

## **Inveresk PLC**

### **Interim Results for the six months ended 30 June 2007**

#### Highlights

- Operating loss of £974,000 (2006 £838,000 as restated under IFRS) arising out of the continuing operations at St Cuthberts Mill in Somerset, before net finance income and gains of £4,281,000 from discontinued operations.
- Profits after tax and real estate sales were £3,454,000 (2006 loss of £1,567,000).
- Restructuring costs at St Cuthberts reduced to £62,000 (2006 £394,000) as the mill operated closer to full capacity utilisation.
- Margins continue to be under pressure as a result of raw material price increases and competitive pressures on sales prices.
- Successful introduction of Somerset Photo to a receptive photographic and computer market for top of the range inkjet papers.
- Significant increase in volume of pre-impregnated resin based papers passed through the mill albeit at reduced margins.
- Potential development of a new product innovation has led to active discussions with international partners keen to assist with the commercialisation and production on a global basis.
- Sale of land, buildings and related equipment completed for £11,000,000 yielding a net gain of £4,895,000 after taking into account decommissioning and sales costs.
- Changes to the Scottish Executive, following parliamentary elections in May 2007 has resulted in a delay to the approval of the Fife Council Structure Plan which is again out for consultation in respect of the redevelopment around Inverkeithing Bay on the shores of the River Forth opposite Edinburgh.

Alan Walker, Chief Executive, commented:

“The paper industry has changed little during the period under review and is characterised by margin pressures and over capacity against a background of flat customer demand. We remain on the fringes of a struggling industry through the niche sectors in which we operate, namely, furniture and artist/inkjet papers, and continue to seek out strategic international partnerships for the future. The sale of our land assets at Denny in Scotland in accordance with our stated asset realisation programme has reduced our bank borrowings in the second half of the year to under £6,000,000 from £12,757,000 at 31 December 2006, with shareholders’ funds rising to £10,713,000 from £6,600,000 at 31 December 2006 (restated under IFRS). We remain focused on our future major real estate projects”.

For further information contact:

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## **CHAIRMAN'S STATEMENT**

### **Results**

The first six months of 2007 have seen very little change in the fortunes of the European paper industry. Market conditions remain depressed and are characterised by margin pressures, weak demand and over capacity. Your company is no longer a major participant within the paper industry as our continuing businesses are confined to specialist niches within the décor/furniture industry and the manufacture of quality branded artist/inkjet papers, whereas real estate plays a more significant role in terms of profit and cash generation.

For the first time our interim results are stated adopting the International Financial Reporting Standards (IFRS). As a result comparative figures for the six months ended 30 June 2006 and the year ended 31 December 2006 have been restated under IFRS. Explanations of the transition and detailed reconciliation between IFRS and UK GAAP are included at the end of the interim report.

Turnover in value terms for the six months to 30 June 2007 declined by 5.7% to £6,826,000 (2006 £7,243,000) with an operating loss of £974,000 (2006 £838,000) and is regarded as disappointing particularly as volumes of business put through the mill have increased in line with our objectives. In years gone by margins within the pre-impregnated resin based papers were amongst the best in the industry but competitive pressures allied to over capacity have increasingly commoditised these products which are used by the European furniture industry where intense competition has driven prices lower on a global basis.

Notwithstanding the difficulties faced by our paper interests, a net gain of £4,895,000 was realised from the sale of our land and property interests in the Carrongrove site in Denny after accounting for decommissioning, planning and selling costs. As a result profits for the period after tax and discontinued operations amounted to £3,454,000 (2006 loss of £1,567,000). Completion of the Denny land and property transaction took place on 26 June 2007, with the sales proceeds received on 10 July 2007, and has had a highly positive impact on the Balance Sheet with interest bearing debt falling below £6,000,000. It remains your Board's foremost objective to eliminate all borrowings from the Company as a matter of priority.

### **Core Business**

For the six months ended 30 June 2007 the Company's principal activities included:

- Manufacture and sale of foil and décor based paper products produced at St Cuthberts Mill in Somerset for application within the furniture and décor markets.
- Manufacture and sale of specialist papers used by artists and inkjet computer/photographic products produced at St Cuthberts Mill in Somerset and distributed under a service of renowned brands through an increasing number of worldwide distributions who in future will be supported by sales activity via the internet.
- The redevelopment of our brown-field sites within the Company's land portfolio.

### **St Cuthberts**

Our PIP/décor based sales have again experienced very challenging market conditions. Volume sales have progressed in line with expectations but margins have remained depressed throughout the period due to rising raw material prices and the highly competitive nature of the market which continues to suffer from over capacity. The initiatives which were introduced last year to increase average batch sizes have produced greater levels of efficiency almost all of which is counter balanced by weakness in selling prices. The industry is moving in the direction of pricing its products on a commodity basis.

Sales of artist/inkjet papers have remained resilient over the period in what is a highly conservative and stable market. Margin levels have remained both sensible and satisfactory. The sales initiative introduced last year is beginning to bear fruit and the Far East will soon be a major market for the Company's products behind the UK and the United States of America. In order to support our network of distributors and reach further distant markets as yet not penetrated the Company is about to commence selling a wide range of consumer based products via a dedicated internet site specifically designed for the purpose. There remains considerable scope to further develop our worldwide sales of brands which are easily recognised and which are synonymous with the quality for which St Cuthberts has become renowned.

A recent addition to our portfolio of brands is **Somerset Photo** which we have launched with wide acclaim to a receptive market both in Europe and North America. This top of the range product has been created with photographers in mind, using our traditional mould machine. This is an authentic photographic and artist paper, capable of producing outstanding results on a good inkjet printer.

## **Land for Development**

### **Carrongrove**

The successful sale of land, buildings and related equipment at Carrongrove realised £11,000,000 together with a carried interest into the future in respect of further planning gains which materialise over the next ten years. This project has been delivered in conjunction with Falkirk Council together with our professional advisers in a relatively short period of time. The benefits to the local community and to the town of Denny will be demonstrable over the next few years by the creation of residential housing in a pleasant and picturesque rural setting.

### **Inverkeithing**

The changes in the Scottish Parliament following elections in May 2007 has caused further delay to the redevelopment scheme for Inverkeithing Bay. Prior to the election the Fife Structure Plan awaited ratification from the Scottish Executive. Since the election considerable debate about housing allocation within the Kingdom of Fife has resulted in the Plan being once again put out to consultation with the intention of reducing the number of houses around the Bay from 900 to 400.

It was always your Board's view that this project would take time to deliver and nothing that has happened in the recent past seems to detract from that. Our site remains a priority for redevelopment within the Structure Plan of Fife Council and as soon as the consultation period is concluded we intend to play our part in the transformation of the local infrastructure which is not only long overdue but which is so necessary for the town of Inverkeithing. The availability of our land and buildings was the original catalyst for change at Inverkeithing Bay and we very much look forward to working with like minded developers in the future in order to improve the local amenities for the entire community.

## **Finance**

Following the sale of our land assets at Carrongrove Mill in Denny and its impact on shareholders' funds, your Company's Balance Sheet remains in sound health at this time. Completion of the transaction on 26 June 2007 has, as mentioned earlier in this Statement, enabled bank debt to be greatly reduced and your Board has plans to further reduce this in the near future. The failure on the part of Tullis Russell to deliver the Additional Consideration as part of their obligations under the Asset Sale Agreement dated 9 June 2005 has resulted in proceedings being issued in the Commercial Court of the Court of Session in Edinburgh and we anticipate resolution of this matter over time together with interest and costs.

Interest charges have fallen significantly since the start of the second half of the year. This is in line with your Board's strategy of moving into cash just as soon as practicable. Recent volatility in finance/banking markets suggests that this strategic ambition is soundly based and in the best interests of your Company as a whole.

## **Outlook and Shareholder Value**

We are now peripheral players within the paper industry which as an industry has major problems in terms of a lack of profitability, flat product demand and over capacity. It is inevitable that further consolidation will take place in the industry. In our own small way we expect to be able to play some part in the moves towards production integration/consolidation and will continue to engage in active discussions on an international basis until we find a strategic alliance which delivers your Board's stated objectives.

As ever shareholder value lies within our real estate portfolio where we anticipate that returns to shareholders will be far greater than those available within the beleaguered paper industry.

**Jan Bernander**

Chairman

27 September 2007

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	Year ended 31 December 2006 £'000
Revenue	2	6,826	7,243	13,304
Cost of sales		(6,393)	(6,614)	(12,925)
<b>Gross profit</b>		<b>433</b>	629	379
Distribution expenses		(414)	(459)	(856)
Administrative expenses		(931)	(614)	(1,525)
Restructuring costs		(62)	(394)	(594)
<b>Operating loss</b>		<b>(974)</b>	(838)	(2,596)
Other finance income		250	109	216
Finance income		9	4	10
Finance expenses		(141)	(18)	(119)
<b>Net finance income</b>		<b>118</b>	95	107
<b>Loss before tax</b>		<b>(856)</b>	(743)	(2,489)
Tax	9	29	24	817
<b>Loss for the period from continuing operations</b>		<b>(827)</b>	(719)	(1,672)
<b>Discontinued operations</b>				
Gain/(loss) for the period from discontinued operations, net of tax	2	4,281	(848)	(1,214)
<b>Profit/(loss) for the period after tax and discontinued operations</b>	9	<b>3,454</b>	(1,567)	(2,886)
<b>Attributable to:</b>				
Equity holders of the parent		3,454	(1,567)	(2,886)
<b>Profit/(loss) for the period after tax and discontinued operations</b>		<b>3,454</b>	(1,567)	(2,886)
From continuing and discontinued operations				
Basic earnings per share	6	2.6p	(1.2)p	(2.1)p
Diluted earnings per share	6	2.5p	(1.1)p	(2.1)p
From continuing operations				
Basic earnings per share	6	(0.6)p	(0.6)p	(1.2)p
Diluted earnings per share	6	(0.6)p	(0.5)p	(1.2)p

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	As at 30 June 2007 £'000	As at 30 June 2006 £'000	As at 31 December 2006 £'000
<b>Assets</b>				
Property, plant and equipment	4	7,373	7,856	7,583
<b>Total non-current assets</b>		<b>7,373</b>	7,856	7,583
Inventories		3,129	2,743	2,619
Trade and other receivables		14,346	3,444	3,231
Retirement benefit assets		1,197	3,007	1,410
Cash and cash equivalents		8	12	4
Assets held for sale	3	6,114	12,309	12,130
<b>Total current assets</b>		<b>24,794</b>	21,515	19,394
<b>Total assets</b>	9	<b>32,167</b>	29,371	26,977
<b>Equity</b>				
Issued capital		1,438	1,438	1,438
Retained earnings	5, 9	9,275	8,196	5,162
<b>Total equity</b>		<b>10,713</b>	9,634	6,600
<b>Liabilities</b>				
Interest bearing loans and borrowings		3,692	4,923	4,308
Retirement benefit obligations	7	1,432	2,983	2,791
Deferred tax liability	9	1,018	1,224	1,160
<b>Total non-current liabilities</b>		<b>6,142</b>	9,130	8,259
Bank overdraft		10,281	4,700	7,218
Interest bearing loans and borrowings		1,231	1,231	1,231
Trade and other payables		3,437	4,138	3,229
Provisions		363	538	440
<b>Total current liabilities</b>		<b>15,312</b>	10,607	12,118
<b>Total liabilities</b>		<b>21,454</b>	19,737	20,377
<b>Total equity and liabilities</b>	9	<b>32,167</b>	29,371	26,977

## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	Year ended 31 December 2006 £'000
<b>Cash flows from operating activities</b>			
Profit for the period	3,454	(1,567)	(2,886)
Adjustment for:			
Depreciation	268	265	715
Interest expense	299	269	644
Gain on sale of assets – discontinued operations	(4,948)	(100)	(100)
Equity settled share based payment expense	-	-	23
Amortisation of government grants	-	-	(2)
Income tax expense	(142)	(66)	(1,277)
<b>Operating loss before changes in working capital and provisions</b>	<b>(1,069)</b>	<b>(1,199)</b>	<b>(2,883)</b>
Pension service charge net of contributions	(258)	(274)	(569)
(Increase)/decrease in Inventory	(510)	246	370
(Increase)/decrease in Debtors	(11,115)	2,016	2,231
Increase/(decrease) in Creditors	217	(1,921)	(1,693)
Decrease in Provisions	(77)	(37)	(135)
<b>Cash generated from operations</b>	<b>(12,812)</b>	<b>(1,169)</b>	<b>(2,679)</b>
Interest paid	(547)	(317)	(726)
Interest received	9	4	10
<b>Net cash from operating activities</b>	<b>(13,350)</b>	<b>(1,482)</b>	<b>(3,395)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	10,965	123	126
Acquisition of property, plant and equipment	(58)	(38)	(39)
<b>Net cash inflow from investing activities</b>	<b>10,907</b>	<b>85</b>	<b>87</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	(616)	(615)	(1,230)
<b>Net cash outflow from financing activities</b>	<b>(616)</b>	<b>(615)</b>	<b>(1,230)</b>
Net decrease in cash and cash equivalents	(3,059)	(2,012)	(4,538)
Cash and cash equivalents at start of period	(7,214)	(2,676)	(2,676)
<b>Cash and cash equivalents at end of period</b>	<b>(10,273)</b>	<b>(4,688)</b>	<b>(7,214)</b>

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE (UNAUDITED)

	<b>6 months to 30 June 2007 £'000</b>	6 months to 30 June 2006 £'000	Year ended 31 December 2006 £'000
Foreign exchange translation differences	-	(1)	(1)
Actuarial gains/(losses) recognised in pension schemes	<b>659</b>	1,289	(449)
<b>Income and expense recognised directly in equity</b>	<b>659</b>	1,288	(450)
<b>Profit/(loss) for the period</b>	<b>3,454</b>	(1,567)	(2,886)
<b>Total recognised income and expense for the period</b>	<b>4,113</b>	(279)	(3,336)
<b>Attributable to:</b>			
Equity holders of the parent	<b>4,113</b>	(279)	(3,336)
<b>Total recognised income and expense for the period</b>	<b>4,113</b>	(279)	(3,336)

## NOTES TO THE CONSOLIDATED INTERIM REPORT

### 1. SIGNIFICANT ACCOUNTING POLICIES

Inveresk PLC is a company domiciled in the United Kingdom. The consolidated interim report of the company for the six months ended 30 June 2007 comprise the company and its subsidiaries (together referred to as the “Group”).

The consolidated interim report was approved for issue by the Board of Directors on 27 September 2007.

#### 1.1 Statement of compliance

The consolidated interim report is for the six months ended 30 June 2007. It has been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for interim financial statements and IFRS1 ‘First time Adoption of International Financial Reporting Standards’ has been applied as it covers part of the period covered by the Group’s first annual financial statements for the year ending 31 December 2007 under adopted IFRSs.

Reconciliations and descriptions of the effect of the transition from UK GAAP to the adopted IFRSs on the Group’s equity and its net income and cash flows are provided in note 9.

#### 1.2 Basis of Preparation

The AIM Rules require that the next annual consolidated financial statements of the company, for the year ending 31 December 2007, be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (“adopted IFRSs”).

This interim financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs as at 30 June 2007 that are effective (or available for early adoption) at 31 December 2007, 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 December 2007.

However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2007 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 December 2007.

The comparative figures for the financial year ended 31 December 2006 are not the company’s statutory accounts for that financial year. 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 consolidated interim report has been prepared under the historical cost convention, except for certain items of property, plant and equipment held at deemed cost and assets held for sale held at the lower of carrying value or fair value under the transition rules of the adopted IFRSs.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated interim report. They also have been applied in preparing an opening balance sheet at 1 January 2006 for the purpose of the transition to the adopted IFRSs, as required by IFRS1. The impact of the transition from previous UK GAAP to the adopted IFRSs is explained in note 9.

#### 1.3 Basis of Consolidation

##### (a) Subsidiaries

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

##### (b) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated interim report. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 1.4 Foreign currency translation

For the purpose of the consolidated interim report, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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 to sterling at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liability of foreign operations (none of which has the currency of a hyperinflationary economy), are translated at foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The resulting exchange differences are taken to equity reserves.

### **1.5 Property, plant and equipment**

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Subsequent measurement of tangible assets is on a cost model basis.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement to write off cost 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. The estimated useful lives are as follows:

Buildings	30 – 50 years
Plant, machinery and equipment	3 – 20 years

### **1.6 Intangible assets**

All business combinations are accounted for by applying the purchase method.

In respect of business acquisitions that have occurred since 1 January 2006, goodwill represents the difference between the cost of the acquired subsidiary and the fair value of the net identifiable assets and contingent liabilities acquired.

In respect of acquisitions prior to this date goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2006 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2006.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Intangible assets other than goodwill that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

### **1.7 Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost in the case of work in progress and finished goods includes an appropriate proportion of production overheads.

### **1.8 Trade Receivables**

Trade and other receivables are stated at their cost less an appropriate allowance for irrecoverable receivables.

### **1.9 Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. 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 of the statement of cash flows.

### **1.10 Impairment**

The carrying amounts of the Group's assets, other than inventories (accounting policy 1.7), employee benefit assets (accounting policy 1.13) and deferred tax assets (accounting policy 1.18), 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.

For goodwill and other intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

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.

(a) Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Trade receivables with a short duration are not discounted.

(b) Reversal of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if 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.

### **1.11 Share Capital**

Ordinary shares are classified as equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

### **1.12 Borrowings**

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### **1.13 Employee benefits**

(a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. The assets of the schemes are held separately from those of the Group in an independently administered fund.

(b) Defined benefit plan

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

All actuarial gains and losses at 1 January 2006, on the date of transition to adopted IFRSs, were recognised. Subsequently all actuarial gains and losses are recognised directly in the consolidated statement of recognised income and expense as they arise.

When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the net total of past service costs and the present value of any currently available future refunds from the plan or reductions in future contributions to the plan.

(c) Share-based payment transactions

The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2006 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the 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 pricing 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 only due to share prices not achieving the threshold for vesting. A corresponding credit is made to equity.

Share options granted after 7 November 2002, which have vested before 1 January 2006, have been ignored for restatement in line with the transitional provisions of IFRS1.

#### **1.14 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.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

#### **1.15 Trade and other payables**

Trade and other payables are stated at cost.

#### **1.16 Revenue**

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sale of goods

Sales of goods are recognised when a Group entity has delivered products to a customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful economic life of the asset.

#### **1.17 Expenses**

(a) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

(b) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(c) Finance income and expense

Finance income comprises interest receivable on funds invested and is recognised in the income statement as it accrues using the effective interest method.

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method.

Other finance income includes the expected return on pension scheme assets and interest on pension scheme liabilities for the defined benefit schemes operated by the Group.

### **1.18 Income tax**

Income tax on the profit or loss for the periods presented comprises 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 substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for 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.

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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **1.19 Segment Reporting**

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### **1.20 Assets held for sale**

Assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

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

### **1.21 Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

## 2. SEGMENT REPORTING AND DISCONTINUED OPERATIONS

### (a) Primary reporting format – business segments

Following the sale of the “Gemini” paperboard business in June 2005 there is only one business segment in the Group represented by the sole operational papermill, St Cuthberts, which together with the associated head office functions represent the continuing operations of the Group. Therefore the accounts’ disclosures in total, excluding those disclosed separately as representing discontinued operations, reflect the sole primary business segment of the Group.

	Continuing operations – St Cuthberts Mill			Discontinued operations		
	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Y/e 31 Dec 2006 £'000	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Y/e 31 Dec 2006 £'000
Revenue						
Segment Revenue	<b>6,826</b>	<b>7,243</b>	<b>13,304</b>	-	-	-

	Consolidated		
Revenue	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Y/e 31 Dec 2006 £'000
Segment Revenue	<b>6,826</b>	<b>7,243</b>	<b>13,304</b>

	Continuing operations – St Cuthberts Mill		
Results	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Year ended 31 December 2006 £'000
Segment results	(521)	(949)	(2,313)
Unallocated corporate (expense)/income			
Operating loss			
Net finance income			
Less before tax			
Tax			
Gain/(loss) on sale of discontinued operations, net of tax – note 2©			
Profit/(loss) after tax and discontinued operations			

	Consolidated		
Results	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Year ended 31 December 2006 £'000
Segment results	(521)	(949)	(2,313)
Unallocated corporate (expense)/income	(453)	111	(283)
Operating loss	(974)	(838)	(2,596)
Net finance income	118	95	107
Less before tax	(856)	(743)	(2,489)
Tax	29	24	817
Gain/(loss) on sale of discontinued operations, net of tax – note 2 ©	4,281	(848)	(1,214)
Profit/(loss) after tax and discontinued operations	3,454	(1,567)	(2,886)

(b) **Secondary reporting format – geographical segments**

The Group's sales are mainly in countries within the eurozone and the UK.

Revenue	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Year ended 31 December 2006 £'000
UK	1,326	1,366	2,417
Europe	4,493	4,922	9,068
Africa	7	7	24
Far East	88	84	217
Rest of World	912	864	1,578
	<b>6,826</b>	<b>7,243</b>	<b>13,304</b>

All revenue for the above reporting periods relates to the sole primary business segment of St Cuthberts papermill.

(c) **Discontinued operations**

In October 2002 and June 2005 the Group sold its fine paper division and the "Gemini" paperboard business respectively, each representing a separate business segment. Both of these segments were subsequently reported as discontinued businesses under UK GAAP and continue to be presented as discontinued operations at the date of transition to adopted IFRSs and for all subsequent reporting periods under adopted IFRSs.

**Revenue**

The revenue for each of the two discontinued business segments was £nil for the six months ended 30 June 2007 (six months ended 30 June 2006: £nil, year ended 31 December 2006: £nil).

**2. SEGMENT REPORTING AND DISCONTINUED OPERATIONS (continued)**

	Discontinued operations		
	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Year ended 31 December 2006 £'000
<b>Results</b>			
Other gains/(losses)			
- restructuring costs	(363)	(540)	(1,055)
- reversal of provisions	-	14	158
- impairment of assets	-	-	(257)
- gain on sale of assets held for sale	4,948	-	231
Operating profit/(loss) of discontinued operations	4,585	(526)	(923)
Net finance costs	(417)	(364)	(751)
Gain/(loss) before tax of discontinued operations	4,168	(890)	(1,674)
Tax	113	42	460
<b>Gain/(loss) on sale of discontinued operations, net of tax</b>	<b>4,281</b>	<b>(848)</b>	<b>(1,214)</b>

**3. ASSETS HELD FOR SALE**

The following assets are held for sale which relate entirely to the discontinued operations of the two businesses, the fine papers division and the "Gemini" paperboard business, which were both closed prior to 1 January 2006.

	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Year ended 31 December 2006 £'000
Plant, machinery and equipment	123	2,304	2,125
Land and buildings	5,991	10,005	10,005
<b>Total assets held for sale</b>	<b>6,114</b>	<b>12,309</b>	<b>12,130</b>

During the six months ended 30 June 2006 and the twelve months ending 31 December 2006, assets held for sale were sold resulting in a net gain of £100,000.

On 26 June 2007, assets relating to the "Gemini" paperboard business and the Carrongrove site were sold for the net amount of £10,912,000 resulting in a net gain to the income statement of £4,895,000 for the first six months of 2007.

#### 4. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2007 the Group acquired assets with a cost of £58,000, all relating to continuing operations (six months ending 30 June 2006: £38,000, year ending 31 December 2006: £39,000).

Assets with a net book value £6,016,000 were disposed of during the six months ended 30 June 2007, which all related to assets held for sale and discontinued operations, resulting in a gain on disposal of £4,948,000.

#### 5. CAPITAL AND RESERVES

At the date of transition to adopted IFRSs the balance on the revaluation reserve is transferred to retained earnings as this balance relates to tangible assets and assets held for sale which were previously revalued under UK GAAP and which have been revalued at deemed cost under adopted IFRSs.

The balance on the revaluation reserve under UK GAAP at 31 December 2005 was £11,220,000 and has been restated at 1 January 2006 to a £nil balance and remains as a £nil balance for all subsequent reporting periods. The balance on the retained earnings reserve at 1 January 2006, 30 June 2006 and 31 December 2006 was increased by £11,220,000 as a result of restating the revaluation reserve to £nil.

#### 6. EARNINGS PER SHARE

	<b>6 months ended 30 June 2007</b>	6 months ended 30 June 2006	12 months ended 31 December 2006	<b>6 months ended 30 June 2007</b>	6 months ended 30 June 2006	12 months ended 31 December 2006
	<b>Earnings/(loss) £'000</b>	Earnings/(loss) £'000	Earnings/(loss) £'000	<b>Earnings/(loss) pence per share</b>	Earnings/(loss) pence per share	Earnings/(loss) pence per share
Basic – continuing operations	(827)	(719)	(1,672)	(0.6)	(0.6)	(1.2)
Basic – discontinued operations	4,281	(848)	(1,214)	3.2	(0.6)	(0.9)
<b>Basic – Total</b>	<b>3,454</b>	<b>(1,567)</b>	<b>(2,886)</b>	<b>2.6</b>	<b>(1.2)</b>	<b>(2.1)</b>
Diluted – continuing operations	(827)	(719)	(1,672)	(0.6)	(0.5)	(1.2)
Diluted – discontinued operations	4,281	(848)	(1,214)	3.1	(0.6)	(0.9)
<b>Diluted – Total</b>	<b>3,454</b>	<b>(1,567)</b>	<b>(2,886)</b>	<b>2.5</b>	<b>(1.1)</b>	<b>(2.1)</b>

Earnings per share are calculated for the issued shares excluding those registered in the name of The Inveresk ESOP Trustee Company Limited and those held as Treasury shares.

The weighted average number of shares used in each calculation is as follows:

	<b>6 months ended 30 June 2007</b>	6 months ended 30 June 2006	12 months ended 31 December 2006
	<b>Number of Shares (000s)</b>	Number of Shares (000s)	Number of Shares (000s)
Average of shares in issue during the financial period	135,055	135,055	135,055
Adjustment for the dilutive effect of employee and director share options	1,562	2,044	1,660
<b>Average of shares in issue during the financial period diluted</b>	<b>136,617</b>	<b>137,099</b>	<b>136,715</b>

## 7. EMPLOYEE BENEFITS

### Pension plans

The Group provides employee benefits under various arrangements, including through defined benefit and defined contribution pension plans, the details of which are disclosed in the most recent annual financial statements (UK GAAP).

The Group operates two defined benefit schemes which are reported in the balance sheet under IAS 19 in these interim accounts, details of which are shown below:

#### Defined benefit scheme with net assets recognised in the consolidated balance sheet

As at 30 June 2007

	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Year ended 31 December 2006 £'000
Present value of funded obligations	(30,314)	(32,163)	(31,320)
Fair value of plan assets	37,987	37,066	38,454
Surplus in scheme – pension asset	7,673	4,903	7,134
Non-recoverable surplus	(6,476)	(1,896)	(5,724)
Net pension asset	1,197	3,007	1,410

#### Defined benefit scheme with net obligations recognised in the consolidated balance sheet

As at 30 June 2007

	Interim 30 June 2007 £'000	Interim 30 June 2006 £'000	Year ended 31 December 2006 £'000
Present value of funded obligations	(24,596)	(25,175)	(26,330)
Fair value of plan assets	23,164	22,192	23,539
Deficit in scheme – net pension obligations	(1,432)	(2,983)	(2,791)

All actuarial gains and losses are recognised fully through the Statement of Recognised Income and Expense as they arise.

#### Expense/income recognised in the consolidated income statement – defined benefit schemes

The expense or income recognised in the consolidated income statement consists of the current service costs, interest on the obligation for employee benefits and the expected return on plan assets. For the six months ended 30 June 2007, the Group recognised a net income of £146,000 (six months ended 30 June 2006: expense £26,000, year ended 31 December 2006: expense £38,000).

#### Actuarial assumptions

The principal actuarial assumptions at the balance sheet dates (expressed as weighted averages) are shown in the following table:

	Weir Scheme 30 June 2007 %	Weir Scheme 30 June 2006 %	Weir Scheme 31 December 2006 %	Inveresk Scheme 30 June 2007 %	Inveresk Scheme 30 June 2006 %	Inveresk Scheme 31 December 2006 %
Rate of increase in salaries	n/a	n/a	n/a	3.1	2.8	2.8
Rate of increase in deferred pensions	3.1	2.8	2.8	3.1	3.0	3.0
Rate of increase in pensions in payment	3.1	3.0	3.0	3.1	3.0	3.0
Discount rate	5.9	5.4	5.3	5.9	5.4	5.3
Inflation assumption	3.1	2.8	2.8	3.1	2.8	2.8
Expected return on plan assets	5.7	5.3	5.3	5.6	5.0	5.0

## 8. MOVEMENT IN NET DEBT

	<b>Interim 30 June 2007 £'000</b>	Interim 30 June 2006 £'000	Year ended 31 December 2006 £'000
Decrease in cash	<b>(3,059)</b>	(2,012)	(4,538)
Cash outflow from debt financing	<b>616</b>	615	1,230
<b>Increase in net debt in period</b>	<b>(2,443)</b>	(1,397)	(3,308)
<b>Net debt at beginning of period</b>	<b>(12,753)</b>	(9,445)	(9,445)
<b>Net debt at end of period</b>	<b>(15,196)</b>	(10,842)	(12,753)

## 9. EXPLANATION OF TRANSITION TO ADOPTED IFRSs

As stated in note 1, this is the Group's first consolidated interim financial information for part of the period covered by the first annual consolidated financial statements to be prepared in accordance with adopted IFRSs.

The accounting policies in note 1 have been applied in preparing the consolidated interim financial information for the six months ended 30 June 2007, the comparative information for the six months ended 30 June 2006, the financial statements for the year ended 31 December 2006 and the preparation of an opening balance sheet at 1 January 2006 (not disclosed) under adopted IFRSs, the Group's date of transition.

In preparing its opening balance sheet under adopted IFRSs, comparative information for the six months ended 30 June 2006 and financial statements for the year ended 31 December 2006, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP.

IFRS1 allows first time adopters certain exemptions from the general requirements to retrospectively apply the adopted IFRSs as effective for the 31 December 2005 year end. The optional exemptions taken by the Group are as follows:

### **Fixed Asset revaluation as deemed cost**

Revaluation of property under previous UK GAAP has been used as deemed cost on transition to IFRS.

### **Employee benefits**

The Group has elected to recognise all cumulative actuarial gains and losses from employee benefit schemes at the date of transition.

### **Business Combinations**

The Group has elected not to apply IFRS3 "Business Combinations" retrospectively to transactions that took place prior to the translation date.

### **Foreign currency translation**

Cumulative translation differences in respect of foreign operations have been deemed to be nil at the date of transition.

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

**RECONCILIATION OF EQUITY AT 1 JANUARY 2006, 30 JUNE 2006 AND 31 DECEMBER 2006**

		Previous GAAP	Effect of transition to IFRS	IFRS
	Note	1 January 2006		
<b>Assets</b>				
Property, plant and equipment	a	10,410	(2,326)	<b>8,084</b>
<b>Total non-current assets</b>		10,410	(2,326)	<b>8,084</b>
Inventories		2,989	-	<b>2,989</b>
Trade and other receivables		5,462	-	<b>5,462</b>
Retirement benefit assets	c	2,173	931	<b>3,104</b>
Cash and cash equivalents		16	-	<b>16</b>
Assets held for sale	a	10,005	2,326	<b>12,331</b>
<b>Total current assets</b>		20,645	3,257	<b>23,902</b>
<b>Total assets</b>		31,055	931	<b>31,986</b>
<b>Equity</b>				
Issued capital		1,438	-	<b>1,438</b>
Reserves	b	11,220	(11,220)	-
Retained earnings	b,c,d	(1,455)	9,930	<b>8,475</b>
<b>Total equity</b>	c	11,203	(1,290)	<b>9,913</b>
<b>Liabilities</b>				
Interest bearing loans and borrowings		5,538	-	<b>5,538</b>
Retirement benefit obligations	c	3,768	931	<b>4,699</b>
Deferred tax liability	d	-	1,290	<b>1,290</b>
<b>Total non-current liabilities</b>	c	9,306	2,221	<b>11,527</b>
Bank overdraft		2,692	-	<b>2,692</b>
Interest bearing loans and borrowings		1,231	-	<b>1,231</b>
Trade and other payables		6,048	-	<b>6,048</b>
Provisions		575	-	<b>575</b>
<b>Total current liabilities</b>		10,546	-	<b>10,546</b>
<b>Total liabilities</b>	c	19,852	2,221	<b>22,073</b>
<b>Total equity and liabilities</b>		31,055	931	<b>31,986</b>

		Previous GAAP	Effect of transition to IFRS	IFRS
	Note	30 June 2006		
<b>Assets</b>				
Property, plant and equipment	a	10,160	(2,304)	<b>7,856</b>
<b>Total non-current assets</b>		10,160	(2,304)	<b>7,856</b>
Inventories		2,743	-	<b>2,743</b>
Trade and other receivables		3,444	-	<b>3,444</b>
Retirement benefit assets	c	2,105	902	<b>3,007</b>
Cash and cash equivalents		12	-	<b>12</b>
Assets held for sale	a	10,005	2,304	<b>12,309</b>
<b>Total current assets</b>		18,309	3,206	<b>21,515</b>
<b>Total assets</b>		28,469	902	<b>29,371</b>
<b>Equity</b>				
Issued capital		1,438	-	<b>1,438</b>
Reserves	b	11,197	(11,197)	-
Retained earnings	b,c,d	(1,784)	9,980	<b>8,196</b>
<b>Total equity</b>	c	10,851	(1,217)	<b>9,634</b>
<b>Liabilities</b>				
Interest bearing loans and borrowings		4,923	-	<b>4,923</b>
Retirement benefit obligations	c	2,088	895	<b>2,983</b>
Deferred tax liability	d	-	1,224	<b>1,224</b>
<b>Total non-current liabilities</b>		7,011	2,119	<b>9,130</b>

Bank overdraft		4,700	-	<b>4,700</b>
Interest bearing loans and borrowings		1,231	-	<b>1,231</b>
Trade and other payables		4,138	-	<b>4,138</b>
Provisions		538	-	<b>538</b>
<b>Total current liabilities</b>		10,607	-	<b>10,607</b>
<b>Total liabilities</b>	c	17,618	2,119	<b>19,737</b>
<b>Total equity and liabilities</b>		28,469	902	<b>29,371</b>

		Previous GAAP	Effect of transition to IFRS	IFRS
	Note	31 December 2006		
<b>Assets</b>				
Property, plant and equipment		9,708	(2,125)	<b>7,583</b>
<b>Total non-current assets</b>		9,708	(2,125)	<b>7,583</b>
Inventories		2,619	-	<b>2,619</b>
Trade and other receivables		3,231	-	<b>3,231</b>
Retirement benefit assets		987	423	<b>1,410</b>
Cash and cash equivalents		4	-	<b>4</b>
Assets held for sale		10,005	2,125	<b>12,130</b>
<b>Total current assets</b>		16,846	2,548	<b>19,394</b>
<b>Total assets</b>		26,554	423	<b>26,977</b>
<b>Equity</b>				
Issued capital		1,438	-	<b>1,438</b>
Reserves		11,170	(11,170)	-
Retained earnings		(4,848)	10,010	<b>5,162</b>
<b>Total equity</b>		7,760	(1,160)	<b>6,600</b>
<b>Liabilities</b>				
Interest bearing loans and borrowings		4,308	-	<b>4,308</b>
Retirement benefit obligations		2,368	423	<b>2,791</b>
Deferred tax liability		-	1,160	<b>1,160</b>
<b>Total non-current liabilities</b>		6,676	1,583	<b>8,259</b>
Bank overdraft		7,218	-	<b>7,218</b>
Interest bearing loans and borrowings		1,231	-	<b>1,231</b>
Trade and other payables		3,229	-	<b>3,229</b>
Provisions		440	-	<b>440</b>
<b>Total current liabilities</b>		12,118	-	<b>12,118</b>
<b>Total liabilities</b>		18,794	1,583	<b>20,377</b>
<b>Total equity and liabilities</b>		26,554	423	<b>26,977</b>

#### Notes to the reconciliation of equity

(a) Plant, machinery and equipment associated with the discontinued operations of the fine papers division and the "Gemini" paperboard business have been reclassified as "current assets held for sale".

(b) The revaluation reserve containing the increases and decreases in revaluations prior to 1 January 2006 under UK GAAP, has been transferred to equity following the valuation of assets at the transition date on the basis of either deemed cost or the lower of carrying amount or fair value less costs to sell. Subsequent measurement of assets is on the basis of a cost model.

(c) Deferred tax previously netted off within defined benefit schemes with assets and liabilities is now excluded from the pension scheme assets and liabilities and is eliminated against unrecognised deferred tax assets which the directors do not consider appropriate to recognise.

(d) A deferred tax liability is recognised on adoption of IAS12 "Income taxes" which requires deferred tax to be accounted for on temporary differences including assets which have been revalued. At the date of transition the deferred tax liability on the previous revaluation of assets has been estimated as £1,290,000 with the effect of increasing the balance sheet liabilities at 31 December 2005 by £1,290,000 (30 June 2006: £1,224,000, 31 December 2006: £1,160,000) and decreasing equity by the same amount at the respective balance sheet dates.

**RECONCILIATION OF PROFIT FOR THE SIX MONTHS TO 30 JUNE 2006 AND THE YEAR ENDED  
31 DECEMBER 2006**

£'000	Note	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
		For the six months ended 30 June 2006			For the year ended 31 December 2006		
Revenue		7,243	-	<b>7,243</b>	13,304	-	<b>13,304</b>
Cost of Sales		(6,614)	-	<b>(6,614)</b>	(12,925)	-	<b>(12,925)</b>
<b>Gross Profit</b>		629	-	<b>629</b>	379	-	<b>379</b>
Distribution expenses		(459)	-	<b>(459)</b>	(856)	-	<b>(856)</b>
Administration expenses		(614)	-	<b>(614)</b>	(1,525)	-	<b>(1,525)</b>
Restructuring costs		(394)	-	<b>(394)</b>	(594)	-	<b>(594)</b>
<b>Operating loss</b>		(838)	-	<b>(838)</b>	(2,596)	-	<b>(2,596)</b>
Other finance income	a	109	-	<b>109</b>	117	99	<b>216</b>
Finance income		4	-	<b>4</b>	10	-	<b>10</b>
Finance expenses		(18)	-	<b>(18)</b>	(119)	-	<b>(119)</b>
<b>Net finance income</b>		95	-	<b>95</b>	8	99	<b>107</b>
<b>(Loss)/profit before tax</b>		(743)	-	<b>(743)</b>	(2,588)	99	<b>(2,489)</b>
Tax	b	-	24	<b>24</b>	769	48	<b>817</b>
<b>(Loss)/profit for the period from continuing operations</b>		(743)	24	<b>(719)</b>	(1,819)	147	<b>(1,672)</b>
<b>Discontinued operations</b>							
(Loss)/gain for the period from discontinued operations	a,b	(890)	42	<b>(848)</b>	(1,311)	97	<b>(1,214)</b>
<b>(Loss)/profit for the period after tax and discontinued operations</b>		(1,633)	66	<b>(1,567)</b>	(3,130)	244	<b>(2,886)</b>

**Notes to the reconciliation of profit**

(a) Under UK GAAP a restriction was put on the expected rate of return from a defined benefit pension scheme which is not applied under IAS19 "Employee benefits". The effect of this adjustment is to reduce the loss for the twelve months ending 31 December 2006 by £114,000. This adjustment is allocated on the basis of £99,000 to continuing operations and £15,000 to discontinued operations. There is no effect on the asset or liability recognised for the pension scheme as there is an equal and opposite actuarial loss recognised in the consolidated statement of recognised income and expense.

(b) On adoption of IAS12 "Income taxes" changes to the calculation of deferred tax have resulted in a gain to the income statement for the six months ending 30 June 2006 of £66,000, £24,000 allocated to continuing operations and £48,000 to discontinued operations (year ending 31 December 2006: gain £130,000, £48,000 allocated to continuing operations, £82,000 allocated to discontinued operations).

There are no material adjustments to the cash flow statement arising from the transition to, and adoption of, International Financial Reporting Standards.