

## Regulatory Announcement

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**Company** FIRST DERIVATIVES PLC ORD  
0.5P  
**TIDM** FDP  
**Headline** Final Results  
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14 May 2008

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### **First Derivatives plc (AIM:FDP.L, IEX:GYQ.I)**

#### **Preliminary results for the year ended 29<sup>th</sup> February 2008**

The principal activities of First Derivatives plc ("FDP", "First Derivatives" or the "Company") are the provision of a range of support services to the investment banking market and the derivatives technology industry and the provision of its own range of niche banking applications.

#### **Financial Highlights**

- Turnover £12.7m (2007: £9.3m) +36%
- Operating profit £5.2m (2007:£2.6m\*) +99%
- Operating margins of 41.2% (2007: 28.2%\*)
- Pre-tax profit £4.7m (2007: £2.5m\*) +86%
- Earnings per share 23.3p (2007:14.9p\*) +56%
- Net Assets £8.3m (2007: £5.4m\*) +53%
- Final dividend 5.8p per share (2007: 3.6p) +61%
- Total dividend 8.1p per share (2007: 5.0p) +62%

\* figures restated to reflect adoption of IFRS

## **Business Highlights**

- Strong demand in capital markets activities despite the turmoil across financial markets
- Now commencing sales of FDP's proprietary products
- Increased sales of Kx products to both new and existing customers
- Operating at near to 100% staff utilisation
- Number of employees rose from 89 to 118

### **David Anderson, Chairman of FDP commented:**

"2007/2008 was the sixth year of continuing growth for the Company and the rate of growth during the last financial year has been exceptional. Our outlook for the year ahead is for trading to continue inline with previous trends and the further strengthening of our balance sheet. First Derivatives has had another successful year and we have continued to grow our operations despite the recent turmoil in the financial markets. The pipeline of business from new and existing customers remains strong and the Directors expect to be able to report further progress in the first half of the year."

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**First Derivatives plc**

### **Chairman's statement**

2007/2008 was the sixth year of continuing growth for the Company. I am pleased to report that the pre-tax profit for the year ended 29<sup>th</sup> February 2008 was £4.7 million compared with £2.5 million in the previous year, an increase of 86%. Turnover for the year was £12.7 million up from £9.3 million, an increase of 36% The 2007 figures have

been adjusted to reflect the impact of IFRS which has been adopted with effect from 1<sup>st</sup> March 2007.

Earnings per share increased by 56% from 14.9p to 23.3p. The Board is recommending a final dividend per share for the year of 5.8p which, together with the interim dividend of 2.3p paid in October 2007, totals 8.1p and is covered approximately 3 times by earnings. This will be paid on 7<sup>th</sup> July 2008 to those shareholders on the register on 6<sup>th</sup> June 2008. The shares will be marked ex-dividend on 4<sup>th</sup> June 2008.

Despite the turmoil across financial markets we have continued to increase our capital markets activities and continue to experience strong levels of demand for our consultants. We are continuing to recruit to satisfy customer requirements.

There have been further substantial sales of Kx products during the financial year to both new and existing customers. The partnership continues to evolve and a number of expansion initiatives are being considered.

In my interim statement I referred to the fact that we had made our first sale of one of our own niche range of software products. Further modest sales have since been made and increased resources are being applied to marketing these products. These sales generate annual recurring licence revenues and can also generate implementation revenues. The Company is now developing an encouraging potential sales pipeline for these products.

The Capital Markets Training Programme introduced in late 2006 has led to significant benefits including continued low staff turnover and more effective deployment of staff with customers. Staff numbers have risen from 89 to the current level of 118. We continue to strengthen the FDP management team and I anticipate that we shall shortly announce the appointment of a Finance Director. As a result of this expansion in staff numbers the Company has recently relocated its head office to larger premises in Newry.

We have also announced today the appointment of Paul Kinney who has joined the Board as a Non-Executive Director.

FDP has made further acquisitions of residential property during the year, which is used to accommodate staff on assignment in the major financial centres. At the year end the company owned 32 such properties with a book value of £16.8. These properties were valued at 29<sup>th</sup> February 2008 by Digney Boyds at £19.3 million a surplus of £2.5 million. Again this revaluation has not been incorporated in the financial statements.

## Outlook

The Company's rate of growth during the last financial year has been exceptional. It is too early to predict the outcome for the current financial year, however, the pipeline of business from new and existing customers remains strong and the Directors expect to be able to report further progress in the first half of the year.

David Anderson  
Chairman

## Managing Directors Report

### Review of activities

First Derivatives provides consulting services to the capital markets and sells software and related services. As with last year we are currently operating at effectively 100% utilisation of staff and plan to increase our headcount further in the coming year. We have a broad customer base and provided services last year to 48 different investment banks and hedge funds. Whilst London and New York continue to remain our primary centre of activities, we have also provided services during the last year to clients in Dublin, San Francisco, Vancouver, Los Angeles, Singapore, Sydney, Munich, Frankfurt, Vienna, Mumbai, Hong Kong, Boston and Stockholm. Due to the long-term and repeat nature of our assignments, we have strong visibility on our revenue for the year ahead..

### Consulting division

First Derivatives provides highly skilled resources to the capital markets in the areas of consulting, support and development services. We have ongoing contracts with nine of the leading global banks, supporting their activities across a range of asset classes including credit, interest rate, foreign exchange and equity cash and derivatives markets. We also have a number of nearshore contracts with other large banks. These nearshore contracts involve providing remote support services from our offices in Newry.

### Software division

As announced previously, First Derivatives is now generating sales from its own proprietary niche software products. We are pleased to report the sale of four of our products to six financial institutions in London and New York. This follows a number of years of intensive R&D where we have applied our domain knowledge and software development expertise in creating leading-edge products. These products are sold on an annual licensing model and additional revenues accrue from implementation services. In the coming year we will be investing heavily in developing further products and accelerating our sales and marketing efforts.

We continue to provide sales and marketing support to Kx Systems on a worldwide basis. Their products are used by some of the world's largest banks and Kx Systems lists organisations such as JP Morgan, Merrill Lynch, Lehman Brothers, Goldman Sachs, Deutsche Bank and Dresdner as users. We derive revenue from sales commission, support contracts, training and consulting. We have a strong commercial relationship with Kx and I anticipate that this will strengthen further during 2008.

### Personnel

The Company now employs almost 120 people and our success in retaining staff means that the experience profile of our consultants continues to improve. Our Capital Markets Training Programme, implemented in late 2006 has been a resounding success and has helped to differentiate us from our competition. The majority of our staff who have been with us for two years or more are participating in our employee share option scheme.

Once again I would like to pay tribute to all First Derivatives employees who almost without exception are hard working, talented, flexible and dedicated. Our customer retention rates are evidence of this.

## Property Portfolio

As the number of staff working on-site in the major financial centres increases we will continue to buy property in lieu of paying for hotels and rented accommodation. As at the balance sheet date we had purchased 22 properties in the UK and 10 properties in New York financed by cash and term loans. The location of our properties in prime areas of the City of London, the West End and in Manhattan means that we are relatively insulated from trends in the general property markets.

## Financial Review

The Company has reported revenues and profits significantly higher than last year. Pre-Tax Profit for the year was £4,716,000 (2007 restated: £2,531,000) on turnover of £12,669,000 (2007: £9,332,000). These results are prepared for the first time under International Financial Reporting Standards. Although the impact is not significant we have restated the 2007 accounts to reflect the adoption of IFRS.

Growth was due largely to increased consultant utilisation and sales/services from software products in which we have an interest in the IP. Our operating margins increased to 41.2% from 28.2%. Our balance sheet is strong with a cash balance largely unchanged at £396,000 and equity shareholders' funds of £8,302,000 (2007 restated; £5,426,000), an increase of 53%. This, and our confidence in our ability to generate cash going forward, enables the Board to recommend a final dividend of 5.8p per share (2007: 3.6p) which means that we will have paid a total dividend of 8.1p (2007: 5.0p) per share for the full year.

## Outlook

We are increasing headcount to meet demand from the current and anticipated sales pipeline and to further develop and enhance our product suite. Our outlook for the year ahead is for trading to continue in line with previous trends and the further strengthening of our balance sheet. We now have a spread of activities with our recurring and visible revenue streams insulating us against general industry downturn and our interest in the sale of various software products giving us the benefit of considerable potential upside.

Brian Conlon  
Managing Director  
Income statement  
Year ended 29<sup>th</sup> February

|               | <i>Note</i> | 2008<br>£'000 | 2007<br>£'000 |
|---------------|-------------|---------------|---------------|
| Revenue       | 2           | 12,669        | 9,332         |
| Cost of sales |             | (6,501)       | (6,161)       |

|                         |   |         |       |
|-------------------------|---|---------|-------|
| Gross profit            |   | 6,168   | 3,171 |
| Other operating income  |   | 151     | 147   |
| Administrative expenses |   | (1,091) | (686) |
| Operating profit        |   | 5,228   | 2,632 |
| Finance income          |   | 210     | 43    |
| Finance expenses        |   | (722)   | (144) |
| Net financing expenses  |   | (512)   | (101) |
| Profit before taxation  |   | 4,716   | 2,531 |
| Income tax expense      |   | (1,662) | (624) |
| Profit for the year     |   | 3,054   | 1,907 |
| Earnings per share      |   | Pence   | Pence |
| Basic                   | 4 | 23.3    | 14.9  |
| Diluted                 | 4 | 22.2    | 14.3  |

Statement of changes in equity  
Year ended 29<sup>th</sup> February

|                                              | Share<br>capital<br>£000 | Share<br>premium<br>£000 | Share<br>option<br>reserve<br>£000 | Share Available<br>for sale<br>reserve<br>£000 | Retained<br>earnings<br>£000 | Total<br>equity<br>£000 |
|----------------------------------------------|--------------------------|--------------------------|------------------------------------|------------------------------------------------|------------------------------|-------------------------|
| Balance at 1 <sup>st</sup> March 2006        | 64                       | 910                      | 52                                 | -                                              | 2,235                        | 3,261                   |
| Profit for the year                          | -                        | -                        | -                                  | -                                              | 1,907                        | 1,907                   |
| Shares issued                                | 1                        | 110                      | -                                  | -                                              | -                            | 111                     |
| Share based payments                         | -                        | -                        | 131                                | -                                              | 34                           | 165                     |
| Dividends to equity holders                  | -                        | -                        | -                                  | -                                              | (560)                        | (560)                   |
| Deferred tax on share<br>options outstanding | -                        | -                        | 352                                | -                                              | -                            | 352                     |
| Fair value increase                          | -                        | -                        | -                                  | 190                                            | -                            | 190                     |
| Balance at 28 <sup>th</sup> February<br>2007 | 65                       | 1,020                    | 535                                | 190                                            | 3,616                        | 5,426                   |

|                                           |    |       |      |       |       |       |
|-------------------------------------------|----|-------|------|-------|-------|-------|
| Balance at 1 <sup>st</sup> March 2007     | 65 | 1,020 | 535  | 190   | 3,616 | 5,426 |
| Profit for the year                       | -  | -     | -    | -     | 3,054 | 3,054 |
| Shares issued                             | 1  | 258   | -    | -     | -     | 259   |
| Share based payments                      | -  | -     | 259  | -     | 115   | 374   |
| Dividends to equity holders               | -  | -     | -    | -     | (769) | (769) |
| Deferred tax on share options outstanding | -  | -     | (75) | -     | -     | (75)  |
| Fair value increase                       | -  | -     | -    | 232   | -     | 232   |
| Disposal of available for sale asset      | -  | -     | -    | (199) | -     | (199) |
| Balance at 29 <sup>th</sup> February 2008 | 66 | 1,278 | 719  | 223   | 6,016 | 8,302 |

Balance sheet  
Year ended 29<sup>th</sup> February

|                               | 2008<br>£'000 | 2007<br>£'000 |
|-------------------------------|---------------|---------------|
| Non current assets            |               |               |
| Property, plant and equipment | 16,786        | 8,142         |
| Intangible assets             | 125           | 180           |
| Other financial assets        | 520           | 421           |
| Deferred tax asset            | 541           | 548           |
| Total non current assets      | 17,972        | 9,291         |
| Current assets                |               |               |
| Trade and other receivables   | 4,126         | 2,538         |
| Cash and cash equivalents     | 396           | 356           |
| Total current assets          | 4,522         | 2,894         |
| Total assets                  | 22,494        | 12,185        |
| Current liabilities           |               |               |
| Interest bearing borrowings   | (1,834)       | (1,185)       |
| Trade and other payables      | (2,453)       | (1,535)       |
| Current tax payable           | (1,228)       | (739)         |
| Employee benefits             | (625)         | (462)         |
| Total current liabilities     | (6,140)       | (3,921)       |
| Non-current liabilities       |               |               |

|                               |                 |                |
|-------------------------------|-----------------|----------------|
| Interest bearing borrowings   | (7,965)         | (2,838)        |
| Deferred tax liability        | (87)            | -              |
| Total non-current liabilities | <u>(8,052)</u>  | <u>(2,838)</u> |
| Total liabilities             | <u>(14,192)</u> | <u>(6,759)</u> |
| Net assets                    | <u>8,302</u>    | <u>5,426</u>   |
| Equity                        |                 |                |
| Share capital                 | 66              | 65             |
| Share premium                 | 1,278           | 1,020          |
| Share option reserve          | 719             | 535            |
| Available for sale reserve    | 223             | 190            |
| Retained earnings             | 6,016           | 3,616          |
| Total equity                  | <u>8,302</u>    | <u>5,426</u>   |

Cash flow statement  
Year ended 29<sup>th</sup> February

|                                                 | 2008<br>£'000  | 2007<br>£'000  |
|-------------------------------------------------|----------------|----------------|
| Cashflows from operating activities             |                |                |
| Profit before taxation                          | 4,716          | 2,531          |
| Finance income                                  | (210)          | (43)           |
| Finance expense                                 | 722            | 144            |
| Operating profit                                | <u>5,228</u>   | <u>2,632</u>   |
| Depreciation                                    | 153            | 96             |
| Amortisation of intangible assets               | 180            | 180            |
| Equity settled share-based payment transactions | 259            | 131            |
|                                                 | <u>5,820</u>   | <u>3,039</u>   |
| Change in trade and other receivables           | (1,588)        | (301)          |
| Change in trade and other payables              | 1,072          | 494            |
|                                                 | <u>5,304</u>   | <u>3,232</u>   |
| Corporation tax paid                            | (1,279)        | (456)          |
| Net cash from operating activities              | <u>4,025</u>   | <u>2,776</u>   |
| Cash flows from investing activities            |                |                |
| Interest received                               | 11             | 33             |
| Interest paid                                   | (560)          | (134)          |
| Acquisition of property, plant and equipment    | (8,797)        | (4,977)        |
| Acquisition of other financial assets           | -              | (120)          |
| Acquisition of intangible assets                | (125)          | -              |
| Proceeds from sale of available for sale assets | 220            | -              |
| Net cash used in investing activities           | <u>(9,251)</u> | <u>(5,198)</u> |



|                                                             |              |              |
|-------------------------------------------------------------|--------------|--------------|
| Cash flows from financing activities                        |              |              |
| Proceeds from issue of share capital                        | 259          | 111          |
| Receipt of new long term loan                               | 6,001        | 2,325        |
| Repayment of borrowings                                     | (225)        | (159)        |
| Dividends paid                                              | (769)        | (560)        |
| Net cash from financing activities                          | <u>5,266</u> | <u>1,717</u> |
|                                                             |              |              |
| Net increase/(decrease) in cash and cash equivalents        | 40           | (705)        |
| Cash and cash equivalents at 1 <sup>st</sup> March 2007     | 356          | 1,061        |
| Cash and cash equivalents at 29 <sup>th</sup> February 2008 | <u>396</u>   | <u>356</u>   |

## Notes

### 1 Basis of Preparation

The preparation of the financial statements in accordance with adopted IFRSs resulted in changes to the accounting policies as compared with the prior period annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They also have been applied in preparing an opening adopted IFRSs balance sheet at 1<sup>st</sup> March 2006 for the purposes of the transition to adopted IFRSs, as required by IFRS 1. The impact of the transition from previous GAAP to adopted IFRSs is explained in note 5.

### 2 Segment reporting

#### Business segments

The Company has two major categories of sales revenue which are largely delivered from the same cost base. In addition, the company is subject to similar business risks and benefits in all geographical locations in which the company conducts its business. As such, the Company is deemed to have one business and geographical segment. The Company has disclosed below certain information on its two revenue streams and is revenue by geographical location.

The Company's two revenue streams are separated as follows:

- Consultancy division which provides services to capital markets
- Software division which develops and has an interest in intellectual property and provides related services.

#### Revenue by division

| Consultancy<br>division |      | Software<br>division |      | Total |      |
|-------------------------|------|----------------------|------|-------|------|
| 2008                    | 2007 | 2008                 | 2007 | 2008  | 2007 |

|                       |       |       |       |       |        |       |
|-----------------------|-------|-------|-------|-------|--------|-------|
|                       | £000  | £000  | £000  | £000  | £000   | £000  |
| Total segment revenue | 6,465 | 4,847 | 6,204 | 4,485 | 12,669 | 9,332 |

#### Revenue by geographical location

|                                 | Europe       |              | America      |              | Australasia  |              | Unallocated  |              | Total        |              |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                 | 2008<br>£000 | 2007<br>£000 | 2008<br>£000 | 2007<br>£000 | 2008<br>£000 | 2007<br>£000 | 2008<br>£000 | 2007<br>£000 | 2008<br>£000 | 2007<br>£000 |
| Revenue from external customers | 7,481        | 5,059        | 4,479        | 4,143        | 709          | 130          | -            | -            | 12,669       | 9,332        |

### 3 Dividends

|                                           | 2008<br>£'000 | 2007<br>£'000 |
|-------------------------------------------|---------------|---------------|
| Final dividend relating to the prior year | 468           | 381           |
| Interim dividend paid                     | 301           | 179           |
|                                           | <u>769</u>    | <u>560</u>    |

### 4 Earnings per ordinary share

#### Basic

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of £3,054,000 (2007: £1,907,000). The weighted average number of ordinary shares for the year ended 29<sup>th</sup> February 2008 and ranking for dividend was 13,088,749 (2007: 12,771,232).

|                          | 2008<br>Pence | 2007<br>Pence |
|--------------------------|---------------|---------------|
| Basic earnings per share | <u>23.3</u>   | <u>14.9</u>   |

#### Weighted average number of ordinary shares ('000)

|                                                             | 2008          | 2007          |
|-------------------------------------------------------------|---------------|---------------|
| Issued ordinary shares at beginning of period               | 12,944        | 12,715        |
| Effect of share options exercised                           | 145           | 56            |
| Weighted average number of ordinary shares at end of period | <u>13,089</u> | <u>12,771</u> |

## Diluted

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of £3,054,000 (2007: £1,907,000). The weighted average number of ordinary shares for the year ended 29<sup>th</sup> February 2008 and ranking for dividend was 13,761,879 (2007: 13,290,938).

|                                                                       | 2008<br>Pence  | 2007<br>Pence  |
|-----------------------------------------------------------------------|----------------|----------------|
| Diluted earnings per share                                            | <u>22.2</u>    | <u>14.3</u>    |
| Weighted average number of ordinary shares (diluted) ('000)           |                |                |
|                                                                       | 2008<br>Number | 2007<br>Number |
| Weighted average number of ordinary shares (basic)                    | 13,089         | 12,771         |
| Effect of share options in issue                                      | <u>673</u>     | <u>520</u>     |
| Weighted average number of ordinary shares (diluted) at end of period | <u>13,762</u>  | <u>13,291</u>  |

The average market value of the company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period the options were outstanding.

## 5 Explanation of transition to IFRSs as adopted by the EU

These are the company's first financial statements prepared in accordance with IFRSs as adopted by the EU ('EU IFRSs').

The accounting policies have been applied in preparing the financial statements for the financial year ended 29<sup>th</sup> February 2008, the comparative information for the financial year ended 28<sup>th</sup> February 2007 and the preparation of an opening EU IFRSs balance sheet at 1<sup>st</sup> March 2006 (the company's date of transition).

In preparing its opening EU IFRSs balance sheet and comparative information for the financial year ended 28<sup>th</sup> February 2007, the Company has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

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

## Reconciliation of Equity

|                                       |          | Effect of transition to<br>adopted IFRSs |               |               | Effect of transition to<br>adopted IFRSs |               |               |
|---------------------------------------|----------|------------------------------------------|---------------|---------------|------------------------------------------|---------------|---------------|
|                                       |          | Previous GAAP                            | Adopted IFRSs | Adopted IFRSs | Previous GAAP                            | Adopted IFRSs | Adopted IFRSs |
|                                       |          | 1 <sup>st</sup> March 2006               |               |               | 28 <sup>th</sup> February 2007           |               |               |
|                                       | Note     | £000                                     | £000          | £000          | £000                                     | £000          | £000          |
| <b>Assets</b>                         |          |                                          |               |               |                                          |               |               |
| Property, plant and equipment         | <i>b</i> | 3,238                                    | 23            | 3,261         | 8,088                                    | 54            | 8,142         |
| Intangible assets                     |          | 360                                      | -             | 360           | 180                                      | -             | 180           |
| Other financial assets                |          | 111                                      | -             | 111           | 210                                      | -             | 210           |
| Available for sale asset              | <i>a</i> | 90                                       | (90)          | -             | 111                                      | 100           | 211           |
| Deferred tax assets                   | <i>e</i> | -                                        | 149           | 149           | -                                        | 548           | 548           |
| <b>Total non-current assets</b>       |          | <b>3,799</b>                             | <b>82</b>     | <b>3,881</b>  | <b>8,589</b>                             | <b>702</b>    | <b>9,291</b>  |
| Trade and other receivables           | <i>e</i> | 2,251                                    | (21)          | 2,230         | 2,562                                    | (24)          | 2,538         |
| Cash and cash equivalents             |          | 1,061                                    | -             | 1,061         | 356                                      | -             | 356           |
| <b>Total current assets</b>           |          | <b>3,312</b>                             | <b>(21)</b>   | <b>3,291</b>  | <b>2,918</b>                             | <b>(24)</b>   | <b>2,894</b>  |
| <b>Total assets</b>                   |          | <b>7,111</b>                             | <b>61</b>     | <b>7,172</b>  | <b>11,507</b>                            | <b>678</b>    | <b>12,185</b> |
| <b>Liabilities</b>                    |          |                                          |               |               |                                          |               |               |
| Interest-bearing loans and borrowings |          | 140                                      | -             | 140           | 1,185                                    | -             | 1,185         |
| Trade and other payables              |          | 1,078                                    | -             | 1,078         | 1,535                                    | -             | 1,535         |
| Corporation tax payable               |          | 551                                      | -             | 551           | 739                                      | -             | 739           |

|                                       |   |       |      |       |       |      |       |
|---------------------------------------|---|-------|------|-------|-------|------|-------|
| Employee benefits                     | c | 313   | 112  | 425   | 295   | 167  | 462   |
| Provisions                            |   | -     | -    | -     | -     | -    | -     |
| Total current liabilities             |   | 2,082 | 112  | 2,194 | 3,754 | 167  | 3,921 |
| Liabilities                           |   |       |      |       |       |      |       |
| Interest-bearing loans and borrowings |   | 1,717 | -    | 1,717 | 2,838 | -    | 2,838 |
| Total non-current liabilities         |   | 1,717 | -    | 1,717 | 2,838 | -    | 2,838 |
| Total liabilities                     |   | 3,799 | 112  | 3,911 | 6,592 | 167  | 6,759 |
| Net assets                            |   | 3,312 | (51) | 3,261 | 4,915 | 511  | 5,426 |
| Equity                                |   |       |      |       |       |      |       |
| Issued capital                        |   | 64    | -    | 64    | 65    | -    | 65    |
| Shares option reserve                 |   | 55    | (3)  | 52    | 186   | 349  | 535   |
| Share premium account                 |   | 910   | -    | 910   | 1,020 | -    | 1,020 |
| Retained earnings                     |   | 2,283 | (48) | 2,235 | 3,644 | (28) | 3,616 |
| Available for sale reserve            |   | -     | -    | -     | -     | 190  | 190   |
| Total equity                          |   | 3,312 | (51) | 3,261 | 4,915 | 511  | 5,426 |

(a) The Company's investment in Carrickbridge Developments Limited is deemed to be a special purpose entity under SIC 12: Consolidation – Special Purpose Entities, due to its limited, pre-agreed activities. The Company is not exposed to the majority of the risks and rewards of the entity and therefore has classified its 45% interest in the investment as an available for sale asset at fair value. The fair value of the equity interest was assessed as £Nil at 1<sup>st</sup> March 2006, this has resulted in an impairment of £90,000 being recognised in revenue reserves. Under UK GAAP this asset was held at historic cost of £90,000 at 28<sup>th</sup> February 2006 since the diminution in value was deemed to be temporary. As at 28<sup>th</sup> February 2007 the fair value of the asset was assessed to be £211,000. Under UK GAAP the historic cost was £111,000. This gives an adjustment to

the asset of £100,000 with the movement in the available for sale reserve created for the fair value increase in the year being £190,000.

- (b) The Company has reassessed the residual value of buildings at the relevant balance sheet date. The effect is to increase property, plant and equipment by £23,000 at 1<sup>st</sup> March 2006, and £54,000 at 28<sup>th</sup> February 2007.
- (c) The Company's holiday year runs concurrent with its financial year, and up to 5 days of holiday leave not taken by the end of February can be carried forward into the new financial year, hence an accrual is required under IAS 19. The effect is to increase the employee benefits creditor by £112,000 at 1<sup>st</sup> March 2006 and £167,000 at 28<sup>th</sup> February 2007.
- (d) The Company applied FRS 20: Share Based Payments in its financial statements for the year ended 28<sup>th</sup> February 2007, including a prior year adjustment in respect of the financial year ended 28<sup>th</sup> February 2006. As a result of this, no adjustment is required upon the adoption of IAS 2: Share based payments.
- (e) The Company has applied IAS 12: *Income Taxes* from 1<sup>st</sup> March 2006, resulting in the recognition of a deferred tax asset arising from the future tax deduction expected on the exercise of share options. This has increased the Company's deferred tax asset by £97,000 at 1<sup>st</sup> March 2006 and £477,000 at 28<sup>th</sup> February 2007. In addition, a deferred tax asset on the holiday pay accrual established under IAS 19 has been recorded, resulting in an increase in the deferred tax asset of £31,000 at 1<sup>st</sup> March 2006 and £47,000 at 28<sup>th</sup> February 2007. As deferred tax assets were recorded as current assets under UK GAAP and are separately disclosed within non-current assets under IFRS, there is a reclassification of £21,000 from current assets to non-current assets at 1<sup>st</sup> March 2006 (£24,000 at 28<sup>th</sup> February 2007).

#### Reconciliation of profit for 2007

|                          | Previous<br>GAAP               | Effect<br>of transition to<br>adopted<br>IFRSs | Adopted<br>IFRSs |
|--------------------------|--------------------------------|------------------------------------------------|------------------|
|                          | £000                           | £000                                           | £000             |
|                          | 28 <sup>th</sup> February 2007 |                                                |                  |
| Revenue                  | 9,332                          | -                                              | 9,332            |
| Cost of sales            | (6,137)                        | (24)                                           | (6,161)          |
| Gross profit             | 3,195                          | (24)                                           | 3,171            |
| Other operating expenses | 147                            | -                                              | 147              |

|                                         |       |       |       |
|-----------------------------------------|-------|-------|-------|
| Administrative expenses                 | (686) | -     | (686) |
| Operating profit before financing costs | 2,656 | (24)  | 2,632 |
| Financial income                        | 43    | -     | 43    |
| Financial expenses                      | (144) | -     | (144) |
| Net financing costs                     | (101) | -     | (101) |
| Profit before tax                       | 2,555 | (24)  | 2,531 |
| Income tax expense                      | (634) | 10    | (624) |
| Profit for the period                   | 1,921 | (14)  | 1,907 |
| Basic earnings per share (pence)        | 15.0  | (0.1) | 14.9  |
| Diluted earnings per share (pence)      | 14.4  | (0.1) | 14.3  |

The profit for the period ended 28<sup>th</sup> February 2007 is impacted by some of the adjustments described in the reconciliation of equity and related notes above. The reduction of depreciation on property increased profit by £31,000, the increase in holiday leave accrual reduced profit by £55,000 and the increase in deferred tax asset on share based payments and holiday pay accrual has increased profit for the period by £10,000.

Explanation of material adjustments to the cash flow statement.

There are no material differences between the cash flow statement presented under EU IFRSs and the cash flow statement presented under previous GAAP.

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