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# Organisation Chart

## The Geography of the Norman Hay Group

<b>Location</b>	<b>Business Name</b>	<b>Activity</b>
<b>UK</b>		
■ East Kilbride	Surface Technology	Sub-contract coatings
■ Irvine	Surface Technology	Sub-contract coatings
■ Leeds	Armourcote	Sub-contract coatings
■ Bradford	Applied Precision Coatings	Sub-contract coatings
■ Cannock	Plasticraft	Process plant manufacture
■ Coventry	Norman Hay	Head office
	Surface Technology	Sub-contract coatings
	Ultraseal	Sealant manufacture
	Norman Hay Engineering	Process plant manufacture
	MX Systems	Sealant manufacture
	Lancy Technology	Effluent treatment systems
■ Daventry	TAM	Sealant manufacture
■ Slough	Surface Technology	Sub-contract processing
<b>India</b>		
■ Pune	Ultraseal	Sales & distribution centre Process plant manufacture
<b>Singapore</b>		
■ Singapore	TAM	Sales & distribution centre
<b>Hong Kong</b>		
■ Kowloon	TAM	Sales & distribution centre
<b>China</b>		
■ Shanghai	Ultraseal	Sub-contract impregnation Process plant manufacture Sales & distribution centre
■ Beijing	Ultraseal	Sales office
<b>Japan</b>		
■ Tokyo	Ultraseal	Sales office
<b>Australia</b>		
■ Adelaide	TAM	Sealant manufacture
<b>USA</b>		
■ Ann Arbor	Ultraseal	Sales & distribution centre

# Chairman's Statement

I am particularly pleased to report that the results for the half-year to 30 June 2007 were very encouraging and demonstrated a substantial and continuing improvement in the Group's overall performance.

Profit before tax increased by 38% to £1,279,000 (2006: £924,000) with basic earnings per share increasing by 30% to 6.0 pence per share.

Whilst the overall level of sales is not necessarily a good guide to the Group's performance, given the varying levels of margin within our product mix, it was still encouraging to see sales for the first six months of this year up 7% at £11.6 million.

This improved profit performance, building on the record levels set last year and combined with a continuing strong cash position, allows your Directors to pay an increased interim dividend of 1.8p per share (2006: 1.3p) and this will be paid on 2 November 2007 to shareholders on the register on 5 October 2007.

The change in the balance of the Group's trading activities has resulted in Norman Hay being reclassified on AIM and we are now listed in the Chemicals Sector.

## Presentation of Accounts

Due to these interim accounts being prepared under International Financial Reporting Standards, the format of the Profit and Loss Account has been changed and indeed renamed as the Income Statement. There have also been changes to the presentation of the Balance Sheet and Cash Flow, whilst the Statement of Recognised Income and Expense takes the place of the Statement of Total Recognised Gains and Losses. The comparative figures for the six months to 30 June 2006 and for the year to 31 December 2006 have also been re-stated in this new format.

The impact of these changes has been marginal and further details, including the Group's new accounting policies, are given in the notes to the accounts.

## Operational Overview

There is strong demand for our specialised Surface Coatings activities and we expect this to continue given the high levels of activity in the global oil and gas exploration and extraction industries which we serve.

Ultraseal's automotive & engineering sealants business continues to perform well and it was very gratifying to see our new Shanghai plant move into profit in the first half of this year.

Norman Hay Engineering, our process plant manufacturing division, complements our automotive sealants activities and is operating satisfactorily after last year's rationalisation of facilities, albeit on fairly tight margins.

We are working to strengthen the global infrastructure of TAM International, which we purchased at the end of 2006. This will ensure that the business is well resourced for the significant growth that we foresee for its sealants business in structural waterproofing for the construction industry.

As a result of our investing in an increasing level of overhead, there is, as yet, little contribution from TAM International within these results.

## Outlook and Current Trading

In May of this year we announced the conditional sale of our Coventry site. If an acceptable planning permission is granted we will use some of the proceeds to relocate within the Coventry area whilst leaving sufficient funds to help our growth in surface coatings and sealant chemistry.

Trading continues to be strong, running at a similar level to the first half of the year, as we prepare to expand our operations further into Malaysia and Australia in the latter part of this year.

Peter L Hay  
Chairman  
24 September 2007

# Consolidated Income Statement

for the half year ended 30 June 2007

		Unaudited 6 months 2007 £000	Unaudited 6 months 2006 £000	Unaudited 12 months 2006 £000
	<b>Note</b>			
<b>Revenue</b>		<b>11,634</b>	10,887	20,250
Cost of sales		<b>(7,326)</b>	(7,206)	(12,857)
<b>Gross profit</b>		<b>4,308</b>	3,681	7,393
Distribution expenses		<b>(237)</b>	(258)	(370)
Administrative expenses		<b>(2,802)</b>	(2,564)	(5,088)
Other operating income		<b>12</b>	–	133
<b>Operating profit</b>		<b>1,281</b>	859	2,068
Profit on sale of assets	2	–	–	417
Profit/(loss) on disposal of business	3	–	91	(290)
Finance income		<b>78</b>	39	193
Finance costs		<b>(80)</b>	(65)	(214)
<b>Profit before tax</b>		<b>1,279</b>	924	2,174
<b>Tax</b>		<b>(385)</b>	(238)	(573)
<b>Profit on ordinary activities after tax</b>		<b>894</b>	686	1,601
<b>Attributable to:</b>				
Equity holders of the parent		<b>872</b>	667	1,575
Minority interest		<b>22</b>	19	26
		<b>894</b>	686	1,601
<b>Basic earnings per share</b>	4	<b>6.0p</b>	4.6p	10.8p
<b>Diluted earnings per share</b>	4	<b>5.9p</b>	4.6p	10.7p

## Consolidated statement of recognised income and expense

for the half year ended 30 June 2007

	Unaudited 6 months 2007 £000	Unaudited 6 months 2006 £000	Unaudited 12 months 2006 £000
Profit for the year	<b>894</b>	686	1,601
Deferred tax on items taken directly to equity	<b>1</b>	3	6
Exchange differences on translation of foreign operations	<b>11</b>	(15)	(38)
<b>Total recognised income and expense for the year</b>	<b>906</b>	674	1,569
<b>Attributable to:</b>			
Equity shareholders	<b>884</b>	655	1,543
Minority interests	<b>22</b>	19	26
	<b>906</b>	674	1,569

The notes shown on pages 5 to 16 form part of these financial statements.

# Consolidated balance sheet

at 30 June 2007

	Unaudited at 30 June 2007		Unaudited at 30 June 2006		Unaudited at 31 December 2006	
	£000	£000	£000	£000	£000	£000
<b>Assets</b>						
<b>Non-current Assets</b>						
Goodwill	1,540		–		1,535	
Intangible assets	500		760		500	
Property, plant and equipment	2,422		4,990		4,094	
Investments	26		26		26	
Other receivables	178		218		198	
Total non-current assets		4,666		5,994		6,353
<b>Current Assets</b>						
Inventories	1,578		1,003		1,181	
Trade and other receivables	5,813		5,642		5,718	
Cash and cash equivalents	2,145		1,895		1,464	
Assets held for sale	2,111		–		271	
Total current assets		11,647		8,540		8,634
<b>Total Assets</b>		<b>16,313</b>		<b>14,534</b>		<b>14,987</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Financial liabilities	734		243		822	
Trade and other payables	3,847		4,027		3,352	
Provisions	183		180		190	
Current tax liabilities	577		388		405	
Total current liabilities		5,341		4,838		4,769
<b>Non-current liabilities</b>						
Financial liabilities	947		1,113		1,026	
Deferred tax liabilities	147		165		146	
Total non-current liabilities		1,094		1,278		1,172
<b>Total liabilities</b>		<b>6,435</b>		<b>6,116</b>		<b>5,941</b>
<b>Net assets</b>		<b>9,878</b>		<b>8,418</b>		<b>9,046</b>
<b>Equity</b>						
Share capital	1,473		1,452		1,452	
Share premium account	1,228		1,170		1,170	
Capital redemption reserve	94		94		94	
Other reserves	759		766		766	
Reserve for own shares	(146)		–		–	
Share scheme reserve	9		–		9	
Foreign exchange reserve	(28)		(19)		(39)	
Retained earnings	6,269		4,895		5,396	
<b>Equity attributable to equity holders of the parent company</b>		<b>9,658</b>		<b>8,358</b>		<b>8,848</b>
<b>Minority Interest</b>		<b>220</b>		<b>60</b>		<b>198</b>
<b>Total equity</b>		<b>9,878</b>		<b>8,418</b>		<b>9,046</b>

The notes shown on pages 5 to 16 form part of these financial statements.

# Consolidated cash flow statement

for the half year ended 30 June 2007

	Unaudited 6 months 2007		Unaudited 6 months 2006		Unaudited 12 months 2006	
	£000	£000	£000	£000	£000	£000
<b>Cash flows from operating activities</b>						
Operating profit	1,281		859		2,068	
Impairment of intangibles	-		-		8	
Depreciation	189		466		476	
Loss/(profit) on sale of assets	26		82		(78)	
Share option charge	-		-		9	
(Increase)/decrease in inventories	(397)		54		195	
(Increase)/decrease in receivables	(75)		(167)		543	
Increase/(decrease) in payables	496		39		(739)	
(Decrease)/increase in provisions	(7)		11		21	
Finance income	78		39		193	
Finance costs	(80)		(65)		(214)	
Tax paid	(212)		(54)		(333)	
<b>Net cash generated from operating activities</b>		<b>1,299</b>		<b>1,264</b>		<b>2,149</b>
<b>Cash flows from investing activities</b>						
Acquisition of subsidiaries net of cash acquired	-		-		(1,757)	
Purchase of property plant and equipment	(383)		(142)		(269)	
Expenditure on intangibles	(15)		-		-	
Proceeds from sale of business	-		-		17	
Net borrowing disposed of with subsidiary undertaking	-		-		134	
Proceeds from disposal of property plant and equipment	1		85		836	
<b>Net cash used in investing activities</b>		<b>(397)</b>		<b>(57)</b>		<b>(1,039)</b>
<b>Cash flows from financing activities</b>						
Dividends paid to shareholders	-		-		(407)	
Dividends paid to minority shareholders	-		-		(38)	
Net proceeds from issue of ordinary share capital	80		-		-	
Purchase of long term incentive plan shares	(146)		-		-	
Finance lease inception	23		-		-	
Finance lease repayment	(20)		(43)		(62)	
Increase in/(repayment of) borrowings	(240)		20		150	
New loans raised	74		-		-	
<b>Net cash used in financing activities</b>		<b>(229)</b>		<b>(23)</b>		<b>(357)</b>
<b>Net increase in cash and cash equivalents</b>		<b>673</b>		<b>1,184</b>		<b>753</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,464</b>		<b>711</b>		<b>711</b>
Effects of foreign exchange rate changes		8		-		-
<b>Cash and cash equivalents at the end of the period</b>		<b>2,145</b>		<b>1,895</b>		<b>1,464</b>

The notes shown on pages 5 to 16 form part of these financial statements.

# Notes to the financial statements

## 1 Accounting policies

### Accounting convention

The Group previously reported its financial statements under UK Generally Accepted Accounting Practice (GAAP). From 1st January 2007 the Group is required to prepare its financial statements in accordance with EU endorsed International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations (IFRIC). The comparative data for the six months to 30 June 2006, and the year ended 31 December 2006, have been restated and reconciliations are included in Note 5 to explain the changes. The financial statements are unaudited. The comparatives for the full year ended 31 December 2006 were based on the latest published audited accounts, but are subject to unaudited restatement to IFRS as endorsed for use in the European Union. They are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year, which were prepared in accordance with UK GAAP, has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) - (3) of the Companies Act 1985.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and the assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

### First time adoption of IFRS

The Group's transition date to IFRS was 1 January 2006, which is the beginning of the comparative period for the year ended 31 December 2007. The Group has applied IFRS 1 for the first time adoption of IFRS, and has elected to use the following exemptions:

- IFRS 3 has not been applied retrospectively to business combinations that occurred before 1 January 2006
- Cumulative translation differences for foreign operations have been deemed to be nil at 1 January 2006. Consequently any gain or loss arising on a subsequent disposal will exclude translation differences that arose before 1 January 2006.

### Accounting policies

**The following principal accounting policies have been applied:**

#### Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Acquisitions are accounted for by the purchase method. The cost of an acquisition is measured as the fair value at the date of exchange of the consideration provided plus any costs directly attributable to the acquisition. Identifiable assets and liabilities of the acquired business that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the date of acquisition. To the extent that the cost of an acquisition exceeds the fair value of the net assets acquired the difference is recorded as goodwill.

Transactions between and balances with Group companies are eliminated together with unrealised gains on inter-company transactions. Accounting policies of acquired companies are changed where necessary to be consistent with those of the Group.

#### Revenue

Revenue represents the invoiced amount of goods sold and services provided during the year, excluding value added and other sales taxes, trade discounts, and intra-group sales. Under IAS 18 revenue is recognised when performance has occurred and a right to consideration has been obtained. This is normally when goods have been delivered or services provided to the customer, title and risk of loss have been transferred and collection of related receivables is probable. Where the outcome of a long term contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity (the percentage of completion method) at the balance sheet date.

# Notes to the financial statements continued

## **Research and development**

Expenditure on applied research and development costs is charged to the Income Statement in the year in which it is incurred unless such costs should be capitalised under the requirements of the applicable standard.

## **Exceptional operating items**

Exceptional operating items are transactions which, by virtue of incidence, size or a combination of both are disclosed separately in notes to the financial statements and on the income statement.

## **Operating profit**

Operating profit is stated after the share of results of associates but before other non-recurring costs and income, investment income and finance costs.

## **Dividends**

The final dividend is only recognised at the point it is declared and approved by the shareholders at the Annual General Meeting. Interim dividends are recognised on payment.

## **Intangible assets**

### **Goodwill**

Goodwill arising on an acquisition of an undertaking is the difference between the fair value of the consideration paid plus any direct costs of acquisition and liabilities assumed, and the fair value of the identifiable assets and liabilities acquired. Under the Group's previous UK GAAP accounting policy goodwill recognised on the Balance Sheet was amortised over a fifteen-year period. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently where 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 never reversed in a subsequent period. Impairment charges are included in the administrative expense line of the Income Statement, except to the extent that they reverse gains previously recognised in the Statement of Recognised Income and Expense.

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 (1 January 2006) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been re-instated and is not included in determining any subsequent profit or loss on disposal.

### **Other intangible assets**

Separable intangible assets, such as trademarks, licences and brands are recognised separately from goodwill on all acquisitions after the date of transition. Brands identified in certain businesses have been assessed as having an indefinite useful life when coupled with continuing marketing spend to maintain the brand.

Under IFRS all intangible assets are reviewed for impairment on an annual basis.

## **Property, plant and equipment**

Under IAS 16 'Property, plant and equipment' are held at cost less accumulated depreciation, although some assets are carried at deemed cost, being the carrying value of freehold land and buildings as at 31 December 1999. All additions since

## Notes to the financial statements continued

this date are stated at cost. Depreciation is provided on property, plant and equipment, other than freehold land and plant in the course of construction, at rates calculated to write off the cost or deemed cost, less estimated residual value of each asset, evenly over its expected useful life as follows:

Freehold buildings	45 years
Long leasehold property	Over term of lease
Plant, vehicles and fixtures	3 to 10 years
Computer equipment	2 to 5 years

Impairment tests on the carrying value of property, plant and equipment are undertaken at the end of each year if events or changes in circumstances indicate that the carrying value may not be recoverable.

### Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

### Investments held for sale

Investments available for sale are initially recorded at cost and are then re-measured at fair value at each balance sheet date. Unrealised gains and losses arising on the re-measurement are recorded in equity. On disposal or impairment of the investments, cumulative gains and losses previously recognised in equity are transferred to the Income Statement. Where investments in equity instruments do not have a quoted market price and their fair value cannot be reliably measured, such instruments are stated at cost.

### Non-current assets held for sale

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

Non-current assets are classified as held for sale if their carrying value will be recovered through the sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition and management is committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of recognition.

### Inventories

In accordance with IAS 2 inventories are valued at the lower of cost on a first-in, first-out basis and net realisable value. Costs incurred in bringing each product to its present location and condition comprise:

- Raw materials - cost of purchase on a first-in, first-out basis.
- Work in progress and finished goods - cost of raw materials and labour plus attributable overheads based on the normal level of activity.
- Net realisable value is based on estimated selling price less further costs to completion and disposal.
- Provision is made for obsolete and slow moving items.
- Long-term contracts are assessed on a contract-by-contract basis. Where the outcome of a long term contract can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity (the percentage of completion method) at the balance sheet date and profit that is estimated to reflect fairly the profit arising up to that date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

# Notes to the financial statements continued

## **Trade receivables**

Trade receivables are stated initially at fair value then measured at amortised cost less provisions for impairment. Provisions for impairment are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Any impairment recorded is the difference between the carrying value of the receivables and the estimated future cash flows discounted where appropriate. Any impairment required is recorded in the Income Statement.

## **Leased assets**

Under IAS 17 assets held under leasing agreements and hire purchase contracts, where the Group has substantially all the risks and rewards of ownership ("finance leases"), are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as borrowings. Depreciation over the shorter of the assets' useful life and the lease term on the relevant assets is charged to the Income Statement.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the Income Statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amount payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the Income Statement on a straight-line basis over the term of the lease.

## **Borrowings**

Borrowings are recognised initially at fair value and subsequently at their amortised cost, net of the associated finance costs, which are amortised to the Income Statement over the life of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

## **Provisions**

Provision is made for onerous contracts and for product warranty claims when the Group has a present obligation as a result of past events, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

## **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits at call with banks, and other short term highly liquid investments that are readily convertible to a known amount of cash and are considered to be subject to insignificant risk of changes in value. Bank overdrafts are shown within borrowings as current liabilities.

## **Foreign currency translation**

### **Functional and presentation currency**

The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the financial currency).

### **Transactions and balances**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising are recognised in the Income Statement. Foreign currency monetary assets and liabilities are translated at the exchange rates ruling at the balance sheet date.

# Notes to the financial statements continued

## **Group companies**

The results of foreign operations and the balance sheets of foreign undertakings are translated into Sterling at the rates of exchange ruling at the balance sheet date. Assets and liabilities are translated into Sterling at the closing rate at the date of the balance sheet. On consolidation the effects of variances in exchange rates between the beginning and end of the financial year on the opening net investment in foreign undertakings are taken to equity.

## **Current and deferred taxation**

The tax expense represents the sum of the tax currently payable on the profit for the year, and the deferred tax. Provision for taxation is made using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on :

- The initial recognition of goodwill;
- Goodwill for which amortisation is not deductible;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit;
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted at the balance sheet date, and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same authority on either:

- The same taxable Group company; or
- Different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

## **Employee benefit costs**

### **Share based payments**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Income Statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Income Statement over the remaining vesting period.

### **Pensions**

Contributions to the Group's defined contribution scheme and to State managed retirement benefit schemes are charged to the Income Statement in the year in which they become payable.

# Notes to the financial statements continued

## 2 Profit on sale of assets

	Unaudited 6 months 2007 £000	Unaudited 6 months 2006 £000	Unaudited 12 months 2006 £000
Plasticraft Ltd property	–	–	417

## 3 Profit/(loss) on disposal of business

Profit on sale of impregnation business and assets	–	91	100
Loss on sale of BK Engineering Ltd	–	–	(390)
	–	91	(290)

## 4 Earnings per share

Profit after tax attributable to the equity shareholders	872	667	1,575
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	Number 000's	Number 000's	Number 000's
<b>Basic earnings per ordinary share</b>			
Weighted average number of ordinary shares in issue	14,567	14,524	14,524
Earnings per share	6.0p	4.6p	10.8p

### Fully diluted earnings per share

Weighted average number of ordinary shares in issue plus all share options	14,776	14,524	14,733
Earnings per share	5.9p	4.6p	10.7p

## 5 Explanation of transition to IFRS

Set out below are certain reconciliations to show the effect on the reported figures of the Group moving from UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS). The reconciliations of equity as at 1 January 2006 (the date of transition to IFRS) and as at 31 December 2006 (date of our last UK GAAP financial statements) and the reconciliation of profit for 2006, as required by IFRS 1, are shown below. In addition, a reconciliation of the effect of IFRS on the profit for the six months to June 2006 and on the equity as at 30th June 2006 is shown in order to allow a comparison of the effects for each period.

The individual standards giving rise to significant changes are shown below.

### IFRS 5 Non-current assets held for sale

In accordance with IFRS 5 various property belonging to Group companies at 31 December 2006 has been reclassified as 'Assets held for sale', and following the recent announcement to the Stock Exchange concerning the Group's Coventry site, that property has been similarly reclassified as held for sale.

### IAS 7 Cash flow statements

The cash flow statement has been reformulated under IAS 7 and incorporates the relevant adjustments made to the Balance Sheet and Income Statement.

### IAS 12 Income taxes

Under UK GAAP deferred tax was provided on timing differences between the accounting and taxable profit. Under IFRS, deferred tax is provided on temporary differences between the book carrying value and tax base of assets and liabilities. As a result, the Group's IFRS balance sheet includes an additional deferred tax liability in respect of fair value property revaluations on acquisitions and property rollover gains. In addition, deferred tax has been recognised on the adjustments between UK GAAP and IFRS, where necessary, with the majority of the net deferred tax asset relating to the adjustments for share options.

## Notes to the financial statements continued

### **IAS 37 Provisions**

In accordance with IAS 37 provisions for product warranty which were included with accruals under UK GAAP are now shown separately under IFRS.

### **IFRS 3 Business combinations**

In accordance with IFRS 3 the value of the 'TAM' brand acquired with the TAM Group of companies in December 2006 has been separately identified and in the opinion of the Directors had a value of £500,000 as at 31 December 2006.

Also in accordance with IFRS 3 Goodwill is no longer amortised but is subject to annual impairment tests. This resulted in a reduction of £50,000 in the amount charged to profit for amortisation in the year to 31 December 2006 and a reduction of £25,000 in that charge for the six months to 30 June 2006.

# Notes to the financial statements continued

## Reconciliation of equity at 1 January 2006

	Transition notes	UK GAAP £000	Accounting effect of transition to IFRS £000	Tax effect of transition to IFRS £000	IFRS £000
<b>Non-current assets</b>					
Goodwill		887			887
Intangible assets		–			–
Property, plant and equipment		5,272			5,272
Investments		26			26
Other receivables		–			–
<b>Total non-current assets</b>		<b>6,185</b>	<b>–</b>	<b>–</b>	<b>6,185</b>
<b>Current assets</b>					
Inventories		1,057			1,057
Trade and other receivables		5,693			5,693
Cash and cash equivalents		711			711
Assets held for sale		–			–
<b>Total current assets</b>		<b>7,461</b>	<b>–</b>	<b>–</b>	<b>7,461</b>
<b>Total assets</b>		<b>13,646</b>	<b>–</b>	<b>–</b>	<b>13,646</b>
<b>Current liabilities</b>					
Financial liabilities		282			282
Trade and other payables	1	4,012	(169)		3,843
Provisions	1	–	169		169
Current tax liabilities		239			239
<b>Total current liabilities</b>		<b>4,533</b>	<b>–</b>	<b>–</b>	<b>4,533</b>
<b>Non-current liabilities</b>					
Financial liabilities		1,200			1,200
Deferred tax liabilities	6 & 7	34		135	169
<b>Total non-current liabilities</b>		<b>1,234</b>	<b>–</b>	<b>135</b>	<b>1,369</b>
<b>Total liabilities</b>		<b>5,767</b>	<b>–</b>	<b>135</b>	<b>5,902</b>
<b>Total assets less total liabilities</b>		<b>7,879</b>	<b>–</b>	<b>(135)</b>	<b>7,744</b>
<b>Equity</b>					
Share capital		1,452			1,452
Share premium account		1,170			1,170
Revaluation reserve	4	545	(545)		–
Capital redemption reserve		94			94
Other reserves		766			766
Foreign exchange reserve		–			–
Retained earnings	4	3,811	545	(135)	4,221
<b>Equity attributable to the equity holders of the parent company</b>		<b>7,838</b>	<b>–</b>	<b>(135)</b>	<b>7,703</b>
Minority interests		41			41
<b>Total equity</b>		<b>7,879</b>	<b>–</b>	<b>(135)</b>	<b>7,744</b>

# Notes to the financial statements continued

## Reconciliation of equity as at 30 June 2006

	Transition notes	UK GAAP £000	Accounting effect of transition to IFRS £000	Tax effect of transition to IFRS £000	IFRS £000
<b>Non-current assets</b>					
Goodwill	3	735	25		760
Intangible assets		–			–
Property, plant and equipment		4,990			4,990
Investments		26			26
Other receivables	8	–	218		218
		5,751	243	–	5,994
<b>Current assets</b>					
Inventories		1,003			1,003
Trade and other receivables	8	5,860	(218)		5,642
Cash and cash equivalents		1,895			1,895
Assets held for sale		–			–
		8,758	(218)	–	8,540
<b>Total assets</b>		14,509	25	–	14,534
<b>Current liabilities</b>					
Financial liabilities		243			243
Trade and other payables	1	4,207	(180)		4,027
Provisions	1	–	180		180
Current tax liabilities		388			388
		4,838	–	–	4,838
<b>Non-current liabilities</b>					
Financial liabilities		1,113			1,113
Deferred tax liabilities	6 & 7	34		131	165
		1,147	–	131	1,278
<b>Total liabilities</b>		5,985	–	131	6,116
<b>Total assets less total liabilities</b>		8,524	25	(131)	8,418
<b>Equity</b>					
Share capital		1,452			1,452
Share premium account		1,170			1,170
Revaluation reserve	4	541	(541)		–
Capital redemption reserve		94			94
Other reserves		766			766
Foreign exchange reserve	9	–	(19)		(19)
Retained earnings	3, 4 & 9	4,441	585	(131)	4,895
<b>Equity attributable to the equity holders of the parent company</b>		8,464	25	(131)	8,358
Minority interests		60			60
<b>Total equity</b>		8,524	25	(131)	8,418

# Notes to the financial statements continued

## Reconciliation of equity as at 31 December 2006

	Transition notes	UK GAAP £000	Accounting effect of transition to IFRS £000	Tax effect of transition to IFRS £000	IFRS £000
<b>Non-current assets</b>					
Goodwill	2 & 3	1,985	(450)		1,535
Intangible assets	2	–	500		500
Property, plant and equipment	5	4,365	(271)		4,094
Investments		26			26
Other receivables	8	–	198		198
		6,376	(23)	–	6,353
<b>Current assets</b>					
Inventories		1,181			1,181
Trade and other receivables	8	5,916	(198)		5,718
Cash and cash equivalents		1,464			1,464
Assets held for sale	5	–	271		271
		8,561	73	–	8,634
<b>Total assets</b>		14,937	50	–	14,987
<b>Current liabilities</b>					
Financial liabilities		822			822
Trade and other payables	1	3,542	(190)		3,352
Provisions	1	–	190		190
Current tax liabilities		405			405
		4,769	–	–	4,769
<b>Non-current liabilities</b>					
Financial liabilities		1,026			1,026
Deferred tax liabilities	6 & 7	19		127	146
		1,045	–	127	1,172
<b>Total liabilities</b>		5,814	–	127	5,941
<b>Total assets less total liabilities</b>		9,123	50	(127)	9,046
<b>Equity</b>					
Share capital		1,452			1,452
Share premium account		1,170			1,170
Revaluation reserve	4	538	(538)		–
Capital redemption reserve		94			94
Other reserves		766			766
Share scheme reserve		9			9
Foreign exchange reserve	9	–	(39)		(39)
Retained earnings	3, 4 & 9	4,896	627	(127)	5,396
<b>Equity attributable to the equity holders of the parent company</b>		8,925	50	(127)	8,848
Minority interests		198			198
<b>Total equity</b>		9,123	50	(127)	9,046

# Notes to the financial statements continued

## Reconciliation of the income statement to 30 June 2006

	Transition notes	UK GAAP £000	Accounting effect of transition to IFRS £000	Tax effect of transition to IFRS £000	IFRS £000
<b>Revenue</b>		10,887			10,887
Cost of sales		(7,206)			(7,206)
<b>Gross profit</b>		3,681	–	–	3,681
Distribution expenses		(258)			(258)
Administrative expenses	3	(2,589)	25		(2,564)
<b>Operating profit</b>		834	25	–	859
Net profit on disposal of business and assets		91			91
Finance income		39			39
Finance costs		(65)			(65)
<b>Profit before tax</b>		899	25	–	924
<b>Tax</b>	7	(239)		1	(238)
<b>Profit on ordinary activities after tax</b>		660	25	1	686
<b>Attributable to:</b>					
Equity holders of the parent		641	25	1	667
Minority interest		19			19
		660	25	1	686
<b>Basic earnings per share</b>		4.4p	0.2p	–	4.6p
<b>Diluted earnings per share</b>		4.4p	0.2p	–	4.6p

# Notes to the financial statements continued

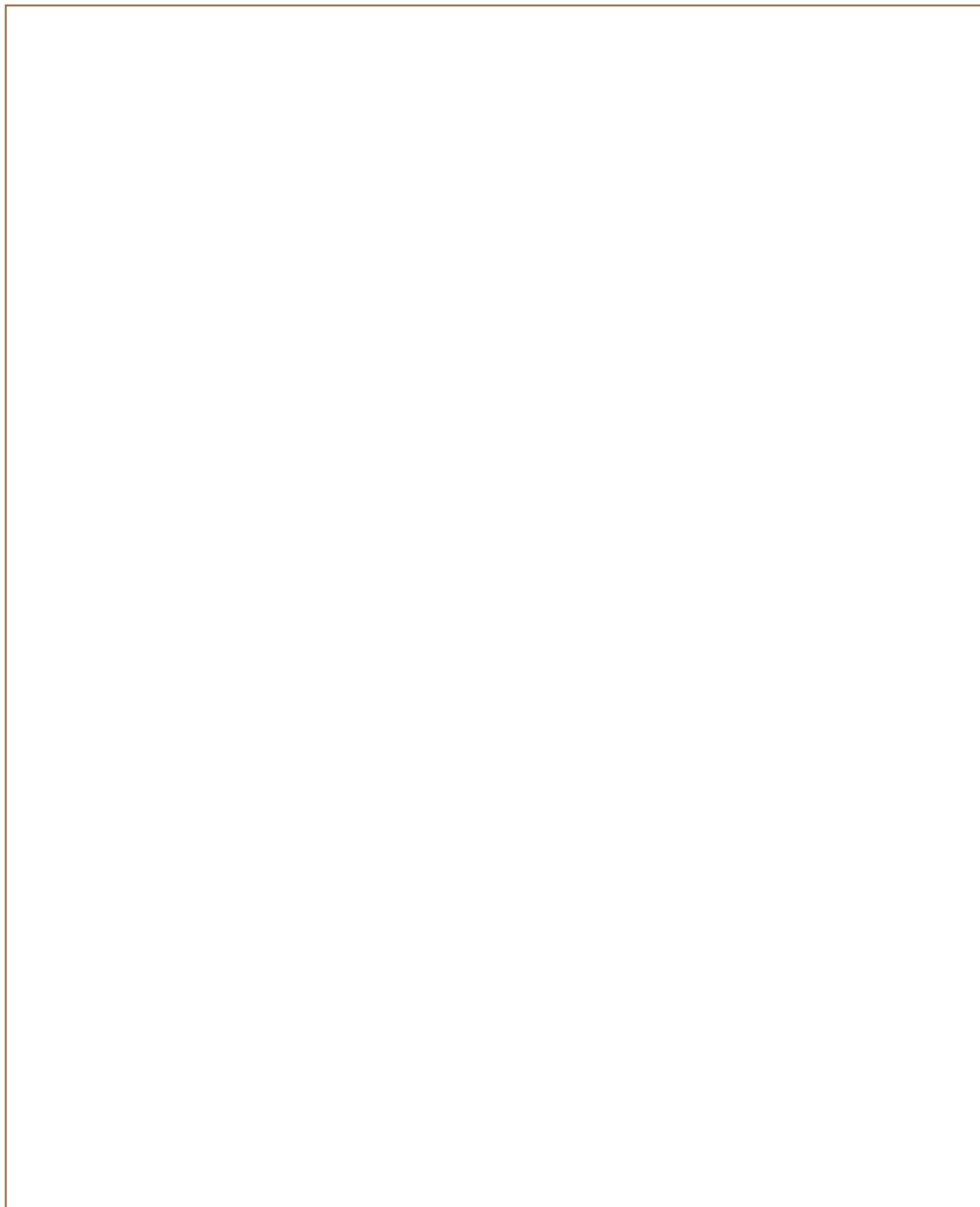
## Reconciliation of income statement to 31 December 2006

	Transition notes	UK GAAP £000	Accounting effect of transition to IFRS £000	Tax effect of transition to IFRS £000	IFRS £000
<b>Revenue</b>		20,250			20,250
Cost of sales		(12,857)			(12,857)
<b>Gross profit</b>		7,393	–	–	7,393
Distribution expenses		(370)			(370)
Administrative expenses	3	(5,138)	50		(5,088)
Other operating income		133			133
<b>Operating profit</b>		2,018	50	–	2,068
Profit on sale of assets		417			417
Loss on disposal of business		(290)			(290)
Finance income		193			193
Finance costs		(214)			(214)
<b>Profit before tax</b>		2,124	50	–	2,174
<b>Tax</b>	7	(575)		2	(573)
<b>Profit on ordinary activities after tax</b>		1,549	50	2	1,601
<b>Attributable to:</b>					
Equity holders of the parent		1,523	50	2	1,575
Minority interest		26			26
		1,549	50	2	1,601
<b>Basic earnings per share</b>		10.5p	0.3p	–	10.8p
<b>Diluted earnings per share</b>		10.3p	0.4p	–	10.7p

### Transition notes

- Provisions were included with 'Trade and other payables' under UK GAAP
- Goodwill at 31 December 2006 included a sum of £500,000 relating to the value of trademarks, which is shown separately under IFRS.
- Amortisation of goodwill of £50,000 per annum is not required under IFRS as this asset is subject to annual impairment reviews.
- Under IFRS the revaluation reserve is now transferred to retained earnings.
- Various property is considered to be 'Assets held for sale' under IFRS.
- The revaluation of property gives rise to a liability for deferred tax of £161,000 which is recognised under IFRS.
- The expense relating to share based payments is not tax deductible at the time of grant and this gives rise to deferred tax adjustments.
- The long term element of the debt due in relation to the sale of certain business and assets to Space Seal Ltd is now shown as 'Other receivables' in 'Non-current assets'.
- Foreign exchange differences arising on translation of overseas subsidiaries are now shown separately.

# Notes





# Directors and advisers

## **Directors**

### **Peter L Hay**

Chairman

### **Victor P Bellanti**

Chief Executive

### **Anthony M Hay**

Non-Executive Director

### **David W Miller**

Non-Executive Director

## **Secretary and registered office**

### **Brigid M Cattle**

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