such items include site closure costs and profits or losses on the disposal of surplus properties and businesses.

g Employee benefits

The Group operates several occupational pension schemes, of both the defined benefit and defined contribution type.

(a) Defined contribution pension schemes

Contributions to the Group's defined contribution schemes are recognised as an employee benefit expense when they fall due.

Prepaid contributions are recognised as an asset to the extent that they result in either a cash refund or reduction in future payments.

Outstanding contributions are recognised as a liability within accruals.

(b) Defined benefit pension scheme

The liability recognised in the balance sheet for the Group's defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the scheme assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and by discounting the estimated future cash flows using interest rates on high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the scheme.

Pension expense for the Group's defined benefit schemes is recognised as follows:

1. Within operating profit:

- Current service cost – representing the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
- Past service cost – representing the increase in the present value of the defined benefit obligation resulting from employee service in prior periods, which arises from changes made to the benefits under the scheme in the current period. To the extent that the changes to benefits vest immediately, past service costs are recognised immediately, otherwise they are recognised on a straight line basis over the vesting period; and
- Interest cost on the liabilities of the scheme – calculated by reference to the scheme liabilities and discount rate at the beginning of the period and allowing for changes during the period; and

- Expected return on the assets of the scheme – calculated by reference to the scheme assets and long term expected rate of return at the beginning of the period and allowing for changes during the period.
 - Gains and losses arising on settlements and curtailments – where the item that gave rise to the settlement or curtailment is recognised within operating profit.
2. Within the statement of recognised income and expense
- Actuarial gains and losses arising on the assets and liabilities of the scheme.

The Group has adopted early the amendment to IAS19 and full actuarial gains or losses are recognised direct to equity.

(c) Share-based Payments

The Group will, under the new defined bonus plan, issue equity settled share-based payments to certain employees. In addition a number of share options have been issued in the past to certain employees under the old executive share option scheme. Equity settled share-based payments are measured at fair value (excluding the effect of non market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest.

For share options where there are no market based vesting conditions, fair value is measured using the Black-Scholes pricing model.

h Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

i Other intangible assets

(a) Computer software costs

Acquired computer software licenses and software development costs, are capitalised and amortised over their estimated useful lives.

(b) Other intangible assets (including those arising on business combinations)

Trade names:

Trade names are measured as the present value of any royalty payments saved as a result of ownership of the trade name. Trade names are amortised over the estimated useful life of the asset, typically 10-20 years.

Customer relationships:

Customer relationships are measured as the present value of cash flows attributable to the relationship after deduction of appropriate contributory assets charges. The relationship is amortised over its expected useful life, typically 10-20 years.

Order book:

Order book is the value of confirmed orders on the date of acquisition after appropriate costs have been deducted. The order book is amortised over the period in which it is expected to unwind.

j Property, plant and equipment

Freehold land and buildings are carried at cost less accumulated depreciation and impairment losses. As allowed by IFRS1 First-time adoption of International Financial Reporting Standards, the Group has used the UK GAAP revalued carrying amount of its freehold land and buildings as its deemed cost at 1 November 2004.

Other assets are carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are capitalised only when it is probable that they will result in future economic benefits flowing to the Group and when they can be measured reliably. All other repairs and maintenance expenditure is charged to the income statement in the period in which it is incurred.

Freehold land is not depreciated as it has an indefinite life.

Depreciation on other assets is calculated using the straight-line method to write off their cost less their residual value over their estimated useful lives as follows:

Freehold property	2%
Buildings on land leased short-term tenancy agreements	2%
Leasehold land and buildings	over the expected term of the lease
Plant and machinery (excluding leased garments)	5-20%
Vehicles	20-25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Residual values and estimated useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses arising on disposals are determined by comparing net sales proceeds with carrying amount and are recognised in the income statement in the period of the disposal.

k Investment properties

Investment properties are held at fair value. Values are determined in accordance with the guidance notes on the valuation of assets issued by the Royal Institute of Chartered Surveyors. A gain or loss arising from a change in fair value is recognised in profit or loss.

l Impairment of tangible and intangible assets

(a) Goodwill

For the purpose of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

(b) Other tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite life is tested annually for impairment and whenever there is an indication that the asset may be impaired an impairment loss is recognised immediately in the income statement unless the relevant asset is carried at the revalued amount.

Reversal of an impairment loss for tangible and intangible assets other than goodwill is recognised immediately in the income statement to the extent that the original impairment loss was recognised in the income statement.

m Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) Finance leases

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

(b) Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(c) Rental garments

Garments hired out under rental contracts where the group retains substantially all of the risks and rewards of ownership are capitalised and accounted for as operating leases. The garments are depreciated on a straight-line basis over their estimated useful lives (typically two to five years) or the life of the contract, whichever is the shorter. Revenue from these rental contracts accrues on a straight-line basis over the life of the contract. The expected cost of repairing and laundering garments under the contracts is matched against revenue on a similar straight-line basis.

n Financial instruments

The Group has taken advantage of the exemption available under IFRS1 not to apply IAS32: Disclosure and Presentation and IAS39 Financial Instruments: Recognition and Measurement to comparatives. UK GAAP has continued to be applied to financial instruments in previous periods.

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Trade receivables

Trade receivables are initially measured at fair value, do not carry any interest, and are reduced by appropriate provisions for estimated irrecoverable amounts. Such provisions are recognised in the income statement.

(b) Cash and cash equivalents

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

(c) Trade payables

Trade payables are not interest bearing and are initially measured at their fair value.

(d) Borrowings

Bank overdrafts, short-term fixtures and interest bearing loans are initially measured at fair value, and obligations under finance leases are dealt with in accordance with the Group's policy on leases (note m).

(e) Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

(f) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

o Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and 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, and are discounted to present value where the effect is material.

p Non-current assets held for sale and discontinued operations

Non-current assets classified as held for sale and discontinued operations are measured at the lower of the carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The Directors must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are separate major lines of business that have been disposed of or classified as held for sale.

q Inventories

Inventories are stated at the lower of cost including an appropriate proportion of production overheads and net realisable values.

r Long-term contracts

The amount of profit attributable to the stage of completion of a long-term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

s Government grants

Capital grants received for additions to buildings and plant are taken to deferred income and are released to the income statement in instalments relating to the relevant asset lives.

Other grants are recognised in the profit and loss account in the same period as the related expenditure.

t Share capital

(i) Share capital

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on share capital are classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the Consolidated Income Statement as a financial expense.

(ii) Dividends

Dividends on non-equity shares are recognised as a liability and expressed on an accrual basis. Equity dividends are recognised as a liability in the period in which they are paid or approved by shareholders.

u Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to review of work completed.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs for the possible return of goods, or if there is continuing managerial involvement with goods.