Schedule 1: Balance sheet Reconciliation at 1 January 2004

	Previously reported under UK GAAP £'000	Goodwill (a) £'000	Pensions (b) £'000	Dividends (c) £'000	Share options (d) £'000	Foreign currency (e) £'000	Design & Development (f) £'000	Revaluation reserve (g) £'000	Effect of transition to IFRS £'000	Restated under IFRS £'000
Non-current assets										
Goodwill	12,417	-	-	-	-	-	-	-	-	12,417
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	6,939	-	-	-	-	-	-	-	-	6,939
Deferred tax assets	448	-	1,036	-	-	-	-	-	1,036	1,484
	19,804	-	1,036	-	-	-	-	-	1,036	20,840
Current assets										
Inventories	8,201	-	-	-	-	-	-	-	-	8,201
Trade and other receivables	15,764	-	-	-	-	-	-	-	-	15,764
Cash and cash equivalents	4,465	-	-	-	-	-	-	-	-	4,465
	28,430	-	-	-	-	-	-	-	-	28,430
Total assets	48,234	-	1,036	-	-	-	-	-	1,036	49,270
Current liabilities										
Trade & other payables	(10,867)	-	-	660	-	-	-	-	660	(10,207)
Net current assets	17,563	-	-	660	-	-	-	-	660	18,223
Non current liabilities										
Creditors falling due > 1 year	(4,469)	-	-	-	-	-	-	-	-	(4,469)
Retirement benefit obligation	-	-	(3,454)	-	-	-	-	-	(3,454)	(3,454)
Deferred tax liabilities	(6)	-	-	-	-	-	-	-	-	(6)
Long-term provisions	(1,524)	-	-	-	-	-	-	-	-	(1,524)
	(5,999)	-	(3,454)	-	-	-	-	-	(3,454)	(9,453)
Total liabilities	(16,866)	-	(3,454)	660	-	-	-	-	(2,794)	(19,660)
Net assets	31,368	-	(2,418)	660	-	-	-	-	(1,758)	29,610
EQUITY										
Share capital	1,884	-	-	-	-	-	-	-	-	1,884
Share premium account	2,566	-	-	-	-	-	-	-	-	2,566
Revaluation reserves	1	-	-	-	-	-	-	(1)	(1)	-
Share options	-	-	-	-	6	-	-	-	6	6
Translation reserve	340	-	-	-	-	(340)	-	-	(340)	-
Equity reserve (P&L)	26,577	-	(2,418)	660	(6)	340	-	1	(1,423)	25,154
	31,368	-	(2,418)	660	-	-	-	-	(1,758)	29,610

Schedule 2: Balance sheet Reconciliation at 30 June 2004

	Previously reported under UK GAAP £'000	Goodwill (a) £'000	Pensions (b) £'000	Dividends (c) £'000	Share options (d) £'000	Foreign currency (e) £'000	Design & Development (f) £'000	Revaluation reserve (g) £'000	Effect of transition to IFRS £'000	Restated under IFRS £'000
Non-current assets										
Goodwill	11,913	504	-	-	-	-	-	-	504	12,417
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	6,497	-	-	-	-	-	-	-	-	6,497
Deferred tax assets	449	-	1,176	-	-	-	-	-	1,176	1,625
	18,859	504	1,176	-	-	-	-	-	1,680	20,539
Current assets										
Inventories	8,982	-	-	-	-	-	-	-	-	8,982
Trade and other receivables	16,778	-	-	-	-	-	-	-	-	16,778
Cash and cash equivalents	4,917	-	-	-	-	-	-	-	-	4,917
	30,677	-	-	-	-	-	-	-	-	30,677
Total assets	49,536	504	1,176	-	-	-	-	-	1,680	51,216
Current liabilities										
Trade & other payables	(12,709)	-	-	490	-	-	-	-	490	(12,219)
Net current assets	17,968	-	-	490	-	-	-	-	490	18,458
Non current liabilities										
Creditors falling due > 1 year	(4,144)	-	-	-	-	-	-	-	-	(4,144)
Retirement benefit obligation	-	-	(3,920)	-	-	-	-	-	(3,920)	(3,920)
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Long-term provisions	(890)	-	-	-	-	-	-	-	-	(890)
	(5,034)	-	(3,920)	-	-	-	-	-	(3,920)	(8,954)
Total liabilities	(17,748)	-	(3,920)	490	-	-	-	-	(3,430)	(21,173)
Net assets	31,793	504	(2,744)	490	-	-	-	-	(1,750)	30,043
EQUITY										
Share capital	1,884	-	-	-	-	-	-	-	-	1,884
Share premium account	2,566	-	-	-	-	-	-	-	-	2,566
Revaluation reserves	1	-	-	-	-	-	-	(1)	(1)	-
Share options	-	-	-	-	11	-	-	-	11	11
Translation reserve	39	-	-	-	-	(340)	-	-	(340)	(301)
Equity reserve (P&L)	27,303	504	(2,744)	490	(11)	340	-	1	(1,420)	25,883
	31,793	504	(2,744)	490	-	-	-	-	(1,750)	30,043

Schedule 3: Balance sheet Reconciliation at 31 December 2004

	Previously reported under UK GAAP £'000	Goodwill (a) £'000	Pensions (b) £'000	Dividends (c) £'000	Share options (d) £'000	Foreign currency (e) £'000	Design & Development (f) £'000	Revaluation reserve (g) £'000	Effect of transition to IFRS £'000	Restated under IFRS £'000
Non-current assets										
Goodwill	11,409	1,008	-	-	-	-	-	-	1,008	12,417
Other intangible assets	-	-	-	-	-	-	151	-	151	151
Property, plant & equipment	6,446	-	-	-	-	-	-	-	-	6,446
Deferred tax assets	688	-	1,563	-	-	-	-	-	1,563	2,251
	18,543	1,008	1,563	-	-	-	-	-	2,722	21,265
Current assets										
Inventories	9,135	-	-	-	-	-	-	-	-	9,135
Trade and other receivables	14,548	-	-	-	-	-	-	-	-	14,548
Cash and cash equivalents	7,310	-	-	-	-	-	-	-	-	7,310
	30,993	-	-	-	-	-	-	-	-	30,993
Total assets	49,536	1,008	1,563	-	-	-	-	-	2,722	52,258
Current liabilities										
Trade & other payables	(11,352)	-	-	679	-	-	-	-	679	(10,673)
Net current assets	19,641	-	-	679	-	-	-	-	679	20,320
Non current liabilities										
Creditors falling due > 1 year	(3,627)									(3,627)
Retirement benefit obligation	-	-	(5,211)	-	-	-	-	-	(5,211)	(5,211)
Deferred tax liabilities	(194)	-	-	-	-	-	-	-	-	(194)
Long-term provisions	(1,333)	-	-	-	-	-	-	-	-	(1,333)
	(5,154)	-	(5,211)	-	-	-	-	-	(5,211)	(10,365)
Total liabilities	(16,506)	-	(5,211)	679	-	-	-	-	(4,532)	(21,038)
Net assets	33,030	1,008	(3,648)	679	-	-	-	-	(1,810)	31,220
EQUITY										
Share capital	1,887	-	-	-	-	-	-	-	-	1,887
Share premium account	2,618	-	-	-	-	-	-	-	-	2,618
Revaluation reserves	1	-	-	-	-	-	-	(1)	(1)	-
Share options	-	-	-	-	28	-	-	-	28	28
Translation reserve	229	-	-	-	-	(340)	-	-	(340)	(111)
Equity reserve (P&L)	28,295	1,008	(3,648)	679	(28)	340	-	1	(1,497)	26,798
	33,030	1,008	(3,648)	679	-	-	-	-	(1,810)	31,220

Schedule 4: Income statement reconciliation for the 6 months to 30 June 2004

	Previously reported under UK GAAP £'000	Goodwill (h) £'000	Pensions (i) £'000	Dividends (j) £'000	Share options (k) £'000	Design & Development (l) £'000	Effect of transition to IFRS £'000	Restated under IFRS £'000
Revenue	30,551	-	-	-	-	-	-	30,551
Cost of sales	(16,181)	-	-	-	-	-	-	(16,181)
Gross profit	14,370	-	-	-	-	-	-	14,370
Selling & marketing costs	(7,644)	-	-	-	-	-	-	(7,644)
Administrative expenses	(2,764)	504	(31)	-	(5)	-	468	(2,296)
Research, design & development costs	(1,962)	-	-	-	-	-	-	(1,962)
Operating profit	2,000	504	(31)	-	(5)	-	468	2,468
Interest income	32	-	-	-	-	-	-	32
Interest costs	(69)	-	-	-	-	-	-	(69)
Net interest on pension liability	-	-	(19)	-	-	-	(19)	(19)
Profit before tax	1,963	504	(50)	-	(5)	-	449	2,412
Taxation	(760)	-	15	-	-	-	15	(745)
Profit after tax	1,203	504	(35)	-	(5)	-	464	1,667
Dividends paid	(490)	-	-	(170)	-	-	(170)	(660)
Retained profit for the period	713	504	(35)	(170)	(5)	-	294	1,007
Items recognised directly in equity during the period	13	-	(291)	-	-	-	(291)	(278)
Equity (P&L) reserve movement in the period	726	504	(326)	(170)	(5)	-	3	729
Basic EPS	6.4p	2.7p	(0.2)p	-	-	-	2.5p	8.9p
Diluted EPS	6.3p	2.7p	(0.2)p	-	-	-	2.5p	8.8p

Schedule 5: Income statement reconciliation for the 12 months to 31 December 2004

	Previously reported under UK GAAP £'000	Goodwill (h) £'000	Pensions (i) £'000	Dividends (j) £'000	Share options (k) £'000	Design & Development (l) £'000	Effect of transition to IFRS £'000	Restated under IFRS £'000
Revenue	63,411	-	-	-	-	-	-	63,411
Cost of sales	(32,978)	-	-	-	-	-	-	(32,978)
Gross profit	30,433	-	-	-	-	-	-	30,433
Selling & marketing costs	(15,544)	-	-	-	-	-	-	(15,544)
Administrative expenses	(6,052)	1008	(65)	-	(22)	-	921	(5,131)
Research, design & development costs	(4,050)	-	-	-	-	151	151	(3,899)
Operating profit	4,787	1008	(65)	-	(22)	151	1,072	5,859
Interest income	65	-	-	-	-	-	-	65
Interest costs	(147)	-	-	-	-	-	-	(147)
Net interest on pension liability	-	-	(23)	-	-	-	(23)	(23)
Profit before tax	4,705	1008	(88)	-	(22)	151	1,049	5,754
Taxation	(1,818)	-	26	-	-	-	26	(1,792)
Profit after tax	2,887	1008	(62)	-	(22)	151	1,075	3,962
Dividends paid	(1,169)	-	-	19	-	-	19	(1,150)
Retained profit for the period	1,718	1008	(62)	19	(22)	151	1,094	2,812
Items recognised directly in equity during the period	-	-	(1,168)	-	-	-	(1,168)	(1,168)
Equity (P&L) reserve movement in the period	1,718	1008	(1,230)	19	(22)	151	(74)	1,644
Basic EPS	15.3p	5.3p	(0.3)p	-	(0.1)p	0.8p	5.7p	21.0p
Diluted EPS	15.2p	5.3p	(0.3)p	-	(0.1)p	0.8p	5.7p	20.9p

Notes:

Note 1:

The figures detailed above. are based on the IFRS expected to be applicable as at 31 December 2005 and the interpretation of those standards.
IFRS are subject to possible amendment by and interpretative guidance from the International Accounting Standards Board as well as ongoing review and endorsement by the EU and are, therefore, still subject to change.
It is therefore possible that these figures may require amendment before their inclusion in the IFRS financial statements for the 12 months to 31 December 2005.

Note 2:

Under IFRS, new accounting policies have been drafted on which basis the figures detailed above have been computed. These policies are:

Basis of accounting:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. The disclosures required by IFRS1 concerning the transition from UK GAAP to IFRSs are given on the face as well as in the notes to the financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

Basis of consolidation:

The consolidated financial statements incorporate the financial statements of The MTL Instruments Group Plc and entities controlled by the company (its subsidiaries) made up to 31 December each year.

Control is achieved where The MTL Instruments Group Plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Intangible assets – goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and

liabilities of its subsidiaries and jointly controlled entities at the dates of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amount subject to being tested for impairment at that date.

Any goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Intangible assets excluding goodwill:

Internally-generated intangible assets - Research & Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the group's development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible assets can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Patents & trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method, on the following bases:

Buildings: 30 – 50 years
Long leasehold buildings: Over the shorter of the lease term or 50 years
Fixtures & equipment: 3-5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the

asset and is recognised in income.

Investment property:

Investment property, which is property held to earn rentals and / or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Impairment of tangible and intangible assets excluding goodwill:

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 asset for which the estimates of future cash flows have not been adjusted.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories and work in progress are stated at the lower of cost and net realisable value.

Cost comprises direct material costs of purchase and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition as follows:

Raw materials & components:
- purchase cost on a first-in, first-out basis, including transport.

Work in progress and finished goods:

- cost of direct materials and labour plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions:

Provisions for warranty costs are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's liabilities.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Taxation:

The charge for current tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when the risks and rewards of ownership pass to the customer, which usually occurs at the point of shipment.

Revenue for transactions involving the rendering of services is recognised when the outcome can be reliably estimated, by reference to the stage of completion of the transaction at the balance sheet date.

When the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognised when the shareholders rights to receive payment have been established.

Leases:

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs.

Employee benefits:

Retirement Benefit costs:

Payments to the defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present

value of available refunds and reductions in future contributions to the plan.

Short-term employee benefit costs:

The undiscounted amount of short-term benefits attributable to services that have been rendered in the period are recognised as an expense, unless specifically required or permitted within the scope of IFRS reporting to be included in the cost of an asset.

Any difference between the amount of cost recognised and cash payments made is treated as a liability or prepayment as appropriate.

Borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Foreign currency:

Transactions in currencies other than the functional currency of the reporting entity are recorded at the rates of exchange prevailing on the dates of the transactions.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date.

Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The Group has elected to treat goodwill and fair value adjustment arising on acquisitions before the date of transition to IFRSs as sterling denominated assets and liabilities.

Financial instruments:

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Trade Receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Financial liability and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the profit and loss account using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade Payables
Trade payables are not interest bearing and are stated at their nominal value.

Equity Instruments
Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting
The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The group uses foreign exchange forward contracts to hedge the foreign currency exchange rate exposures. The group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the group's policies approved by the board of directors:

The group's objective in managing its currency exposure is to minimise the risk of adverse currency movements. The group sets budgeted rates annually which provide the basis of determining group budgeted profitability.

The company does not speculate in order to maximise returns.

The group sells and buys goods throughout the world. It is the policy of the company to make purchases in one of three currencies; £ Sterling, US Dollars and Euros. It is the policy of the group to maximisie purchases in US Dollars and Euros wherever possible to create a natural hedge.

The cost base of the business is predominantly £ Sterling. Sales and purchases in foreign currencies are likely to give rise to fluctuating revenues depending upon the relative strength of £ Sterling on the foreign exchange markets.

At the start of each budget year, the group agrees budgeted exchange rates for the next 12 month period. These rates are used in determining budgeted profits for the year. Achievement of budgeted profits demominated in a foreign currency may therefore be impacted by exchange differences.

The monthly accounts identify unrealised and realised exchange gains and losses generated from the difference in the rate at which a sale/purchase is booked in the accounts compared to the month end rate or compared to the rate of the subsequent cash receipt/payment.

It is the usual policy to only hedge exposures up to 12 months ahead.
It is the company policy to hedge a minimum of 25% known exposures up to a maximum of 75% over a rolling 12 month period.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement.

If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.
For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of hosts contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Share-based payments:

The Group has applied the requirements or IFRS 2 Share-based Payments.

In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant.
The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value of the equity-settled share-based payments is measured by use of a Black Scholes model.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for any cash-settled, share-based payments.