

Regulatory Announcement
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HARGREAVES SERVICES PLC (the "Company")
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Restatement of financial information under International Financial Reporting Standards

Introduction

Hargreaves Services Plc ("the Group") has historically prepared its consolidated financial statements under UK Generally Accepted Accounting Practice ("UK GAAP"). The AIM rules require the adoption of Adopted IFRS as adopted by the EU ("Adopted IFRS").

Adopted IFRS will apply for the first time in the Group's financial statements for the year ending 31 May 2008. Accordingly the financial results for the 6 months ended 30 November 2007 will be prepared and reported under Adopted IFRS. As the Group publishes comparative information in its Annual Report and Interim Statement the date of transition to Adopted IFRS is 1 June 2006.

To explain how the Group's reported performance and financial position are affected by this change, information previously published under UK GAAP is restated under Adopted IFRS in the attached appendices as follows:

Appendix 1

Adopted IFRS accounting policies;

Appendix 2

Financial information on an Adopted IFRS basis for the 6 months ended 30 November 2006 and the year ended 31 May 2007 and the transition balance sheet at 1 June 2006;

Appendix 3

Reconciliations of consolidated income statement, consolidated balance sheet and consolidated statement of cash flows for the year ended 31 May 2007 with explanations of the adjustments made;

Appendix 4

Reconciliations of consolidated income statement, consolidated balance sheet and consolidated statement of cash flows for the 6 months ended 30 November 2006, with explanations of the adjustments made;

Appendix 5

Reconciliation of transition consolidated balance sheet at 1 June 2006, with explanations of adjustments made.

This unaudited financial information has been prepared on the basis of Adopted IFRSs expected to be applicable at 31 May 2008. These are subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the IASB and are therefore still subject to change. We will update our restated information for any such changes when they occur.

The adoption of IFRS has an impact on the presentation of the Group's accounts but does not change the underlying business performance. There are no changes to the business model, strategy or risk management processes.

References to IFRS throughout this document refer to the application of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees, and as interpreted by any regulatory bodies applicable to the Group.

Basis of preparation

The unaudited financial information has been prepared in accordance with the recognition and measurement requirements of adopted IFRS. The accounting policies expected to be applied in the adopted IFRSs financial statements for the year ending 31 May 2008 are set out in Appendix 1.

The auditors have issued unqualified opinions on the Group's UK GAAP financial statements for the years ended 31 May 2006 and 31 May 2007.

Both the transition balance sheet as at 1 June 2006 and the financial information for the year ended 31 May 2007, as prepared on the above basis, will be audited as part of the audit of the financial statements for the year ending 31 May 2008. Subject to that audit, EU endorsement of outstanding standards and no further changes from the IASB, this information is expected to form the basis for comparatives when reporting financial results for 2008, and for subsequent reporting periods.

Overview of impact

For the year ended 31 May 2007 the net increase in total recognised income and expense attributable to equity holders of the Group as a result of the conversion to Adopted IFRS was £240,000. The details of these adjustments are given in Appendices 2 and 3.

Based on the accounting policies detailed in Appendix 1, the effect on key reported results is as follows:

	6 months ended 30 November 2006		Year ended 31 May 2007	
	IFRS Unaudited £000	UK GAAP Unaudited £000	IFRS Unaudited £000	UK GAAP Audited £000
Operating profit	3,898	3,903	9,891	9,947
Profit for the period attributable to equity holders of the company	2,901	2,508	6,414	5,636
Net assets	27,056	27,697	41,034	41,828
Basic EPS	12.25p	10.59p	26.32p	23.12p

The main areas where Adopted IFRS has impacted on the results are as follows:

- Goodwill arising from acquisitions is no longer amortised, increasing reported profits and net assets.
- Foreign currency forward and swap contracts and interest rate swaps are included in the financial statements at fair value with changes being recognised in the profit and loss account.
- The fair value of the customer contracts at the date of acquisition of Norec Ltd is capitalised and amortised over the period in which it is delivered, reducing reported profits.

Full details of the adjustments required are given in Appendix 3.

IFRS 1 exemptions

IFRS 1 First Time Adoption of International Financial Reporting Standards, permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Group has utilised the following key exemptions:

- (a) Share based payments: The Group has elected to apply IFRS 2 Share based payments only to share based payment transactions granted after 7 November 2002 that had not vested prior to the transition date.
- (b) Business combinations: The Group has chosen not to restate business combinations prior to the transition date.
- (c) Property, Plant and Equipment: The Group has opted to continue to measure property, plant and equipment at historical cost less accumulated depreciation, in the transition consolidated balance sheet.

Appendix 1 IFRS

Accounting Policies

This section provides a summary of the Group's accounting policies under adopted IFRS for the year ending 31 May 2008. Where policies have changed under adopted IFRS as compared to UK GAAP this is indicated by *.

Basis of preparation

The preliminary IFRS financial information set out on pages 9 to 21 does not constitute the company's statutory accounts for the year ended 31 May 2007. Those accounts, which were 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 (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The financial information is presented in pounds sterling, rounded to the nearest thousand, and is prepared on the historical cost basis with some exemptions, as detailed in the accounting policies set out below.

These accounting policies have been prepared on the basis of the recognition and measurement requirements of adopted IFRSs as at 30 November 2007 that are anticipated to be effective (or available for early adoption) at 31 May 2008, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted IFRSs, the directors have applied the accounting policies as set out below, which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 31 May 2008.

However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 May 2008 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 31 May 2008.

The preparation of this financial information resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently throughout the Group to all periods presented in this financial information.

The preparation of financial information in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where 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. The financial statements of subsidiaries are included in the consolidated financial information from the date control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated when preparing the consolidated financial information.

Associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

A jointly controlled entity is an entity over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic, financial and operating decisions. The consolidated accounts include the Group's share of the total recognised income and expense of jointly controlled entities and associates on an equity accounted basis. The results of jointly controlled entities and associates are included in the consolidated accounts from the date that joint control or significant influence respectively, commences until the date that it ceases.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

The balance sheet assets and liabilities of foreign subsidiaries are translated into sterling at the exchange rate at the balance sheet date, and the income statement is translated at the average rate. Gains and losses are then taken to a separate reserve.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no

obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument. Finance payments associated with financial liabilities are dealt with as part of finance expenses.

Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Financial instruments

Derivative financial instruments* - Appendix 3(b)

The Group uses interest rate swaps to help manage its interest rate risk, and forward foreign currency contracts to manage its exchange rate risk.

The Group also uses derivative sale and purchase contracts to mitigate the risk of fluctuating coal prices and exchange rate risk.

All derivative financial instruments are recognised initially at fair value and subsequently re-measured to fair value at each reporting date and changes therein are accounted for as described below.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit and loss. Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement.

Derivatives are intended to be highly effective in mitigating the above risks, and hedge accounting is adopted where the required hedge documentation is in place and the relevant test criteria are met.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement as part of financing costs.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Mine development costs at Maltby Colliery are capitalised and depreciated over the working life of the area of the mine to which the costs are attributable.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation rates are as follows:

Mineral Reserves	12.5% p.a.
Freehold Buildings	2% to 4% p.a.
Leasehold improvements	15% p.a.
Motor vehicles and plant	10% to 20% p.a.
Furniture and equipment	25% p.a.
Fixtures and Fittings	15% p.a.

Intangible assets and goodwill* - Appendix 3(a)

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill arises from the acquisition of businesses and represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill arising on acquisitions that have occurred since 1 June 2006 is capitalised and subject to impairment review, both annually and when there are indications the carrying value may not be recoverable. Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Goodwill arising on acquisitions prior to 1 June 2006 was capitalised and amortised under UK GAAP. This goodwill is carried at the UK GAAP carrying value at the date of transition to adopted IFRS and is subject to impairment reviews as described above.

Other intangible assets that are acquired by the Group, which have finite useful economic lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

At Maltby Colliery, the cost of preparing proceeding coal faces is held on the balance sheet within work in progress and is charged on a tonnage-extracted basis over the estimated production life of the relevant face.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the agreed terms of the receivables concerned.

Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Trade and other payables

Trade and other payables are non-interest bearing and are recognised at fair value.

Impairment* - Appendix 3(a)

The carrying amounts of the Group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been

determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined benefit pension plans

Following the acquisition of The Monckton Coke & Chemical Co Ltd on 17 June 2005 and Maltby Colliery on 26 February 2007, the Group operates two concessionary fuel retirement benefit schemes.

In addition following the acquisition of Maltby Colliery, the Group is a member of two pension schemes providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

The retirement benefit scheme liabilities are measured using the projected unit method. The concessionary fuel retirement benefit schemes are unfunded retirement benefits and as such there are no assets in the schemes. The retirement benefit deficits are recognised in full, the movement in the scheme deficits is split between operating charges, finance items and in the statement of total recognised income and expense, actuarial gains and losses.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and in the statement of total recognised income and expenses, actuarial gains and losses.

Defined contribution pension plans

The group operates a group personal pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the financial period. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-based payment transactions

The Group operates a share option scheme for certain employees. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Revenue

Revenue is measured at the fair value of consideration received or receivable, excluding value added tax, for goods and services supplied to external customers. It includes the Group's share of revenue from work carried out under jointly controlled operations. Sales of goods and services are recognised when they are delivered and title has passed.

Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest costs charged to the income statement on the outstanding balance. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested together with changes in the fair values of interest rate swaps and foreign currency forward contracts through the profit and loss and the expected returns on plan assets and interest on the pension scheme liability.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method.

Income tax* - Appendix 3(e)

Income tax on the profit or loss for the period comprises both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Appendix 2 Consolidated Income Statement

	6 months ended 30 November 2006 Unaudited £000	Year ended 31 May 2007 Unaudited £000
Revenue	102,684	240,105
Cost of sales	(92,936)	(213,164)
Gross profit	9,748	26,941
Other (expense)/income	(16)	25
Administrative expenses	(5,834)	(17,075)
Operating profit	3,898	9,891
Finance income	618	324

Finance expenses	(574)	(920)
Share of profit of joint ventures	205	270
Share of profit of associates	-	56
Profit before income tax	4,147	9,621
Income tax	(1,253)	(3,134)
Profit for the period	2,894	6,487
Attributable to:		
Equity holders of the company	2,901	6,414
Minority Interest	(7)	73
Profit for the period	2,894	6,487
Basic earnings per share	12.25p	26.32p
Diluted earning per share	12.21p	26.16p

Appendix 2 Consolidated Balance Sheet

	1 June 2006 Unaudited £000	30 November 2006 Unaudited £000	31 May 2007 Unaudited £000
ASSETS			
Non-current assets			
Property, plant and equipment	21,146	24,209	63,178
Intangible assets	5,422	11,531	12,630
Investments in joint ventures	897	1,110	881
Investments in associates	-	-	58
Other investments, including derivatives	127	159	220
Other receivables	500	500	500
Deferred tax assets	-	-	502
Total non-current assets	28,092	37,509	77,969
Current assets			
Inventories	15,055	15,208	35,027
Other investments, including derivatives	-	-	-
Trade and other receivables	21,167	32,291	38,406
Cash and cash equivalents	15,022	3,788	11,779
Total current assets	51,244	51,287	85,212
Total assets	79,336	88,796	163,181
LIABILITIES			
Non-current liabilities			
Loans and borrowings	(19,521)	(18,582)	(38,477)
Other non-current liabilities	(2,000)	-	-
Derivative financial instruments	-	-	(631)
Deferred tax liabilities	(1,448)	(1,618)	-
Retirement benefit obligations	(469)	(469)	(9,411)
Provisions	(2,671)	(2,671)	(10,327)
Total non-current liabilities	(26,109)	(23,340)	(58,846)
Current liabilities			
Trade and other payables	(23,439)	(30,822)	(49,505)
Current income tax liabilities	(1,550)	(2,099)	(1,851)
Borrowings	(1,915)	(4,956)	(11,740)
Derivative financial instruments	(1,059)	(523)	(205)
Total current liabilities	(27,963)	(38,400)	(63,301)

Total liabilities	(54,072)	(61,740)	(122,147)
Net assets	25,264	27,056	41,034
EQUITY			
Capital and reserves attributable to equity holders			
Issued capital	2,368	2,368	2,627
Share premium	19,082	19,082	29,177
Other reserves	29	29	29
Translation reserve	-	-	(4)
Merger reserve	-	-	1,022
Hedging reserve	-	-	(538)
Capital redemption reserve	1,530	1,530	1,530
Retained earnings	2,255	4,054	7,041
	25,264	27,063	40,884
Minority interest in equity	-	(7)	150
	25,264	27,056	41,034

Appendix 2 Consolidated Statement of Cash Flows

	6 months ended 30 November 2006 Unaudited £000	Year ended 31 May 2007 Unaudited £000
Cash flows from operating activities		
Profit for the period	2,894	6,487
<i>Adjustments for:</i>		
Depreciation	1,758	5,030
Amortisation of intangible assets	228	685
Negative goodwill on acquisition	-	(84)
Share of profit of joint ventures	(205)	(270)
Share of profit of associates	-	(56)
Gain on sale of property, plant and equipment	16	(25)
Equity-settled share-based payment transactions	90	268
Net finance (income)/expense	(44)	596
Income tax expense	1,253	3,134
	5,990	15,765
Change in inventories	(153)	(13,254)
Change in trade and other receivables	(3,553)	(4,914)
Change in trade and other payables	3,713	10,691
Change in provisions and employee benefits	-	117
Cash from operating activities	5,997	8,405
Interest paid	(571)	(1,971)
Income tax paid	(982)	(2,245)
Net cash inflow from operating activities	4,444	4,189
Cash flows from investing activities		
Interest received	50	324
Proceeds from sale of property, plant and equipment	241	794
Acquisition of property, plant and equipment	(3,014)	(8,661)
Acquisition of subsidiary, net of cash acquired	(7,710)	(33,693)
Acquisition of other investments	-	75
Net cash outflow from investing activities	(10,433)	(41,161)
Cash flows from financing activities		
Proceeds from issue of shares	-	10,332
Proceeds of borrowings	-	15,000
Repayments of borrowings	(3,006)	(1,164)
Repayment of finance lease liabilities	(848)	(1,947)
Proceeds from invoice discounting facility	(207)	3,656
Dividends paid	(1,184)	(1,972)

Net cash (outflow)/inflow from financing activities	(5,245)	23,905
Net decrease in cash and cash equivalents	(11,234)	(13,067)
Cash and cash equivalents at the start of the period/year	15,022	15,022
Cash and cash equivalents at the end of the period/year	3,788	1,955

Appendix 2 Consolidated Statement of Recognised Income and Expense

	6 months ended 30 November 2006 Unaudited £000	Year ended 31 May 2007 Unaudited £000
Foreign currency translation differences for foreign operations	-	(4)
Effective portion of changes in fair value of cash flow hedges	-	(769)
Defined benefit plan actuarial gains	-	108
Income tax on income and expense recognised directly in equity	-	199
Income and expense recognised directly in equity	-	(466)
Profit for the period	2,894	6,487
Total recognised income and expense for the period	2,894	6,021
Attributable to:		
Equity holders of the company	2,901	5,948
Minority interest	(7)	73
Total recognised income and expense for the period	2,894	6,021

Total recognised income and expense attributable to equity holders of the Group for the year ended 31 May 2007 is £5,948,000 compared to £5,708,000 under UK GAAP, a difference of £240,000. This difference has resulted from an increase of £778,000 on the profit for the year and an additional expense of £538,000 on the income and expense recognised directly in equity.

Appendix 3 Reconciliation of Consolidated Income Statement - Unaudited for the year ended 31 May 2007

	UK GAAP		IFRS adjustments			IFRS
	£000	Goodwill	IAS 32 & 39	Intangibles	Reclassification	£000
		(a)	(b)	(c)	(d)	
Revenue	240,105	-	-	-	-	240,105
Cost of sales	(213,164)	-	-	-	-	(213,164)
Gross profit	26,941	-	-	-	-	26,941
Other income : group	25	-	-	-	-	25
Other income : joint ventures	30	-	-	-	(30)	-
Administrative expenses	(17,049)	659	-	(685)	-	(17,075)
Operating profit	9,947	659	-	(685)	(30)	9,891
Finance income	358	-	-	-	(34)	324
Finance expenses : group	(2,068)	-	1,148	-	-	(920)
Finance expenses : joint ventures	(99)	-	-	-	99	-
Share of profit of joint ventures	413	-	-	-	(143)	270
Share of profit of associates	76	-	-	-	(20)	56
Profit before income tax	8,627	659	1,148	(685)	(128)	9,621
Income tax expense	(2,918)	-	(344)	-	128	(3,134)
Profit for the period	5,709	659	804	(685)	-	6,487
Profit for the period attributable to equity holders of the Company	5,636	659	804	(685)	-	6,414
Profit for the period attributable to minority interest	73	-	-	-	-	73

Appendix 3 Reconciliation of Consolidated Balance Sheet - Unaudited at 31 May 2007

	UK GAAP		IFRS adjustments			IFRS
	£000	Goodwill	IAS 32 & 39	Intangibles	Reclassification	£000
		(a)	(b)	(c)	(e)	
ASSETS						
Non-current assets						
Property, plant and equipment	63,178	-	-	-	-	63,178
Intangible assets	12,979	336	-	(685)	-	12,630

Investments in joint ventures	881	-	-	-	-	881
Investments in associates	58	-	-	-	-	58
Other investments, including derivatives	20	-	200	-	-	220
Other receivables	500	-	-	-	-	500
Deferred tax assets	-	-	191	-	311	502
Total non-current assets	77,616	336	391	(685)	311	77,969
Current assets						
Inventories	35,027	-	-	-	-	35,027
Trade and other receivables	38,406	-	-	-	-	38,406
Cash and cash equivalents	11,779	-	-	-	-	11,779
Total current assets	85,212	-	-	-	-	85,212
Total assets	162,828	336	391	(685)	311	163,181
LIABILITIES						
Non-current liabilities						
Loans and borrowings	(38,477)	-	-	-	-	(38,477)
Other non-current liabilities	-	-	-	-	-	-
Derivative financial instruments	-	-	(631)	-	-	(631)
Deferred tax liabilities	-	-	-	-	-	-
Retirement benefit obligations	(6,588)	-	-	-	(2,823)	(9,411)
Provisions	(12,839)	-	-	-	2,512	(10,327)
Total non-current liabilities	(57,904)	-	(631)	-	(311)	(58,846)
Current liabilities						
Trade and other payables	(51,356)	-	-	-	1,851	(49,505)
Current income tax liabilities	-	-	-	-	(1,851)	(1,851)
Borrowings	(11,740)	-	-	-	-	(11,740)
Derivative financial instruments	-	-	(205)	-	-	(205)
Total current liabilities	(63,096)	-	(205)	-	-	(63,301)
Total liabilities	(121,000)	-	(836)	-	(311)	(122,147)
Net assets/(liabilities)	41,828	336	(445)	(685)	-	41,034
EQUITY						
Capital and reserves attributable to equity holders of the company						
Issued capital	2,627	-	-	-	-	2,627
Share premium	29,177	-	-	-	-	29,177
Other reserves	29	-	-	-	-	29
Translation reserve	-	-	-	-	(4)	(4)
Merger reserve	1,022	-	-	-	-	1,022
Hedging reserve	-	-	(538)	-	-	(538)
Capital redemption reserve	1,530	-	-	-	-	1,530
Retained earnings	7,293	336	93	(685)	4	7,041
	41,678	336	(445)	(685)	-	40,884
Minority interest in equity	150	-	-	-	-	150
	41,828	336	(445)	(685)	-	41,034

**Appendix 3 Reconciliation of Consolidated Statement of Cash Flows - Unaudited
for the year ended 31 May 2007**

	UK GAAP		IFRS adjustments			IFRS
	£000	£000	Goodwill	IAS 32 & 39	Intangibles	Reclass
			(a)	(b)	(c)	(d)
			£000	£000	£000	£000
Cash flows from operating activities						
Profit for the period	5,709	659	804	(685)	-	6,487
<i>Adjustments for:</i>						
Depreciation	5,030	-	-	-	-	5,030
Amortisation of intangible assets	-	-	-	685	-	685
Impairment losses on goodwill	-	-	-	-	-	-
Amortisation of goodwill/Negative goodwill on acquisition	575	(659)	-	-	-	(84)
Share of profit of joint ventures	(413)	-	-	-	143	(270)
Share of profit of associates	(76)	-	-	-	20	(56)
Gain on sale of property, plant and equipment	(55)	-	-	-	30	(25)
Equity-settled share-based payment transactions	268	-	-	-	-	268
Net finance expense	1,809	-	(1,148)	-	(65)	596

Income tax expense	2,918	-	344	-	(128)	3,134
	15,765	-	-	-	-	15,765
Change in inventories	(13,254)	-	-	-	-	(13,254)
Change in trade and other receivables	(4,914)	-	-	-	-	(4,914)
Change in trade and other payables	10,691	-	-	-	-	10,691
Change in provisions and employee benefits	117	-	-	-	-	117
Cash from operating activities	8,405	-	-	-	-	8,405
Interest paid	(1,971)	-	-	-	-	(1,971)
Income tax paid	(2,245)	-	-	-	-	(2,245)
Net cash inflow from operating activities	4,189	-	-	-	-	4,189
Cash flows from investing activities						
Interest received	324	-	-	-	-	324
Proceeds from sale of property, plant and equipment	794	-	-	-	-	794
Acquisition of property, plant and equipment	(8,661)	-	-	-	-	(8,661)
Acquisition of subsidiary net of cash acquired	(33,693)	-	-	-	-	(33,693)
Acquisition of other investments	75	-	-	-	-	75
Net cash outflow from investing activities	(41,161)	-	-	-	-	(41,161)
Cash flows from financing activities						
Proceeds from the issue of share capital	10,332	-	-	-	-	10,332
Proceeds from borrowings	15,000	-	-	-	-	15,000
Repayment of borrowings	(1,164)	-	-	-	-	(1,164)
Repayment of finance lease liabilities	(1,947)	-	-	-	-	(1,947)
Proceeds from invoice discounting facility	3,656	-	-	-	-	3,656
Dividends paid	(1,972)	-	-	-	-	(1,972)
Net cash inflow from financing activities	23,905	-	-	-	-	23,905
Net decrease in cash and cash equivalents	(13,067)	-	-	-	-	(13,067)
Cash and cash equivalents at the start of the period	15,022	-	-	-	-	15,022
Cash and cash equivalents at the end of the period	1,955	-	-	-	-	1,955

(a) & (c) IFRS 3 – Business Combinations

Under UK GAAP, the Group amortised the cost of goodwill arising on acquisition of subsidiaries over its useful life. Under IFRS 3, goodwill on acquisition is no longer amortised, but is held at its acquired prior to the transition date to IFRS carrying value at the transition date, or acquisition date, as appropriate, and is then subject to impairment review at each reporting date.

The Group has restated the value of goodwill in its balance sheet to that at the transition date (1 June 2006) and has carried out an impairment review as at 1 June 2006 and 31 May 2007. The impact has been to decrease profit by £5,000 in the six months ended 30 November 2006 and decrease profit by £26,000 in the year ended 31 May 2007, which includes a reversal of goodwill amortisation of £659,000 and an intangible asset amortisation charge of £685,000 (with a corresponding decrease in the carrying value of goodwill).

The group has accounted for acquisitions that have occurred since 1 June 2006 in accordance with IFRS 3 'Business Combinations'. Under IFRS 3, intangible assets purchased as part of a business combination may meet the criteria set out in IFRS 3 for categorisation as an intangible asset other than goodwill and are then amortised over their useful economic life.

Norec Ltd

On 1 September 2006 the Group acquired the entire issued share capital of Norec. Under UK GAAP the fair value of the consideration was £7,397,000 and the fair value of the net assets acquired was £1,061,000, which gave rise to £6,336,000 goodwill on acquisition.

The group has recognised an intangible asset under IFRS 3 for the customer contracts acquired. This has been fair valued at £5,707,000 at the date of acquisition by the group. This is being amortised over the period in which the contracts are expected to expire, which is 75 months leaving a carrying amount of £5,022,000 at 31 May 2007.

Hargreaves Bulk Liquid Transport Ltd

On 22 January 2007 the Group acquired the remaining 50% issued share capital of Hargreaves Bulk Liquid Transport Ltd (previously a 50% joint venture). Under UK GAAP the fair value of the consideration was £1,809,000 and the fair value of the net assets acquired was £280,000, which gave rise to £1,529,000 goodwill on acquisition.

The group has recognised no intangible assets under IFRS 3, as there are no material separately identifiable intangible assets such as key customer contracts, brand names, non-compete agreements etc.

(b) IAS 32 and 39 Financial Instruments

Under UK GAAP, the fair values of foreign exchange contracts, interest rate swaps and other derivative financial instruments, were not required to be recorded in the financial statements. Under IFRS, IAS 39 requires foreign exchange contracts and interest rate swaps to be recorded in the balance sheet at their fair value and movements in the fair value between balance sheet dates are included in the income statement.

The value of the Group's foreign exchange contracts and interest rate swap at balance sheet dates and the impact on the consolidated income statement are set out below:

	Fair value £000	Deferred tax £000	Net impact £000
Value at 1 June 2006	(1,015)	304	(711)
Movement in value in 6 months to 30 November 2006	568	(170)	398
Value at 30 November 2006	(447)	134	(313)
Movement in value in 6 months to 31 May 2007	580	(174)	406
Value at 31 May 2007	133	(40)	93

The Group has entered into a derivative contract for the sale and purchase of coking coal. This contract bases the sale price to a specific major Group customer on the API international coal index, and also contracts to purchase the coke from a third party, thus effectively hedging the group's risk to both exchange rate fluctuations and coal price fluctuations in the market.

The fair value is the estimated amount that the Group would have to pay to terminate the purchase contract at the balance sheet date, taking account of current API index prices, foreign currency exchange rates and the current credit worthiness of swap counterparties.

Under IAS39 the group are able to hedge account for this arrangement, as it is able to prove the effective relationship between the hedging instrument and the hedged item. Hedge accounting permits any movement in the fair value of the hedge to be recognised in reserves rather than in the income statement. The movement is disclosed in the statement of recognised income and expense.

	Fair value £000	Deferred tax £000	Net impact £000
Value at 31 May 2007	(769)	231	(538)

(d) Reclassifications Under UK GAAP, the Group's share of operating profits and taxation from joint ventures was shown separately in the income statement. IAS 31 requires the Group's share of its joint ventures profit to be shown net of tax on a single line in the income statement. This is a reclassification adjustment in the consolidated income statement only and no adjustment is required to the consolidated balance sheet.

Deferred tax liabilities previously included in provisions in the consolidated balance sheet have been reclassified and disclosed separately on the face of the consolidated balance sheet as a deferred tax liability.

Income tax liabilities previously included in trade and other payables has been reclassified and shown separately on the face of the consolidated balance sheet as a current tax payable.

Under UK GAAP, the Group's pension scheme liability was shown in the balance sheet net of the related deferred tax asset. IAS19 requires the Group's pension scheme liability to be shown gross in the balance sheet and the associated deferred tax asset has been reclassified to deferred tax liabilities. Appendix 4 Reconciliation of Consolidated Income Statement - Unaudited for the six months ended 30 November 2006

	UK GAAP		IFRS adjustments			IFRS
	£000	Goodwill (a) £000	IAS 32 & 39 (b) £000	Intangibles (c) £000	Reclassification (d) £000	£000
Revenue	102,684	-	-	-	-	102,684
Cost of sales	(92,936)	-	-	-	-	(92,936)
Gross profit	9,748	-	-	-	-	9,748
Other income	(16)	-	-	-	-	(16)
Administrative expenses	(5,829)	223	-	(228)	-	(5,834)
Operating profit	3,903	223	-	(228)	-	3,898
Finance income	50	-	568	-	-	618
Finance expenses : group	(574)	-	-	-	-	(574)
Finance expenses : joint ventures	(33)	-	-	-	33	-
Share of profit of joint ventures	326	-	-	-	(121)	205
Profit before income tax	3,672	223	568	(228)	(88)	4,147
Income tax expense	(1,171)	-	(170)	-	88	(1,253)
Profit for the period	2,501	223	398	(228)	-	2,894
Profit for the period attributable to equity holders of the Company	2,508	223	398	(228)	-	2,901
Loss for the period attributable to minority interest	(7)	-	-	-	-	(7)

(a), (b), (c), (d) - see Appendix 3 for comments

Appendix 4 Reconciliation of Consolidated Balance Sheet - Unaudited at 30 November 2006

	UK GAAP		IFRS adjustments			IFRS
	£000	Goodwill (a) £000	IAS 32 & 39 (b) £000	Intangibles (c) £000	Reclass (d) £000	£000
ASSETS						

Non-current assets						
Property, plant and equipment	24,209	-	-	-	-	24,209
Intangible assets	11,859	(100)	-	(228)	-	11,531
Investments in joint ventures	1,110	-	-	-	-	1,110
Investments in associates	-	-	-	-	-	-
Other investments, including derivatives	83	-	76	-	-	159
Other receivables	500	-	-	-	-	500
Total non-current assets	37,761	(100)	76	(228)	-	37,509
Current assets						
Inventories	15,208	-	-	-	-	15,208
Other investments, including derivatives	-	-	-	-	-	-
Trade and other receivables	32,291	-	-	-	-	32,291
Cash and cash equivalents	3,788	-	-	-	-	3,788
Total current assets	51,287	-	-	-	-	51,287
Total assets	89,048	(100)	76	(228)	-	88,796
LIABILITIES						
Non-current liabilities						
Loans and borrowings	(18,582)	-	-	-	-	(18,582)
Deferred tax liabilities	-	-	134	-	(1,752)	(1,618)
Retirement benefit obligations	(328)	-	-	-	(141)	(469)
Provisions	(4,564)	-	-	-	1,893	(2,671)
Total non-current liabilities	(23,474)	-	-	-	-	(23,340)
Current liabilities						
Trade and other payables	(32,921)	-	-	-	2,099	(30,822)
Current income tax liabilities	-	-	-	-	(2,099)	(2,099)
Borrowings	(4,956)	-	-	-	-	(4,956)
Derivative financial instruments	-	-	(523)	-	-	(523)
Total current liabilities	(37,877)	-	(523)	-	-	(38,400)
Total liabilities	(61,351)	-	(389)	-	-	(61,740)
Net assets/(liabilities)	27,697	(100)	(313)	(228)	-	27,056
EQUITY						
Capital and reserves attributable to equity holders of the company						
Issued capital	2,368	-	-	-	-	2,368
Share premium	19,082	-	-	-	-	19,082
Other reserves	29	-	-	-	-	29
Translation reserve	-	-	-	-	-	-
Merger reserve	-	-	-	-	-	-
Capital redemption reserve	1,530	-	-	-	-	1,530
Retained earnings	4,695	(100)	(313)	(228)	-	4,054
	27,704	(100)	(313)	(228)	-	27,063
Minority interest in equity	(7)	-	-	-	-	(7)
	27,697	(100)	(313)	(228)	-	27,056

(a), (b), (c), (d) - see Appendix 3 for comments

Appendix 4 Reconciliation of Consolidated Statement of Cash Flows - Unaudited for the six months ended 30 November 2006

	UK GAAP		IFRS adjustments			IFRS
		Goodwill (a)	IAS 32 & 39 (b)	Intangibles (c)	Reclass (d)	
	£000	£000	£000	£000	£000	£000
Cash flows from operating activities						
Profit for the period	2,501	223	398	(228)	-	2,894
<i>Adjustments for:</i>						
Depreciation	1,758	-	-	-	-	1,758
Amortisation of goodwill	223	(223)	-	-	-	-
Amortisation of intangibles	-	-	-	228	-	228
Share of profit of joint ventures	(326)	-	-	-	121	(205)
Share of profit of associates	-	-	-	-	-	-

Gain on sale of property, plant and equipment	16	-	-	-	-	16
Equity-settled share-based payment transactions	90	-	-	-	-	90
Net finance expense	557	-	(568)	-	(33)	(44)
Income tax expense	1,171	-	170	-	(88)	1,253
	5,990	-	-	-	-	5,990
Change in inventories	(153)	-	-	-	-	(153)
Change in trade and other receivables	(3,553)	-	-	-	-	(3,553)
Change in trade and other payables	3,713	-	-	-	-	3,713
Cash from operating activities	5,997	-	-	-	-	5,997
Interest paid	(571)	-	-	-	-	(571)
Income tax paid	(982)	-	-	-	-	(982)
Net cash inflow from operating activities	4,444	-	-	-	-	4,444
Cash flows from investing activities						
Interest received	50	-	-	-	-	50
Proceeds from sale of property, plant and equipment	241	-	-	-	-	241
Acquisition of property, plant and equipment	(3,014)	-	-	-	-	(3,014)
Acquisition of subsidiary, net of cash acquired	(7,710)	-	-	-	-	(7,710)
Net cash outflow from investing activities	(10,433)	-	-	-	-	(10,433)
Cash flows from financing activities						
Repayments of borrowings	(3,006)	-	-	-	-	(3,006)
Payment of finance lease liabilities	(848)	-	-	-	-	(848)
Invoice discounting activities	(207)	-	-	-	-	(207)
Dividends paid	(1,184)	-	-	-	-	(1,184)
Net cash outflow from financing activities	(5,245)	-	-	-	-	(5,245)
Net decrease in cash and cash equivalents	(11,234)	-	-	-	-	(11,234)
Cash and cash equivalents at the start of the period	15,022	-	-	-	-	15,022
Cash and cash equivalents at the end of the period	3,788	-	-	-	-	3,788

**Appendix 5 Reconciliation of Consolidated Balance Sheet - Unaudited
at 1 June 2006**

	UK GAAP £000	IFRS adjustments				IFRS £000
		Goodwill (a) £000	IAS 32 & 39 (b) £000	Intangibles (c) £000	Reclassification (d) £000	
ASSETS						
Non-current assets						
Property, plant and equipment	21,146	-	-	-	-	21,146
Intangible assets	5,745	(323)	-	-	-	5,422
Investments in joint ventures	897	-	-	-	-	897
Investments in associates	-	-	-	-	-	-
Other investments, including derivatives	83	-	44	-	-	127
Other receivables	500	-	-	-	-	500
Total non-current assets	28,371	(323)	44	-	-	28,092
Current assets						
Inventories	15,055	-	-	-	-	15,055
Trade and other receivables	21,167	-	-	-	-	21,167
Cash and cash equivalents	15,022	-	-	-	-	15,022
Total current assets/(liabilities)	51,244	-	-	-	-	51,244
Total assets	79,615	(323)	44	-	-	79,336
LIABILITIES						
Non-current liabilities						
Loans and borrowings	(19,521)	-	-	-	-	(19,521)
Other non-current liabilities	(2,000)	-	-	-	-	(2,000)

Deferred tax liabilities	-	-	304	-	(1,752)	(1,448)
Retirement benefit obligations	(328)	-	-	-	(141)	(469)
Provisions	(4,564)	-	-	-	1,893	(2,671)
Total non-current liabilities	(26,413)	-	304	-	-	(26,109)
Current liabilities						
Trade and other payables	(24,989)	-	-	-	1,550	(23,439)
Current income tax liabilities	-	-	-	-	(1,550)	(1,550)
Borrowings	(1,915)	-	-	-	-	(1,915)
Derivative financial instruments	-	-	(1,059)	-	-	(1,059)
Total current liabilities	(26,904)	-	(1,059)	-	-	(27,963)
Total liabilities	(53,317)	-	(755)	-	-	(54,072)
Net assets	26,298	(323)	(711)	-	-	25,264
EQUITY						
Capital and reserves attributable to equity holders of the company						
Issued capital	2,368	-	-	-	-	2,368
Share premium	19,082	-	-	-	-	19,082
Other reserves	29	-	-	-	-	29
Translation reserve	-	-	-	-	-	-
Merger reserve	-	-	-	-	-	-
Capital redemption reserve	1,530	-	-	-	-	1,530
Retained earnings	3,289	(323)	(711)	-	-	2,255
	26,298	(323)	(711)	-	-	25,264
Minority interest in equity	-	-	-	-	-	-
	26,298	(323)	(711)	-	-	25,264

(a), (b), (c), (d) - see Appendix 3 for comments

¹ References to IFRS throughout this document refer to the application of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees, and as interpreted by any regulatory bodies applicable to the Group.

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