

Dee Valley Group plc
Announcement of Interim Results For
The Half Year Ended 30 September 2005

Financial Highlights	2005	2004
	(26 weeks)	Restated
	£000	(26 weeks)
		£000
Turnover	9,139	8,336
Pre-tax profit	2,740	2,422
Earnings per share	42.2p	38.0p
Interim dividend per ordinary share	15.4p	15.0p

Enquiries

Dee Valley Group plc
Tel. 01978 846946

Bryn Bellis (Managing Director)
David Guest (Finance Director)

Bridgewell Securities
Tel. 0207 003 3000

Adrian Hadden

Chairman's Statement

The latest price determination came into force on 1 April 2005. Over the five years from 2005 to 2010, the Regulator determined that prices could increase, on average, by 0.8 % per annum (before inflation). In 2005/06, prices increased by 5.7% (before inflation) in accordance with the Determination, and this is the first set of results subject to these new charges.

Turnover for the half year ended 30 September 2005 was £9.1 million (2004 - £8.3 million), an increase of 9.6%, whilst profit before tax increased by 13.1% to £2.7 million (2004 - £2.4 million). Operating costs increased by £0.7 million, mainly as a result of higher energy prices (£0.2 million) and pension charges (£0.3 million). Earnings per share rose by 11.1% to 42.2p (2004 – 38.0p).

Investment expenditure in the half year amounted to £2.0 million and included the completion and commissioning of the new treated water reservoir at Legacy. Work on the refurbishment and updating of the Company's second-largest treatment works, in the city of Chester, is due to enter the construction phase early in the new year. This project is expected to last for two years at an estimated cost of £12 million.

Once again the Company maintained supplies to customers without any restrictions on use despite lower than average rainfall and higher demand during the warmer summer weather. Recent heavy rainfall has recharged the reservoirs and resources continue to be adequate for the time of year.

From the beginning of this financial year the Group has adopted International Financial Reporting Standards; prior year comparatives have been restated.

The Board announces an interim dividend per ordinary share of 15.4p (2004 – 15.0p). The increase of 2.7% is in line with the expected movement in the retail price index for the year. In arriving at the level of interim dividend, consideration has been given to the uncertainties in future operating costs, arising from the volatility of energy costs, and the financing of the capital investment programme.

In the absence of unforeseen circumstances, such as exceptional weather conditions during the winter months, the Board anticipates a satisfactory outcome for the financial year.

Graham Scott
Chairman
30 November 2005

Group Income Statement Unaudited
(26 weeks ended 30 September 2005)

	Notes	2005 (26 weeks) £000	2004 (26 weeks) Restated £000	Year to 31.03.05 Restated £000
Revenue – continuing operations		9,139	8,336	16,838
Other income		723	602	1,242
Work performed by the Group and capitalised		212	264	585
Raw materials and consumables used		(220)	(196)	(460)
Employee benefits expense		(2,703)	(2,458)	(4,856)
Other expenses		(1,931)	(1,536)	(3,160)
Profit before depreciation and finance charges		5,220	5,012	10,189
Depreciation		(1,408)	(1,597)	(3,231)
Finance costs		(1,072)	(993)	(2,320)
Profit before tax		2,740	2,422	4,638
Income tax expense	6	(787)	(662)	(1,360)
Profit for the period				
Continuing operations		1,909	1,689	3,049
Discontinued operations	4	44	71	229
		1,953	1,760	3,278
Basic earnings per ordinary share	7	42.2p	38.0p	70.8p

**GROUP STATEMENT OF RECOGNISED INCOME
AND EXPENSE UNAUDITED**
(26 weeks ended 30 September 2005)

	2005 (26 weeks) £000	2004 (26 weeks) Restated £000	Year to 31.03.05 Restated £000
Actuarial gain (net of deferred tax) on defined benefit pension scheme	51	421	196
Net income recognised directly in equity	51	421	196
Profit for the financial period	1,953	1,760	3,278
Total recognised income for the period	2,004	2,181	3,474

Group Balance Sheet Unaudited

	30 September 2005 £000	30 September 2004 Restated £000	31 March 2005 Restated £000
Non-current assets			
Goodwill and intangible assets	8,315	8,315	8,315
Plant, property and equipment	62,336	59,365	62,156
Other investments	2	2	2
	<hr/> 70,653	<hr/> 67,682	<hr/> 70,473
Current assets			
Inventories	174	132	173
Trade receivables	4,222	4,789	1,212
Other receivables	1,683	998	1,476
Cash and cash equivalents	5,850	6,368	5,222
	<hr/> 11,929	<hr/> 12,287	<hr/> 8,083
Total assets	<hr/> 82,582	<hr/> 79,969	<hr/> 78,556
Equity			
Share capital	232	232	232
Fair value and other reserves	7,755	7,593	7,727
Retained earnings	6,322	5,271	5,735
	<hr/> 14,309	<hr/> 13,096	<hr/> 13,694
Non-current liabilities			
Long-term borrowings	38,228	37,057	37,804
Deferred income tax liabilities	13,536	12,994	13,202
Retirement benefit obligations	2,534	2,118	2,499
	<hr/> 54,298	<hr/> 52,169	<hr/> 53,505
Current liabilities			
Trade and other payables	13,046	14,704	10,538
Current income tax liabilities	494	-	527
Short-term borrowings	435	-	292
	<hr/> 13,975	<hr/> 14,704	<hr/> 11,357
Total liabilities	<hr/> 68,273	<hr/> 66,873	<hr/> 64,862
Total equity and liabilities	<hr/> 82,582	<hr/> 79,969	<hr/> 78,556

Group Cash Flow Statement Unaudited

	Notes	2005 (26 weeks) £000	2004 Restated (26 weeks) £000	Year to 31.03.05 Restated £000
Cash flows from operating activities				
Profit before taxation		2,740	2,422	4,638
Adjustments for:				
Depreciation		1,408	1,597	3,231
Finance Costs		1,072	993	2,320
		<u>5,220</u>	<u>5,012</u>	<u>10,189</u>
Movement in inventories		(1)	14	(27)
Movement in debtors/creditors		(318)	(23)	(967)
Cash generated from operations		<u>4,901</u>	<u>5,003</u>	<u>9,195</u>
Interest paid		(756)	(737)	(1,521)
Income taxes paid		(385)	(197)	(291)
Net cash from operating activities		<u>3,760</u>	<u>4,069</u>	<u>7,383</u>
Cash flows from investing activities				
Purchase of plant, property and equipment		(1,970)	(2,457)	(6,663)
Proceeds from sale of equipment		-	-	78
Interest received		113	116	311
Net cash used in investing activities		<u>(1,857)</u>	<u>(2,341)</u>	<u>(6,274)</u>
Cash flows from financing activities				
Repayment of borrowings		(28)	(249)	(277)
Equity dividends paid		(1,390)	(1,308)	(2,062)
Net cash used in financing activities		<u>(1,418)</u>	<u>(1,557)</u>	<u>(2,339)</u>
Net increase/(decrease) in cash and cash equivalents		485	171	(1,230)
Cash and cash equivalents at beginning of period	2	<u>4,930</u>	<u>6,160</u>	<u>6,160</u>
Cash and cash equivalents at end of period	2	<u>5,415</u>	<u>6,331</u>	<u>4,930</u>

NOTES TO THE ACCOUNTS

1. Accounting Policies – Basis of Preparation

Dee Valley Group plc ('the Group') has previously prepared its financial statements under UK Generally Accepted Accounting Policies ('UK GAAP'). Following a direction by the European Parliament in July 2002, the Group is required to prepare its 2005/06 consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS'). Accordingly, this interim financial report has been prepared using accounting policies consistent with those which management expects to apply in the Group's first IFRS Annual Report and Accounts for the year ending 31 March 2006.

The rules for first time adoption of IFRS are set out in IFRS 1, which requires that the Group establishes its IFRS accounting policies for the 2005/06 reporting year and applies these retrospectively.

The accounting policies in this interim financial report are those set out in the 2005 Annual Report and Accounts, with the exception of the changes arising from the adoption of IFRS. The policies which have been changed are detailed below. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are provided in the appendix to the interim statement on pages 9 to 15.

IFRS currently in issue are subject to ongoing review and endorsement by the European Commission, or possible amendment by the International Accounting Standards Board, and are therefore subject to possible change. Further standards or interpretations may also be issued that could be applicable for the full year consolidated financial statements. These potential changes could result in the need to alter the basis of accounting or presentation of certain financial information from that currently presented.

This interim statement for the period ended 30 September 2005 does not constitute statutory accounts as defined for the purposes of Section 240 of the Companies Act 1985. Statutory consolidated financial statements for the Group for the year ended 31 March 2005, prepared in accordance with UK GAAP, and on which the auditors gave an unqualified opinion, have been filed with the Registrar of Companies.

ACCOUNTING POLICIES WHICH HAVE CHANGED AS A RESULT OF THE TRANSITION TO IFRS

Revenues and segmental analysis

Revenues comprise amounts due in respect of goods and services supplied during the year in the ordinary course of business. Revenues are stated net of VAT, where applicable.

It is the opinion of the Directors that there are no appropriate business or geographical segments requiring disclosure under IAS 14.

Plant, property and equipment

Depreciation is provided on all tangible fixed assets, excluding freehold land and easements, at rates calculated to write off the cost less the estimated residual value of each asset evenly over the following estimated useful lives:

Buildings and service reservoirs	50-80 years
Meters and fixed plant	5-25 years
Mobile plant, vehicles and equipment	3-20 years
Impounding reservoirs and raw water aquaducts	50-300 years
Water mains	50-60 years

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events resulting in an obligation to pay more tax in the future or a right to pay less tax in future have occurred at the balance sheet date. Deferred tax is provided on an undiscounted basis.

Pensions

The Group participates in a defined benefit pension scheme which is closed to new members.

The liability recognised in the balance sheet in respect of the scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The deferred benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future unit cash outflows using interest rates of high quality corporate bonds.

Actuarial gains and losses arising in the period are recognised in full through equity.

Business combinations and goodwill

Goodwill arising from business combinations is treated as a non-current asset and is reviewed annually for impairment.

Recognition of dividends

Dividends declared after the balance sheet date are not recognised as a liability as at the balance sheet date, but are charged against retained earnings when the dividend is paid.

2. Cash and cash equivalents

	2005	2004	Year to 31.03.05
	£000	Restated £000	Restated £000
Cash in hand and balances with banks	(435)	(37)	(292)
Short term investments	5,850	6,368	5,222
	<u>5,415</u>	<u>6,331</u>	<u>4,930</u>

3. Reconciliation of movements in equity

	2005	2004	Year to 31/03/05
	£000	Restated £000	Restated £000
Equity attributable to equity holders			
At beginning of period	13,694	12,282	12,282
Total recognised income and expense for the period	2,004	2,181	3,474
Dividends to equity holders (note 5)	(1,389)	(1,367)	(2,062)
At end of period	<u>14,309</u>	<u>13,096</u>	<u>13,694</u>

4. **Discontinued operations**

	2005	2004	Year to 31.03.05	
	£000	£000	£000	
Revenue	-	-	-	
Operating costs	63	101	327	
Profit before tax	63	101	327	
Income tax expense	(19)	(30)	(98)	
Profit for the period	44	71	229	

5. **Dividends**

	2005	2004	2005	2004
	Pence per	Pence per	£000	£000
	Share	Share		
Amounts recognised as distributions to equity holders in the period				
Final dividend for the year	30.0p	29.5p	1,389	1,367
Proposed interim dividend for the half year	15.4p	15.0p	713	695

The proposed interim dividend was approved by the Board on 30 November 2005 but was not included as a liability at 30 September 2005, in accordance with IAS 10 'Events after the Balance Sheet Date'.

The proposed interim dividend is payable on 6 January 2006 to shareholders on the register at the close of business on 9 December 2005.

6. The charge for corporation tax is an estimate based on the anticipated effective rate of tax for the year to 31 March 2006.

7. Earnings per ordinary share have been calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The profit attributable to ordinary shareholders for the half year ended 30 September 2005 was £1,953,000 (2004 - £1,760,000).

The number of ordinary shares used in the calculation of earnings per share in 2005 and 2004 was 4,632,170.

8. This report is being sent to all shareholders and is available to the public at the Company's Registered Office – Packsaddle, Wrexham Road, Rhostyllen, Wrexham LL14 4EH.

APPENDIX: EXPLANATION OF TRANSITION TO IFRS

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 March 2005 and the date of transition was therefore 1 April 2004.

Reconciliation of equity at 1 April 2004 (date of transition to IFRS)

	Notes	UK GAAP	Effect of transition to IFRS	IFRS
Non-current assets				
Property, plant and equipment	1	42,739	15,539	58,278
Goodwill	2	-	8,315	8,315
Investments		2	-	2
		<u>42,741</u>	<u>23,854</u>	<u>66,595</u>
Current assets				
Inventories		146	-	146
Trade receivables		1,200	-	1,200
Other receivables due within one year	1	1,186	866	2,052
Other receivables due after one year	3	2,868	(2,868)	-
Cash and cash equivalents		6,470	-	6,470
		<u>11,870</u>	<u>(2,002)</u>	<u>9,868</u>
Total assets		<u>54,611</u>	<u>21,852</u>	<u>76,463</u>
Current liabilities				
Trade and other payables	5	(8,401)	(3,076)	(11,477)
Current tax payable		(621)	-	(621)
Bank overdraft		(310)	-	(310)
Proposed final dividend	6	(1,367)	1,367	-
		<u>(10,699)</u>	<u>(1,709)</u>	<u>(12,408)</u>
Non-current liabilities				
Long term borrowings		(36,694)	-	(36,694)
Retirement benefit obligation	3	-	(2,653)	(2,653)
Deferred tax	1,3,4	(5,526)	(6,900)	(12,426)
		<u>(42,220)</u>	<u>(9,553)</u>	<u>(51,773)</u>
Total liabilities		<u>(52,919)</u>	<u>(11,262)</u>	<u>(64,181)</u>
Net assets		<u>1,692</u>	<u>10,590</u>	<u>12,282</u>
Capital and reserves				
Share capital	5	3,308	(3,076)	232
Capital redemption reserve		28,888	-	28,888
Merger reserve	2	(40,630)	8,315	(32,315)
Fair value reserve	1	-	10,877	10,877
Retained earnings		10,126	(5,526)	4,600
		<u>1,692</u>	<u>10,590</u>	<u>12,282</u>

Reconciliation of equity at 31 March 2005 (date of last UK GAAP Financial Statements)

	Notes	UK GAAP	Effect of transition to IFRS	IFRS
Non-current assets				
Property, plant and equipment	1	46,137	16,019	62,156
Goodwill	2	-	8,315	8,315
Investments		2	-	2
		<u>46,139</u>	<u>24,334</u>	<u>70,473</u>
Current assets				
Inventories		173	-	173
Trade receivables		1,212	-	1,212
Other receivables due within one year	1	478	998	1,476
Other receivables due after one year	3	3,087	(3,087)	-
Cash and cash equivalents		5,222	-	5,222
		<u>10,172</u>	<u>(2,089)</u>	<u>8,083</u>
Total assets		<u>56,311</u>	<u>22,245</u>	<u>78,556</u>
Current liabilities				
Trade and other payables	5	(7,739)	(2,799)	(10,538)
Current tax payable		(527)	-	(527)
Bank overdraft		(292)	-	(292)
Proposed final dividend	6	(1,389)	1,389	-
		<u>(9,947)</u>	<u>(1,410)</u>	<u>(11,357)</u>
Non-current liabilities				
Long term borrowings		(37,804)	-	(37,804)
Retirement benefit obligation	3	-	(2,499)	(2,499)
Deferred tax	1,3,4	(6,048)	(7,154)	(13,202)
		<u>(43,852)</u>	<u>(9,653)</u>	<u>(53,505)</u>
Total liabilities		<u>(53,799)</u>	<u>(11,063)</u>	<u>(64,862)</u>
Net assets		<u>2,512</u>	<u>11,182</u>	<u>13,694</u>
Capital and reserves				
Share capital	5	3,031	(2,799)	232
Capital redemption reserve		29,165	-	29,165
Merger reserve	2	(40,630)	8,315	(32,315)
Fair value reserve	1	-	10,877	10,877
Retained earnings		10,946	(5,211)	5,735
		<u>2,512</u>	<u>11,182</u>	<u>13,694</u>

Reconciliation of profit for the year ended 31 March 2005 (£000)

	Notes	UK GAAP	Effect of transition to IFRS	IFRS
Revenue		16,838	-	16,838
Operating costs	1, 3	(11,257)	135	(11,122)
Other operating income		1,242	-	1,242
Finance costs	5	(2,206)	(114)	(2,320)
Profit before tax		4,617	21	4,638
Taxation		(1,322)	(38)	(1,360)
Profit after tax		<u>3,295</u>	<u>(17)</u>	<u>3,278</u>

Reconciliation of profit for the half year ended 30 September 2004 (£000)

	Notes	UK GAAP	Effect of transition to IFRS	IFRS
Revenue		8,336	-	8,336
Operating costs	1, 3	(5,587)	64	(5,523)
Other operating income		602	-	602
Finance costs	5	(935)	(58)	(993)
Profit before tax		2,416	6	2,422
Taxation		(555)	(107)	(662)
Profit after tax		<u>1,861</u>	<u>(101)</u>	<u>1,760</u>

Reconciliation of Equity as at 31 March 2004

	Per UK GAAP £000	IAS 16 Note 1	IFRS 3 Note 2	IAS 19 Note 3	IAS 12 Note 4	IAS 32 Note 5	IAS 10 Note 6	Per IFRS £000
BALANCE SHEET								
Fixed assets								
Goodwill	-		8,315					8,315
Tangible assets	42,739	15,539						58,278
Investments	2							2
	<u>42,741</u>							<u>66,595</u>
Current assets								
Inventories	146							146
Debtors – amounts falling due within one year	2,386	866						3,252
Debtors – amounts falling due after one year	2,868			(2,868)				-
Short term investments	6,470							6,470
	<u>11,870</u>							<u>9,868</u>
Current liabilities								
Creditors—amounts falling due within one year	(10,699)					(3,076)	1,367	(12,408)
Net current assets	<u>1,171</u>							<u>(2,540)</u>
Total assets less current liabilities								
	43,912							
Creditors – amounts falling due after one year	(36,694)							(36,694)
Retirement benefit obligations	-			(2,653)				(2,653)
Provision for liabilities and charges	(5,526)	(866)		960	(6,994)			(12,426)
Net assets	<u>1,692</u>	<u>15,539</u>	<u>8,315</u>	<u>(4,561)</u>	<u>(6,994)</u>	<u>(3,076)</u>	<u>1,367</u>	<u>12,282</u>
Capital and reserves								
Called up share capital	3,308					(3,076)		232
Capital redemption reserve	28,888							28,888
Merger reserve	(40,630)		8,315					(32,315)
Fair value reserve	-	15,539			(4,662)			10,877
Retained earnings	10,126			(4,561)	(2,332)		1,367	4,600
Shareholders' funds	<u>1,692</u>	<u>15,539</u>	<u>8,315</u>	<u>(4,561)</u>	<u>(6,994)</u>	<u>(3,076)</u>	<u>1,367</u>	<u>12,282</u>

Reconciliation of Equity as at 30 September 2004

	Per UK GAAP £000	IAS 16 Note 1	IFRS 3 Note 2	IAS 19 Note 3	IAS 12 Note 4	IAS 32 Note 5	IAS 10 Note 6	Per IFRS £000
BALANCE SHEET								
Fixed assets								
Goodwill	-		8,315					8,315
Tangible assets	43,586	15,779						59,365
Investments	2							2
	<u>43,588</u>							<u>67,682</u>
Current assets								
Inventories	132							132
Debtors—amounts falling due within one year	4,789	998						5,787
Debtors—amounts falling due after one year	2,977			(2,977)				-
Short term investments	6,368							6,368
	<u>14,266</u>							<u>12,287</u>
Current liabilities								
Creditors—amounts falling due within one year	(12,466)					(2,933)	695	(14,704)
	<u>1,800</u>							<u>(2,417)</u>
Net current assets								
	<u>45,388</u>							<u>65,265</u>
Total assets less current liabilities								
Creditors – amounts falling due after one year	(37,057)							(37,057)
Retirement benefit obligations	-			(2,118)				(2,118)
Provision for liabilities and charges	(5,674)	(998)		832	(7,154)			(12,994)
	<u>2,657</u>	<u>15,779</u>	<u>8,315</u>	<u>(4,263)</u>	<u>(7,154)</u>	<u>(2,933)</u>	<u>695</u>	<u>13,096</u>
Net assets								
Capital and reserves								
Called up share capital	3,165					(2,933)		232
Capital redemption reserve	29,031							29,031
Merger reserve	(40,630)		8,315					(32,315)
Fair value reserve	-	15,539			(4,662)			10,877
Retained earnings	11,091	240		(4,263)	(2,492)		695	5,271
	<u>2,657</u>	<u>15,779</u>	<u>8,315</u>	<u>(4,263)</u>	<u>(7,154)</u>	<u>(2,933)</u>	<u>695</u>	<u>13,096</u>
Shareholders' funds								

Reconciliation of Equity as at 31 March 2005

	Per UK GAAP £000	IAS 16 Note 1	IFRS 3 Note 2	IAS 19 Note 3	IAS 12 Note 4	IAS 32 Note 5	IAS 10 Note 6	Per IFRS £000
BALANCE SHEET								
Fixed assets								
Goodwill	-		8,315					8,315
Tangible assets	46,137	16,019						62,156
Investments	2							2
	<u>46,139</u>							<u>70,473</u>
Current assets								
Inventories	173							173
Debtors—amounts falling due within one year	1,690	998						2,688
Debtors—amounts falling due after one year	3,087			(3,087)				-
Short term investments	5,222							5,222
	<u>10,172</u>							<u>8,083</u>
Current liabilities								
Creditors—amounts falling due within one year	(9,947)					(2,799)	1,389	(11,357)
	<u>225</u>							<u>(3,274)</u>
Net current assets								
	<u>46,364</u>							<u>67,199</u>
Total assets less current liabilities								
Creditors—amounts falling due after one year	(37,804)							(37,804)
Retirement benefit obligations	-			(2,499)				(2,499)
Provision for liabilities and charges	(6,048)	(998)		980	(7,136)			(13,202)
	<u>2,512</u>	<u>16,019</u>	<u>8,315</u>	<u>(4,606)</u>	<u>(7,136)</u>	<u>(2,799)</u>	<u>1,389</u>	<u>13,694</u>
Net assets								
Capital and reserves								
Called up share capital	3,031					(2,799)		232
Capital redemption reserve	29,165							29,165
Merger reserve	(40,630)		8,315					(32,315)
Fair value reserve	-	15,539			(4,662)			10,877
Retained earnings	10,946	480		(4,606)	(2,474)		1,389	5,735
	<u>2,512</u>	<u>16,019</u>	<u>8,315</u>	<u>(4,606)</u>	<u>(7,136)</u>	<u>(2,799)</u>	<u>1,389</u>	<u>13,694</u>
Shareholders' funds								

Notes to Reconciliation of Equity and Profit

1. Depreciation of Infrastructure Assets (IAS 16)

The Group's accounting policy under UK GAAP was to calculate an infrastructure renewals charge (IRC) based on the estimated level of annual expenditure required to maintain the operating capability of the infrastructure network.

IAS 16 requires that all assets are depreciated based on their remaining useful economic lives. The Group has made use of the transition option available under IFRS 1 to use 'fair value' as the deemed cost of infrastructure assets as at 1 April 2004, giving rise to an increase in value of £15,539,000 (less deferred tax of £4,662,000). The result is to create a 'fair value' reserve within shareholders' equity.

The application of depreciation to these assets rather than the IRC results in a credit to operating costs of £480,000 in the year ended 31 March 2005 (half year ended 30 September 2004 - £240,000).

A prior year adjustment relating to infrastructure expenditure not yet allowed for tax under UK GAAP has given rise to additional corporation tax relief of £998,000 as at 31 March 2005.

2. Business Combinations and Goodwill (IFRS 3)

The acquisition of Chester Water plc in 1997 was accounted for using merger accounting principles. Merger accounting is not permitted by IFRS 3. The transaction has been restated by applying the purchase method, giving rise to goodwill of £8,315,000 within non-current assets, and a corresponding credit to the merger reserve.

The resulting goodwill will be tested for impairment annually as required by IAS 36 'Impairment of Assets'.

3. Employee Benefits (IAS 19)

For UK GAAP reporting, the Group applied the measurement and recognition policies of SSAP 24, whilst providing detailed disclosures for the alternative measurement principles of FRS 17. IAS 19 allows a similar approach to FRS 17 for defined benefit schemes. On transition, the deficit disclosed under FRS 17 has been recognised in the balance sheet. At 1 April 2004, this resulted in a pre-tax reduction in net assets of £5,521,000, which represents the sum of the deficit and reversal of the SSAP 24 prepayment in the UK GAAP balance sheet.

An associated deferred tax asset of £960,000 was recognised in respect of the pension deficit, giving an overall adjustment to net assets at 1 April 2004 of £4,561,000.

The amendment to IAS 19 allows actuarial gains and losses to be recognised immediately in the Statement of Recognised Income and Expense. Thus actuarial gains and losses will be taken directly to equity.

In the year ended 31 March 2005, the application of IAS 19 resulted in additional operating costs of £345,000 (half year ended 30 September 2004 - £176,000), with an actuarial gain of £196,000, net of deferred tax, credited directly to equity (half year ended 30 September 2004 - £421,000).

4. Income Taxes (IAS 12)

Under UK GAAP, the deferred tax liability was recognised on a discounted basis. IAS 12 requires that the gross liability is provided. The discount at 31 March 2004, amounting to £2,495,000, has been charged against retained earnings.

Additional deferred tax of £334,000 has been charged to profit after tax in the year ended 31 March 2005 (half year ended 30 September 2004 - £181,000).

5. Financial Instruments (IAS 32)

The balance sheet at 31 March 2004 included B shares that were created as part of the capital reconstruction carried out in 2002. Under UK GAAP these shares were classified as part of shareholders' equity.

IAS 32 requires that these shares (£3,076,000 at 31 March 2004) be transferred to current liabilities, as they are redeemable twice yearly.

The 'dividends' paid on these shares, amounting to £114,000 in the year ended 31 March 2005, have been reclassified as finance costs (half year ended 30 September 2004 - £58,000).

6. Recognition of Dividends (IAS 10)

Under IFRS, dividends declared after the balance sheet date are not recognised as a liability as at that balance sheet date.

The final dividend of £1,367,000 declared in June 2004 and paid in August 2004 has been added back to equity in the balance sheet as at 1 April 2004, and deducted from equity at 31 March 2005.