

# **CASTLE SUPPORT SERVICES plc**

**Annual Report and Accounts 2008**



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# Chairman's Statement

## Introduction

I am pleased to report on the results for the year ended 30 June 2008 which include the first full year's trading for DM Technical Services Limited ("DMTS") acquired on 19 June 2007.

The overall result is an excellent performance when compared with the pro-forma annualised 2007 results based on the ten-month period to 30 June 2007.

Revenue for the year is up by approximately 11% to £116.3 million, whilst operating profit (before pension settlement and profit on disposals) significantly improved by approximately 21% to £15.4 million; profit before tax was £18.5 million, and profit after tax and minority interest £12.7 million, resulting in earnings per share of 10.04p.

These results clearly demonstrate the strong market position held by DMTS and its experience and expertise established over many years in the UK, USA and Australasia which enables us to provide specialist inspection, repair and maintenance services for generators, motors and ancillary rotating equipment.

The results are also a reflection of the considerable demand for our services in the key international sectors of energy generation, oil, gas, petrochemicals, resources, and shipping as well as the wider industrial base. There are further opportunities for expansion and growth both within and beyond our existing geographic operations.

In January 2008, we completed a strategic move into the Middle East region through the acquisition of a 50% shareholding in Intersel FZE ("Intersel") based in Dubai. In the short period of ownership to date we have been very encouraged by an improvement in its results and the opportunities to transplant our specialist expertise into this important region.

## Results

The group has adopted International Financial Reporting Standards ("IFRS") for the financial year ended 30 June 2008 in accordance with the time frame for all AIM quoted companies. The group previously applied United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). A document titled "Transition to International Financial Reporting Standards" which explains the impact of the adoption of IFRS on the group's results is available to download on the company's website ([www.castlesupportservices.com](http://www.castlesupportservices.com)) or on request from the company's head office.

The results for the year ended 30 June 2008 show revenue of £116.3 million, operating profit before profit on disposal of £15.4 million, profit before tax of £18.5 million, and profit after tax and minority interest of £12.7 million, resulting in earnings per share of 10.04p.

The minority interest of £0.2 million relates to 50%, being the shares not owned by the group, of the post-acquisition profits of Intersel acquired on 2 January 2008 for a total consideration, including acquisition costs, of £1.9 million. The post-acquisition revenue and profits of Intersel of £2.8 million and £0.8 million respectively on an annualised basis represent a significant improvement of over 53% in revenue and 78% in profits when compared with the pre-acquisition results.

Group borrowings of £10.7 million (net of cash balances of £12.9 million) have reduced by £13.4 million during the period. The group also has unutilised debt facilities of *circa* £6 million which, together with cash balances, represents *circa* £19 million available for potential investment and expansion opportunities.

We have made good progress in unlocking the inherent value in the Castle pension scheme. The assets and liabilities of DMTS's pension scheme were transferred into Castle's pension scheme on 20 August 2007, and following the enhancement of the pensions of the members of the John Holt Scheme there was approximately £15 million available for the DMTS section. In common with all defined benefit



# Chairman's Statement

schemes the pension scheme's surplus has reduced during the course of the year with the fluctuations in equity markets, and the scheme's surplus on an IAS19 basis as at 30 June 2008 was £7.3 million (30 June 2007: £14.7 million).

## **Strategy**

When we acquired DMTS on 19 June 2007 we reported that our strategy was to grow the business to create value for shareholders; both organically, by marketing more proactively existing and new services to its key target sectors/customers, and through complementary acquisitions. This strategy envisaged the development of business in the Middle East and Far East as well as in each of the three continents where DMTS already has facilities, namely Europe, Australasia, and North America.

Since then, we have made good progress through the increase in profitability from existing facilities and also our first steps in our plans for overseas expansion with the Dubai acquisition. Intersel provides us with facilities, an experienced workforce and a platform from which to leverage the group's skills and experience plus benefit from the growth in the Middle East region.

As a market leader in a very fragmented marketplace with very few competitors with the scale or range of expertise of DMTS, there is considerable scope for expansion and consolidation. In my interim report (dated 27 March 2008), I explained that the board had decided that the opportunities were such that it should explore all available avenues to accelerate the considerable opportunities for growth, and that a strategic review would include, but not be limited to, the possibility of alliances, joint ventures, mergers and acquisitions which could also result in an offer being made by a third party for the company. This review is not yet complete and whilst it has confirmed the opportunities for growth, the board has yet to consider how we could best accelerate the leverage of our considerable expertise into a range of industrial sectors and geographic locations, both organically and by acquisition, for the benefit of the business, the employees and shareholders.

## **Outlook**

The group continues to experience encouraging levels of activity. We are well placed to benefit from increasing demand for inspection, maintenance, and repair services for generators, motors and ancillary equipment and the ever increasing demand for energy and energy efficiency. We therefore expect to make further progress during the course of this year and I look forward to updating shareholders in due course.

## **Christopher Mills**

Non-executive Chairman

10 October 2008

# Board of Directors

**Christopher Mills** (55)

Non-executive Chairman

*Joined the company in February 2005. He is Chief Investment Officer of J O Hambro Capital Management Limited and Chief Executive of North Atlantic Smaller Companies Investment Trust plc.*

**Tudor Davies** (56)

Executive Director

*Joined the Dowding & Mills group as Executive Chairman in November 2002. Appointed to the board of Castle Support Services plc in June 2007. He was a non-executive director and subsequently Chairman of Stratagem plc from 2000 to 2002. From 1990 to 1999 he was Chief Executive and subsequently Chairman of Hicking Pentecost plc. He is currently also a non-executive director of Zytronic plc.*

**Timothy Barrett** ACMA (35)

Finance Director

*Joined the Dowding & Mills group in December 1997, served as Group Financial Controller from September 2000 and was appointed as Finance Director of the Dowding & Mills group in September 2004. He was appointed to the board of Castle Support Services plc in June 2007.*

**David Banks** MA (Cantab), FCA (55)

Non-executive Director

Chairman of the Audit Committee  
Chairman of the Remuneration Committee  
Chairman of the Nomination Committee  
Senior Independent Non-executive Director

*Appointed to the Dowding & Mills board in October 2004 and to the board of Castle Support Services plc in June 2007. Currently Finance Director at Romag Holdings plc and a non-executive Director at Zytronic plc, both of which are listed on AIM.*

**J Colin Keith** BA (Oxon) (64)

Non-executive Director

Member of the Audit Committee  
Member of the Remuneration Committee  
Member of the Nomination Committee

*Appointed to the Dowding & Mills board in November 2004 and to the board of Castle Support Services plc in June 2007. He was Chairman of Denison International plc from 1993 to 2004 and Chairman of Horace Small plc from 1992 to 2000.*

Company Secretary:

**Simon Balem** ACA

# Report of the Directors

The directors present their report and the financial statements of the group and parent company for the year to 30 June 2008.

## **Principal activities and business and financial review**

The group has subsidiaries in a number of countries, all of which are principally engaged in the provision of high quality electro-mechanical inspection, maintenance, and repair services and encompassing: power generator and electric motor repair; mechanical repair; mechanical and electrical site work; condition monitoring services; and electronic and calibration services.

The trading performance has been robust, with the business generating a strong level of cash. The key indicators of operational success in the business are operating profit before pension settlement and profit on disposal — 'operating profit' and operational cash flow. For the year to 30 June 2008, operating profit was £15,378,000 and operational cash flow was £18,072,000 (10 months to 30 June 2007: operating profit £10,607,000 and operational cash flow £8,324,000).

On an annualised basis, revenue within the group increased by 11% in 2008, representing increased activity particularly in the UK and Australia, and contribution from the group's newly acquired business in the Middle East.

Operating profit before the pension settlement and profit on disposal in 2008 has increased on an annualised basis by 20.8% from £10,607,000 in the 10 months to 30 June 2007 to £15,378,000 for the year to 30 June 2008. Operating profit as a percentage of revenue has increased from 12.2% in 2007 to 13.2% in 2008. These improvements are primarily as a result of increased revenue.

All of the above comparisons are on an annualised basis as the period reported for 2007 covers 10 months and, in order to aid comparability to the 12 month period reported in 2008, it is necessary to gross them up by a factor of  $12/10$ .

On 31 August 2007 the group completed the disposal of its vacant freehold property in Weedon,

Northamptonshire. The gross proceeds from the sale were £2,425,000: this compares to a book value of £1,912,000. The book profit of £513,000 less disposal costs has been recorded in the financial statements for the financial year ended 30 June 2008. It is not anticipated that there will be any capital gains tax liability arising from this transaction.

The funding valuation of the group's UK defined benefit pension scheme as at 23 April 2008 is currently under way. On an IAS19 basis, as at 30 June 2007 the group reported a £14,650,000 defined benefit pension scheme surplus. However, as a result of the deterioration in equity market valuations, and despite the increase in the yield upon corporate bonds, the surplus has reduced to £7,306,000 as at 30 June 2008. Further details are contained within note 24 on page 39.

In June 2007 the group completed a refinancing exercise and the directors report that sufficient headroom remains within the new facilities to enable progress to be achieved in relation to its stated business strategy (see below). Further information is contained within note 19 on page 34.

The group has reviewed a range of non-financial indicators but due to the wide range of activities and work carried out at the various locations the board do not view them as key to an understanding of the group as a whole.

The results of the group for the year are set out in detail on pages 13 to 16.

## **Business strategy and risks affecting the group**

The strategy of the group remains unchanged, being to grow its business both organically and potentially via complementary acquisitions where opportunities present themselves to create value for shareholders. The group aims to develop its business in the Far East, as well as in each of the four continents in which it currently has facilities.

The nature of the business means that it faces a number of minor risks, but there are no risks which are individually significant to the business.

# Report of the Directors

The progress of the strategic review, announced by the company on 27 March 2008, is further discussed in the Chairman's statement on page 1.

## **Financial risk management objectives and policies**

### *Policies, objectives and strategies*

The group seeks to manage financial risks by the use of financial instruments for which clear parameters have been established. The group does not undertake any trading activity in financial instruments.

The Finance Director monitors the group's exposure to interest rates and currency translation exposures and reports the impact to the board on a regular basis as necessary.

### *Interest rate risk*

The company finances its operations through the initial funds provided by its shareholders.

The group finances its operations through loans from its bankers. The loans are divided between fixed and floating rates, as set out in note 19. This provides the business with an appropriate level of risk in relation to its borrowings.

The interest rate swap taken out at the time of the group's refinancing in June 2007 exchanges variable rate borrowings for a fixed rate and this has been used to manage the interest rate profile of the group.

### *Liquidity risk*

The company, which acts primarily as a holding company, has very limited operations and the group facilities are sufficient to sustain the operation of the company for the foreseeable future.

The group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Forecasts are prepared and facilities arranged by the group to ensure sufficient funding is available for all of the operating subsidiaries. Continuity of funding is ensured through a constant dialogue with the group's banks and ensuring that appropriate funding is available.

The banking arrangements within the group were re-negotiated during 2007 and the group continues to operate within all of its banking covenants.

### *Currency risk*

The company has not entered into any foreign currency transactions.

Transaction risk in the group is principally managed by seeking to ensure that both sales and purchases are made in the same currency and, if material imbalances are predicted to arise, a decision is made on whether to hedge the exposure.

In relation to translation risk, the group's current policy is not to hedge the net asset values of the overseas investments although, where appropriate and cost-effective facilities are available, local borrowings are utilised to reduce the translation risk.

### *Credit risk*

The group's principal financial assets are bank balances and cash, and trade and other receivables. The credit risk is primarily attributable to its trade receivables where the amounts presented in the balance sheet are net of impairments. Bank balances and cash comprise cash held by the company where the carrying amounts approximate to their fair value.

The group has no significant concentration of credit risk, with exposure spread over a large number of customers and reputable banks. The company has a good history of cash collection from its customers with a limited history of impairment. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

### *Capital management*

The group's capital management objectives are to ensure the group has the ability to continue as a going concern and enhance shareholder value. The group may maintain or adjust its capital structure by adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares or selling assets.

### *Share capital*

The total number of shares in issue at the start of the year was 126,058,400.

# Report of the Directors

At the Annual General Meeting held on 27 November 2007 shareholders approved the buy-back of shares up to a limit of 10% of the company's share capital. The company made a free share dealing offer to all shareholders with less than 2,000 shares in December 2007. Over 500 shareholders took up the offer, and the company now holds 56,525 shares in treasury and has 126,001,875 shares remaining listed on AIM.

Further details of the issued share capital are set out in note 21 on page 37.

## **Dividends**

The directors current intention is to retain and re-invest the earnings arising from the group's activities to fund further development.

## **Directors**

The following directors served the company during the year:

C H B Mills	(Non-executive Chairman)
T G Davies	(Executive Director)
T I Barrett	(Finance Director)
D E Banks	(Senior Independent Non-executive Director and Chairman of the Audit, Remuneration and Nomination Committees)
J C Keith	(Independent Non-executive Director)
G A Naggar	(Non-executive Director, retired 1 August 2008)

Biographical details of the current directors are set out on page 3.

None of the directors has had a material interest in any contract or arrangement of significance to which the company or any of its subsidiaries was a party during the year.

## **Employee involvement**

The directors believe that it is important to maintain good working relations with employees by the use of clear channels of communication. The group's business operates through a network of branches covering the major industrial areas of the UK and through subsidiaries located overseas.

In practice, the responsibility for communicating with the workforce rests with the manager for each location.

It is the policy of the group to give full and fair consideration to applications for employment made by disabled persons, having regard to their aptitudes and abilities. It is also the practice of the group, whenever possible, to continue the employment of those employees who become disabled during the course of their employment.

The company's annual report and financial statements are made available to all branches at the same time as they are sent to shareholders.

## **Environmental policy**

The group recognises its duty to minimise environmental harm and nuisance and endeavours to adopt the best practicable means to reduce or eliminate polluting releases to the environment or in the disposal of waste products. It is the group's policy to comply with environmental legislative requirements and to integrate environmental consideration into all of its operations, use of materials and practices.

## **Payments to suppliers**

All group companies agree terms and conditions for business transactions with suppliers and payment is then made with regard to these terms.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services.

## **International Financial Reporting Standards**

These accounts are the first prepared by the group in compliance with International Financial Reporting Standards. The impact of IFRS on the group's results has been published and is available on the group's website [www.castlesupportservices.com](http://www.castlesupportservices.com). The required disclosures under IFRS1 are contained within note 31.

## **Substantial shareholdings**

The following organisations had advised the company as at 7 October 2008 that they are interested, either on behalf of investment clients or beneficially, in more than 3% of the issued ordinary

# Report of the Directors

share capital:

	No. of Ordinary Shares	% of issued Share Capital
J O Hambro interests:		
North Atlantic Smaller Companies Investment Trust	31,000,000	24.6%
North Atlantic Value Discretionary Clients	26,538,440	21.1%
Other J O Hambro Interests	<u>8,743,878</u>	<u>6.9%</u>
Total J O Hambro Interests	66,282,318	52.6%
P Klimt and immediate family	22,947,524	18.2%
G Naggar and immediate family	22,947,524	18.2%

## Charitable donations

During the year, the group gave £5,255 for charitable purposes in the UK. No political donations were made.

## Auditors

Grant Thornton UK LLP have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting.

By order of the board

## Simon Balem

Company Secretary

10 October 2008

# Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the parent company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the parent company and the group, and of the profit or loss of the group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and International Financial Reporting Standards, as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of both the parent company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the website and accordingly the auditors accept no responsibility for the information published on that website.

Information published on the website is accessible in many countries and legislation in the United Kingdom concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

**Simon Balem**

Company Secretary

10 October 2008

# Corporate Governance

## **The Combined Code**

As an AIM listed company, Castle Support Services plc is not governed by the Listing Rules of the UK Listing Authority and is therefore not required to comply with the corporate governance principles contained in the Combined Code. However, the board acknowledges the importance of good governance as being in the best interests of the company, its shareholders and its employees, and has therefore sought to comply with the QCA's Corporate Governance Guidelines for AIM Companies in all material respects.

The main features of the company's corporate governance procedures are as follows:

## **The Board**

The board currently comprises two executive and three Non-executive directors and is chaired by Christopher Mills.

The senior independent Non-executive director is David Banks. Colin Keith is also considered independent. Both independent directors have no impairments to their independence.

The board meets regularly to review the operations and performance of the group and additional meetings are convened to discuss matters that require urgent consideration. The board has defined a schedule of matters specifically reserved to it for decision. The board has also established a procedure for all directors to take independent professional advice, if necessary, at the company's expense.

## **Committees of the Board**

The Audit Committee meets at least twice a year with the company's external auditors present and has been given specific terms of reference, including the review of the financial statements, internal controls and the scope and cost of the audit. The executive directors may also be invited to attend its meetings, where the Committee considers it to be appropriate.

The Remuneration Committee is responsible for making recommendations to the board on remuneration policy for directors, including the setting of salaries, incentive payments and for the granting of share options and making adequate provisions for pensions.

The Nomination Committee meets as required to recommend to the board the appointment or removal of a director, including the appointment of suitable Non-executive directors.

## **Investor Relations**

The board communicates a balanced and understandable assessment of the group's performance and prospects to all investors, and additional briefings are given when appropriate, consistent with the company's obligation to advise shareholders generally of significant events. The Annual General Meeting is regarded by the board as an important opportunity to meet and communicate with individual shareholders, who have an opportunity in that forum to question the board on any matter affecting the performance of the group.

In addition to the financial results and other information that the company is under a legal or regulatory requirement to publish, the company regularly announces business developments through appropriate media. Further information is published on the group's website at [www.castlesupportservices.com](http://www.castlesupportservices.com).

## **Internal Control**

The board is ultimately responsible for the group's system of internal controls, including financial, operational and compliance control and risk management, and for reviewing and monitoring its effectiveness. These systems have been aimed at assessing and managing risk in a responsible manner and can provide only a reasonable and not absolute assurance against material misstatement or loss.

The group's system of internal control is designed to assist achievement of business objectives, safeguard the group's assets, ensure compliance with regulation, and provide reliable financial information. Regular management meetings review all aspects of the group's businesses including any inherent or identified risks. Executive management has reviewed the significant risks affecting the business and the policies and procedures by which these risks are managed.

The board has delegated responsibility for the continuous review and monitoring of risk



# Corporate Governance

management to executive directors, and has received regular reports on risk issues from them during the period. The executive directors' plans have been reviewed by and discussed with the Chairman of the Audit Committee. Through this process, risks are identified and assessed according to their potential impact and likelihood of occurrence and appropriate actions are assigned.

Internal financial control is operated within a clearly defined organisational structure with clear control responsibilities and a practice, throughout the group's operations, of regular management and board meetings to review the performance of the group's various businesses, including those aspects where there is a potential risk to the group. Key procedures include planning, budgeting and investment appraisal.

The board has reserved, for its own approval, those major decisions considered significant to the strategy and operation of the group as a whole, and has devised a structure of responsibilities throughout the group to ensure that at least two appropriate levels of authorisation are required for other decisions which have a major financial implication for the businesses concerned.

For each branch there are monthly reports, which contain both written reports and financial statements. The financial statements include profit and loss accounts, balance sheets and cash flow statements for the period under review, and they are compared with results for the previous year. The financial statements also contain a range of operational and financial ratios. These statements and financial reports are reviewed at meetings of executive management and by the board. Detailed procedures and reporting formats are set out in a group control manual.

Monitoring of the systems of internal control is conducted by management and by internal audit which independently reviews the operation of controls.

The external auditors, who are engaged to express an opinion on the group financial statements, also consider the systems of internal financial control to the extent necessary to express that opinion. Internal and external auditors report on the results

of their work to management, including executive members of the board and the Audit Committee.

The board has adopted the Share Dealing Code for the purpose of compliance with Rule 21 of the AIM Rules and takes steps to ensure compliance with that rule by the group's employees.

Through the procedures outlined above, the board has considered all significant aspects of control during the year under review and to date.

## **Going Concern**

Having considered the position of the group, the board believes that the group has appropriate and adequate resources to continue its strategy and operations for the foreseeable future. For this reason they continue to adopt a going concern basis in preparing the financial statements.



# Report of the independent auditors to the members of Castle Support Services plc

We have audited the consolidated financial statements of Castle Support Services plc for the year ended 30 June 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement, and notes 1 to 31. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Castle Support Services plc for the year ended 30 June 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors

is consistent with the consolidated financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Chairman's Statement, the Report of the Directors, the Statement of Directors' Responsibilities and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.



# Report of the independent auditors to the members of Castle Support Services plc

## **Opinion**

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2008 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the consolidated financial statements.

## **GRANT THORNTON UK LLP**

Registered Auditors  
Chartered Accountants  
Leicester  
10 October 2008

*The maintenance and integrity of the Castle Support Services plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.*

# Consolidated Income Statement

for the year ended 30 June 2008

	Notes	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
<b>Revenue</b>	2	<b>116,270</b>	87,173
Cost of sales		<b>(83,717)</b>	(62,764)
<b>Gross profit</b>		<b>32,553</b>	24,409
Selling and distribution costs		<b>(4,471)</b>	(3,536)
Administration expenses		<b>(12,704)</b>	(10,266)
<b>Operating profit before pension settlement and profit on disposal</b>		<b>15,378</b>	10,607
Gain on pension settlement		—	3,488
Profit on disposal of property, plant and equipment	28	<b>454</b>	5,610
<b>Operating profit</b>	2/3	<b>15,832</b>	19,705
Net interest payable on bank overdrafts and loans	5	<b>(1,948)</b>	(949)
Net interest receivable on bank balances	5	<b>453</b>	739
Interest payable in respect of cumulative preference shares of subsidiary	5	—	(2,263)
Net gain realised from waiver of interest due on cumulative preference shares	5	—	1,213
Interest rate swaps	26	<b>787</b>	(2,187)
Other finance income	24	<b>3,371</b>	1,346
<b>Profit before tax</b>		<b>18,495</b>	17,604
Income tax expense	7	<b>(5,643)</b>	(3,511)
<b>Profit for the period</b>		<b>12,852</b>	14,093
Profit attributable to minority interests		<b>202</b>	—
Profit attributable to equity shareholders		<b>12,650</b>	14,093
		<b>12,852</b>	14,093
Earnings per share (EPS) — basic and diluted — pence	8	<b>10.04</b>	11.90

There are no discontinued operations.

# Consolidated Balance Sheet

as at 30 June 2008

	Notes	30 June 2008 £'000	30 June 2007 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	9	17,032	15,110
Other intangible assets	9	67	90
Property, plant and equipment	10	24,604	23,430
Retirement benefit assets	24	7,306	14,650
<b>Total non-current assets</b>		<b>49,009</b>	53,280
<b>Current assets</b>			
Inventories	13	10,333	8,610
Trade and other receivables	14	22,657	20,071
Cash and cash equivalents	18	12,886	5,387
<b>Total current assets</b>		<b>45,876</b>	34,068
<b>Non-current assets held for sale</b>	10	—	1,862
<b>Total assets</b>		<b>94,885</b>	89,210
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	(7,651)	(6,049)
Short-term liabilities	16	(12,783)	(9,485)
Tax liabilities	17	(2,040)	(852)
Bank loans and short-term borrowings	19	(1,612)	(5,333)
<b>Total current liabilities</b>		<b>(24,086)</b>	(21,719)
<b>Non-current liabilities</b>			
Long-term borrowings	19	(21,770)	(23,195)
Derivative financial instruments	19	(175)	(962)
Long-term provisions	20	(4,280)	(2,921)
Deferred tax liabilities	17	(2,483)	(4,364)
<b>Total non-current liabilities</b>		<b>(28,708)</b>	(31,442)
<b>Total liabilities</b>		<b>(52,794)</b>	(53,161)
<b>Net assets</b>		<b>42,091</b>	36,049
<b>Shareholders' equity</b>			
Share capital	21	25,212	25,212
Reverse acquisition reserve	23	(13,057)	(13,057)
Foreign currency translation reserve	23	2,117	243
Other reserves	23	(50)	—
Profit and loss account	23	27,404	23,651
Equity shareholders' funds	23	41,626	36,049
Minority interests — equity	22	465	—
<b>Total equity</b>		<b>42,091</b>	36,049

The financial statements on pages 13 to 53 were approved on behalf of the Board of Directors and signed by T G Davies and T I Barrett on 10 October 2008.

# Consolidated Statement of Recognised Income and Expense

for the year ended 30 June 2008

	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
Retained profit for the period	12,852	14,093
<b>Income/(expense) recognised directly in equity:</b>		
Currency translation differences arising in the period	1,874	243
Actuarial (loss)/gain on retirement benefit plan	(12,345)	12,265
Taxation on actuarial (loss)/gain on retirement benefit plan	3,456	(3,434)
Change in deferred tax rate from 30% to 28%	—	(319)
<b>Total recognised income and expense for the period</b>	<b>5,837</b>	<b>22,848</b>
Attributable to minority interests	202	—
Attributable to equity shareholders	5,635	22,848
	<b>5,837</b>	<b>22,848</b>

# Consolidated Cash Flow Statement

for the year ended 30 June 2008

	Notes	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
<b>Profit before tax</b>		<b>18,495</b>	17,604
Adjustments for:			
Depreciation, impairment and amortisation	3	2,579	1,974
Profit on sale of property, plant and equipment	3	(454)	(5,149)
Actuarial gain on pension settlement	24	—	(5,405)
Interest payable on bank overdrafts and loans	5	1,948	949
Interest receivable on bank balances	5	(453)	(739)
Interest payable in respect of cumulative preference shares of subsidiary	5	—	2,263
Net gain realised from waiver of interest due on cumulative preference shares	5	—	(1,213)
Interest rate swaps	26	(787)	2,187
Other finance income	24	(3,371)	(1,346)
Increase in inventories		(1,133)	(1,396)
(Increase)/decrease in trade and other receivables		(1,783)	1,243
Increase/(decrease) in trade and other payables		3,327	(1,013)
Increase/(decrease) in long-term provisions		1,334	(198)
Contributions to pension schemes in excess of service cost		(1,630)	(1,437)
<b>Cash generated from operations</b>		<b>18,072</b>	8,324
Interest paid	5	(1,948)	(949)
Income taxes paid		(2,977)	(934)
<b>Net cash generated from operating activities</b>		<b>13,147</b>	6,441
<b>Cash flows from investing activities</b>			
Acquisition of businesses		(1,826)	(1,865)
Net (debt)/cash and (debt)/cash equivalents acquired with businesses		(8)	1,050
Acquisition of preference shares in subsidiary		—	(29,700)
Purchase of property, plant and equipment	10	(2,213)	(1,574)
Sale of property, plant and equipment		2,386	14,808
Interest received	5	453	739
Dividends paid to minority interests	6	(8)	—
<b>Net cash used in investing activities</b>		<b>(1,216)</b>	(16,542)
<b>Cash flows from financing activities</b>			
Buy-back of shares	21	(50)	—
New borrowings		—	25,000
Repayments of amounts borrowed		(1,500)	(21,969)
<b>Net cash (used in)/generated from financing activities</b>		<b>(1,550)</b>	3,031
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>10,381</b>	(7,070)
Cash and cash equivalents at beginning of period		1,644	8,567
Translation differences		839	147
<b>Cash and cash equivalents at end of period</b>	18	<b>12,864</b>	1,644

## 1. Basis of preparation

These consolidated financial statements are for the twelve months ended 30 June 2008. They have been prepared in accordance with the requirements of IFRS1 "First-time Adoption of International Financial Reporting Standards".

They have been prepared under the historical cost convention, except for revaluation of certain financial instruments, and in accordance with the accounting policies set out below and are based on the recognition and measurement principles of all IFRS and International Financial Reporting Interpretations Committee interpretations ('IFRICs') issued, effective and adopted for use in the European Union at the date of preparing this report. These IFRS and IFRICs are subject to ongoing review and possible amendment.

Castle Support Services plc's consolidated financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 30 June 2007. The date of transition to IFRS was 1 September 2006. The comparative figures in respect of 30 June 2007 and the transition date balance sheet at 31 August 2006 have been restated to reflect changes in accounting policies as a result of adoption of IFRS. The disclosures required by IFRS1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in note 31.

The accounting policies have been applied consistently throughout the group for the purposes of preparation of these consolidated financial statements.

Castle Support Services plc is registered in England with company number 5351402. The registered office is Camp Hill, Birmingham, B12 0JJ.

### Critical accounting estimates and judgements

The preparation of financial statements in accordance with generally accepted accounting principles under IFRS requires the group to make estimates, judgements and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the financial statements. On an ongoing basis estimates are evaluated using historical experience, consultation with experts and other methods that are considered reasonable in the particular circumstances to comply with IFRS. Actual results may differ from these estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known. An analysis of the key sources of estimation uncertainty is provided below:

#### *Goodwill impairment testing*

Capitalised goodwill is tested annually for impairment. Should the carrying value of the goodwill exceed its recoverable amount an impairment loss is recognised. The recoverable amounts are calculated based on an internal discounted cash flow evaluation.

#### *Provisions*

The quantification of certain liabilities within the financial statements have been estimated. Such liabilities depend on the actions of third parties and on the specific circumstances pertaining to each obligation, and as such are subject to inherent uncertainty.

#### *Retirement benefits*

Provisions for defined benefit post-employment obligations are calculated by independent actuaries. The principal actuarial assumptions and estimates are based on independent actuarial advice and include the discount rate and estimates of life expectancy.

### Principal accounting policies

#### *Consolidation*

The group financial statements consolidate the accounts of the company and its subsidiaries (some of which are held through intermediate holding companies), which are made up to a date coterminous with the financial year end of the company. Results of companies acquired or disposed in the year are consolidated from the effective date of acquisition or disposal.

#### *Business combinations*

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred, and equity instruments issued by the company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 are recognised at their fair value at the acquisition date.

In June 2007 the company successfully completed the acquisition of DM Technical Services Limited whereby the shareholders of DM Technical Services exchanged their existing ordinary share holding in DM Technical Services for ordinary shares in Castle Support Services plc on a 22.948 for 1 basis.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

Due to the relative values of the companies, the former DM Technical Services shareholders became majority shareholders with 93.75% of the enlarged ordinary share capital in Castle Support Services plc, and the executive management of DM Technical Services group became that of Castle Support Services. As a result of this, reverse acquisition accounting has been used for this combination. The acquisition method of accounting has been used for companies acquired by the DM Technical Services group.

The group owns 25% of AGW Benelux Holdings b.v. This is treated as an investment in these financial statements as the group does not have significant influence over the operating and financial policies of that company.

In January 2008 the group, through one of its subsidiaries, acquired 50% of Intersel FZE which was then converted into Intersel Dowding and Mills FZCO. This is treated as a subsidiary in these accounts as the group exercises a significant influence over the operating and financial policies of that company.

In April 2008 the group acquired 100% of the issued share capital of E.M.R. (North East) Limited.

## *Minority interests*

Minority interests represent the portion of shareholders' earnings and equity attributable to third party shareholders not belonging to the group.

## *Goodwill*

Goodwill arising on the acquisition of subsidiaries and related companies had been amortised under UK GAAP against earnings over its useful economic life which, on the acquisitions made to date, was 20 years. The group has elected not to apply IFRS3 Business Combinations retrospectively to business combinations which occurred before the transition date. Any goodwill arising under IFRS on business combinations is no longer amortised but the carrying value is tested by annual impairment reviews.

## *Impairment testing of goodwill, other intangible assets and property, plant and equipment*

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination.

Goodwill, other individual assets or cash-generating units that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market value less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

## *Property, plant and equipment*

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment (other than freehold land) by equal annual instalments over their estimated useful economic life. Freehold and long leasehold buildings are depreciated at the higher of 2% per annum or a rate calculated by reference to the unexpired term of the lease. Plant, equipment and motor vehicles are depreciated at rates between 8% and 30% per annum on a straight-line basis. Computer hardware and software licences are depreciated at the rate of 20% per annum on a straight-line basis. Property, plant and equipment are reviewed for impairment in accordance with IAS36. No material residual values are expected to arise.

## *Non-current assets classified as held for sale*

Assets held for sale includes assets previously classified as 'Property, Plant and Equipment' that the group intends and expects to sell within one year from the date of classification as held for sale. Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortisation.

## *Disposal of assets*

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds, net of associated disposal costs, and the carrying amount of the asset and is recognised in the income statement.

### *Inventories*

The basis of valuation of raw materials and work in progress is the lower of cost and net realisable value. Cost is made up of the actual cost of material (on a first in, first out basis), direct labour and associated costs, and an allowance for indirect costs based on ordinary levels of activity.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### *Financial assets, liabilities and equity*

Financial assets, liabilities and equity are classified according to the substance of the contractual arrangements entered into.

All of the share capital of the parent company is made up of ordinary shares and is shown as equity. Dividends and distributions relating to equity are debited direct to the relevant equity account.

### *Financial assets*

Financial assets currently consist of trade and other receivables, and cash and cash equivalents. The designation of financial assets is re-evaluated at every reporting date. On initial recognition financial assets are recognised at fair value plus transaction costs. All financial assets are recognised when the group becomes a party to the contractual provisions of the instrument.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement. An assessment for impairment is undertaken at least at each balance sheet date. Impaired assets are reassessed for objective evidence that the impairment no longer exists, in which case the impairment is reversed.

Provision against trade receivables is made when there is objective evidence that the group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is sold.

### *Financial liabilities*

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value; all transaction costs are recognised immediately in the income statement. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities categorised as at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the 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.

Financial liabilities are categorised as at fair value through profit or loss where they are designated as at fair value through profit or loss on initial recognition. Financial liabilities are designated as at fair value through profit or loss where they are managed and their performance evaluated on a fair value basis in accordance with the group's risk management strategy.

Interest rate swaps are derivatives which are accounted for at fair value through the income statement.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

### *Provisions for liabilities*

Provisions (other than provisions for pension costs and deferred taxation) are recognised when the group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

of resources will be required to settle the obligation and the amount can be estimated reliably. If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and where appropriate, the risks specific to the liability. The unwinding of certain discounts are recognised as a finance charge in the income statement.

A contingent liability arises where the group has a possible obligation as a result of past events, or where the group has a present obligation as a result of past events, but where the transfer of economic benefit to settle the obligation is not probable, or the amount of the liability cannot be measured with sufficient reliability. Contingent liabilities are disclosed in the notes to the financial statements.

## *Revenue*

Group revenue represents the net amounts chargeable to customers for goods and services supplied in respect of ordinary activities, excluding intra-group transactions and value added tax. Revenue is only recognised when the amount of revenue, the associated costs and the stage of completion can be measured reliably.

## *Operating Leases*

Payments made under operating leases are charged to the income statement as incurred. Where a rent-free period or other such incentive is received the value of the incentive is released to profit on a straight-line basis over the term of the lease. In accordance with IAS17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

## *Taxation*

Current tax is the tax payable within twelve months based on the taxable profit for the period reported.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement or are reflected in equity if temporary differences relate to equity movements.

## *Pension Costs*

The UK group operated two funded pension schemes providing benefits based on final pensionable earnings, which have been combined formally into one scheme since August 2007. The assets of the scheme are held separately from those of the group, being invested with Legal & General Investment Management Limited and Gartmore Investment Management Limited.

The group operates various other defined contribution pension arrangements established in accordance with local conditions and practices in the countries concerned. For these defined contribution schemes, the pension costs charged against operating profits are the contributions payable to the scheme in respect of the accounting period.

IAS19 has been adopted for all schemes.

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The gross surplus or deficit is presented separately from other net assets on the consolidated balance sheet. The related deferred tax is shown with other deferred tax balances. A gross surplus is recognised only to the extent that it is recoverable by the group.

The current service cost and costs from settlements and curtailments are charged against operating profit. Past service costs are spread over the period until the benefit increases vest. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs. Actuarial gains and losses are recognised

immediately through the statement of recognised income and expense. The current service cost is charged through cost of sales and administration expenses.

#### *Foreign Currency*

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in the statement of recognised income and expenses to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of recognised income and expenses, otherwise such gains and losses are recognised in the income statement.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the "Foreign currency translation reserve" in equity.

The group has taken advantage of the exemption in IFRS1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS and includes later translation differences.

#### *Treasury Shares*

Castle Support Services shares which have been purchased by the company and not cancelled are held as treasury shares and deducted from shareholders' equity.

#### *Standards, amendments and interpretations to existing Standards that are not yet effective*

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective. The group has not early-adopted any of these pronouncements. The new standards, amendments and interpretations that are expected to be relevant to the group's consolidated financial statements are as follows:

##### *IAS1 Presentation of Financial Statements (revised 2007, effective from 1 January 2009, i.e. for reporting periods beginning on or after this date)*

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the group but will give rise to additional disclosures. Management are currently assessing the detailed impact of this amendment on the group's financial statements.

##### *IFRS8 Operating Segments (effective from 1 January 2009)*

This IFRS specifies how an entity should report information about its operating segments in its consolidated financial statements. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. Implementation of this Standard is not expected to increase the number of reportable segments.

##### *IFRS3 Business Combinations (revised 2008) and IAS27 Consolidated and Separate Financial Statements (revised 2008) — effective from 1 July 2009*

The revised Standards introduce major changes to the accounting requirements for business combinations, transactions with non-controlling interests (a new term for "minority interests") and a loss of control of a subsidiary. Management are currently assessing the detailed impact of this amendment on the group's financial statements.

The revised Standards will be adopted in the group's financial statements for the period beginning 1 July 2009.

Other new Standards and Interpretations have been issued (see below) but are not expected to have a material impact on the group's financial statements.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

Standard or Interpretation		Effective for reporting periods starting on or after
	Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)	
IFRS1	Amendment to IFRS1 First-time adoption of International Financial Reporting Standards and IAS27 Consolidated and Separate Financial Statements, Costs of Investment in a Subsidiary, Jointly Controlled Equity or Associate	1 January 2009
IFRS2	Amendment to IFRS Share-based Payment — Vesting Conditions and Cancellations	1 January 2009
IAS23	Borrowing costs (revised 2007)	1 January 2009
IAS32	Amendment to IAS32 Financial Instruments: Presentation and IAS1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations arising on Liquidation	1 January 2009
IAS39	Amendment to IAS39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items	1 July 2009
IFRIC12	Service Concession Arrangements	1 January 2008
IFRIC13	Customer Loyalty Programmes	1 July 2008
IFRIC14	IAS19 — The limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction	1 January 2008
IFRIC15	Agreements for the construction of real estate	1 January 2009
IFRIC16	Hedges of a net investment in a foreign operation	1 October 2008

## 2. Segmental Reporting

Segment information is presented in respect of the group's geographical settlement. The analysis is for the twelve months to 30 June 2008 and ten months to 30 June 2007. No secondary segmental information has been provided as in the view of the directors, the group operates in only one segment, being in the provision of high quality electro-mechanical maintenance and repair services to industry and encompassing: power generator and electric motor repair; mechanical repair; mechanical and electrical site work; condition monitoring services; and electronic and calibration services. These are considered to be subject to the same risks and returns.

	Analysis of revenue and results by geographical settlement					Total Operations £'000
	Europe £'000	Australia £'000	USA £'000	UAE £'000	Elimination £'000	
<b>Twelve months to 30 June 2008</b>						
<b>Revenue</b>						
Revenue to external customers	85,453	17,031	12,389	1,397	—	<b>116,270</b>
Inter-segment revenue	269	—	—	—	(269)	—
Total revenue	85,722	17,031	12,389	1,397	(269)	<b>116,270</b>
<b>Result</b>						
Segment result	10,640	2,101	2,241	396	—	<b>15,378</b>
Net gain on disposals	454	—	—	—	—	<b>454</b>
Operating profit	11,094	2,101	2,241	396	—	<b>15,832</b>
<b>Assets and liabilities</b>					<b>Unallocated</b>	
Total segment assets	62,603	10,224	6,111	3,062	12,885	<b>94,885</b>
Total segment liabilities	(19,843)	(2,779)	(1,280)	(812)	(28,080)	<b>(52,794)</b>
Total net assets	42,760	7,445	4,831	2,250	(15,195)	<b>42,091</b>
<b>Other segment information</b>						
Total capital expenditure	1,489	294	462	714	—	<b>2,959</b>
Depreciation	1,793	424	290	47	—	<b>2,554</b>
Amortisation of intangible assets	25	—	—	—	—	<b>25</b>

The unallocated assets and liabilities column primarily comprises income tax liabilities, deferred tax assets and liabilities, and any interest-bearing assets and liabilities.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 2. Segmental Reporting

continued

Ten months to 30 June 2007	Analysis of revenue and results by geographical settlement				Total Operations £'000
	Europe £'000	Australia £'000	USA £'000	Elimination £'000	
<b>Revenue</b>					
Revenue to external customers	65,476	11,506	10,191	—	87,173
Inter-segment revenue	180	—	—	(180)	—
<b>Total revenue</b>	<b>65,656</b>	<b>11,506</b>	<b>10,191</b>	<b>(180)</b>	<b>87,173</b>
<b>Result</b>					
Segment result	7,531	1,241	1,835	—	10,607
Net gain on disposals	5,610	—	—	—	5,610
Gain on pension settlement	3,488	—	—	—	3,488
<b>Operating profit</b>	<b>16,629</b>	<b>1,241</b>	<b>1,835</b>	<b>—</b>	<b>19,705</b>
<b>Assets and liabilities</b>				<b>Unallocated</b>	
Total segment assets	68,999	8,191	6,633	5,387	89,210
Total segment liabilities	(15,066)	(2,070)	(1,319)	(34,706)	(53,161)
<b>Total net assets</b>	<b>53,933</b>	<b>6,121</b>	<b>5,314</b>	<b>(29,319)</b>	<b>36,049</b>
<b>Other segment information</b>					
Total capital expenditure	902	344	328	—	1,574
Depreciation	1,427	300	227	—	1,954
Amortisation of intangible assets	20	—	—	—	20

The unallocated assets and liabilities column primarily comprises income tax liabilities, deferred tax assets and liabilities, and any interest-bearing assets and liabilities.

## 3. Operating Profit

The analysis of the components of operating profit is shown below:

	12 months to 30 June 2008		10 months to 30 June 2007	
	£'000	£'000	£'000	£'000
(Profit)/loss on disposal of property, plant and equipment — exceptional item		(454)		(5,610)
— within cost of sales		—		461
Depreciation and impairment of property, plant and equipment		2,554		1,954
Amortisation of intangible assets		25		20
Fees payable to the company's auditors for the audit of the annual accounts	15		15	
Fees payable to the company's auditors and its associates for other services:				
— the audit of the company's subsidiaries, pursuant to legislation	123		108	
— other services provided pursuant to legislation	10		15	
— other services relating to taxation	15		13	
— all other services including the transition to IFRS	29		23	
		192		174
Lease rentals on group properties		2,244		1,585
Lease rentals on other assets		450		438

## 4. Employees and Directors

The average number of persons employed by the group (including executive directors) was:

	<b>12 months to 30 June 2008 Number</b>	10 months to 30 June 2007 Number
Production	<b>1,164</b>	1,130
Sales	<b>88</b>	88
Administration	<b>209</b>	204
	<b>1,461</b>	1,422

The costs incurred in respect of these employees were:

	<b>12 months to 30 June 2008 £'000</b>	10 months to 30 June 2007 £'000
Wages and salaries	<b>42,336</b>	33,714
Social security costs	<b>3,914</b>	2,936
Other pension costs	<b>1,999</b>	1,543
	<b>48,249</b>	38,193

Included in the above analysis are redundancy costs of £73,000 (2007: £437,000).

### **Key management compensation**

	<b>12 months to 30 June 2008 £'000</b>	10 months to 30 June 2007 £'000
<i>Payments made to board directors</i>		
Aggregate fees and emoluments	<b>790</b>	543
Change of control payment	—	25
Compensation for loss of office	—	100
	<b>790</b>	668

Total emoluments include the following amounts in respect of the highest paid director:

	<b>12 months to 30 June 2008 £'000</b>	10 months to 30 June 2007 £'000
Salary and benefits	<b>491</b>	348

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 5. Net Interest

	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
Interest payable on bank overdrafts and loans	(1,948)	(949)
Less bank interest receivable	453	739
Net interest payable on bank overdrafts and loans	(1,495)	(210)
Interest payable in respect of cumulative preference shares of subsidiary	—	(2,263)
Gain realised from waiver of interest due on cumulative preference shares of subsidiary	—	1,213
	(1,495)	(1,260)

## 6. Dividends

A dividend of £8,000 was paid in the year to 30 June 2008 to a minority interest in Intersel Dowding and Mills FZCO (2007: £Nil).

## 7. Income Tax Expense

	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
<b>Current taxation</b>		
UK corporation tax at 30% — Current period	2,304	418
— Prior period	(1)	17
Overseas taxation — Current period	1,819	1,215
— Prior period	(20)	8
Total current tax	4,102	1,658
<b>Deferred tax</b> — Current period	1,497	1,818
— Prior period	44	35
Total deferred tax	1,541	1,853
<b>Income tax expense</b>	5,643	3,511

## 7. Income Tax Expense

*continued*

The difference between the profit on ordinary activities at the corporation tax rate of 30% ruling in the UK and the actual current tax shown on page 26 is explained below:

	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
Profit on ordinary activities before taxation	18,495	17,604
Tax on profit on ordinary activities at a standard rate of 30%	5,549	5,281
Factors affecting tax charge for the period:		
Disallowable expenses	242	750
Non-taxable income	(256)	(202)
Tax losses not recognised	34	178
Foreign tax charged at higher rates	181	136
Tax effect on fair value adjustment on subsidiary	(133)	(51)
Tax effect on change of legislation relating to industrial buildings	67	(1,311)
Tax effect of foreign exchange conversion on overseas profits	66	—
Non-taxable income on sale of industrial building	(82)	(1,162)
Tax rate adjustment	(48)	(168)
Adjustments to prior years	23	60
	<b>5,643</b>	<b>3,511</b>

### Factors affecting current and future tax charges

A reduction in the mainstream UK tax rate to 28% from 1 April 2008 should result in a reduction in the group's future effective rate.

The reduction in the mainstream UK tax rate to 28% from 1 April 2008 has been taken into account in calculating the deferred tax balances, with the impact of the change in tax rate recognised in the Income Statement.

The Finance Bill 2008 announced the phasing out of Industrial Building Allowances by 31 March 2011. However, this has not been substantively enacted at 30 June 2008; therefore, no accounting entries have been made in respect of this potential change. An additional deferred tax liability of approximately £1,700,000 will have to be recognised in the year to 30 June 2009 once this legislative change is substantively enacted and as a consequence this will impact upon the group's effective tax rate.

## 8. Earnings Per Share

Basic earnings per share is calculated by dividing the retained profit attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the period.

	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
<b>Profit for the period</b>	<b>12,650</b>	<b>14,093</b>
Weighted average number of ordinary shares in issue	<b>126,031,043</b>	118,465,774
Basic and diluted earnings per share (EPS) — pence	<b>10.04</b>	11.90

The weighted average number of ordinary shares in issue exclude treasury shares acquired during the year ended 30 June 2008 (see note 21).

There are no dilutive share arrangements in place.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 9. Intangible Assets

	Goodwill £'000	Purchased Software £'000	Total £'000
<b>Cost</b>			
As at 31 August 2006	25,133	369	25,502
Exchange differences	7	1	8
As at 30 June 2007	25,140	370	25,510
Additions through business combinations (note 27)	1,909	—	1,909
Exchange differences	20	2	22
<b>As at 30 June 2008</b>	<b>27,069</b>	<b>372</b>	<b>27,441</b>
<b>Amortisation</b>			
As at 31 August 2006	10,029	259	10,288
Charge for the period	—	20	20
Exchange differences	1	1	2
As at 30 June 2007	10,030	280	10,310
Charge for the period	—	25	25
Exchange differences	7	—	7
<b>As at 30 June 2008</b>	<b>10,037</b>	<b>305</b>	<b>10,342</b>
<b>Net book value as at 30 June 2008</b>			
As at 30 June 2007	15,110	90	15,200
As at 31 August 2006	15,104	110	15,214

### Impairment

No impairment was required for any of the geographical cash-generating segments during the year ended 30 June 2008.

Any goodwill arising under IFRS on business combinations is no longer amortised but replaced by annual impairment reviews. The group tests goodwill annually for impairment, or more frequently if there are any indications that goodwill might be impaired.

Capitalised goodwill is tested annually for impairment. Should the carrying value of the goodwill exceed its recoverable amount for each cash-generating unit an impairment loss is recognised. The recoverable amounts are calculated based on an internal discounted cash flow evaluation. A discount rate of 7% over a period of 12.5 years with a modest growth rate is used to calculate the recoverable amount.

Apart from the calculations described in determining the value in use of the cash-generating unit above, the group management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

The carrying amounts of goodwill allocated to geographical cash-generating segments are as follows:

Geographical unit	2008 £'000	2007 £'000
Europe	14,969	14,659
USA	354	354
Australia	110	97
UAE	1,599	—
	<b>17,032</b>	15,110

Purchased software is attributed a finite useful life and is amortised over its useful economic life. The amortisation charge for the period is included in the income statement as part of administration expenses.

## 10. Property, Plant and Equipment and Non-current assets held for sale

	Land and buildings £'000	Plant & equipment £'000	Total £'000	Non-current assets held for sale £'000
<b>Cost</b>				
As at 31 August 2006	23,691	57,685	81,376	14,522
Additions	167	1,407	1,574	—
Disposals	(301)	(2,065)	(2,366)	(12,296)
Reclassification	13	54	67	—
Exchange differences	10	37	47	—
As at 30 June 2007	23,580	57,118	80,698	2,226
Additions	50	2,163	2,213	—
Acquisitions	228	1,177	1,405	—
Disposals	(59)	(929)	(988)	(2,226)
Exchange differences	911	806	1,717	—
<b>As at 30 June 2008</b>	<b>24,710</b>	<b>60,335</b>	<b>85,045</b>	<b>—</b>
<b>Depreciation</b>				
As at 31 August 2006	5,733	51,307	57,040	3,587
Charge for the period	495	1,614	2,109	47
Impairment	—	(202)	(202)	—
Disposals	(47)	(1,687)	(1,734)	(3,270)
Reclassification	(25)	92	67	—
Exchange differences	(14)	2	(12)	—
As at 30 June 2007	6,142	51,126	57,268	364
Charge for the period	651	1,899	2,550	—
Acquisitions	106	554	660	—
Eliminated on disposals	(8)	(909)	(917)	(364)
Impairment	9	(5)	4	—
Exchange differences	197	679	876	—
<b>As at 30 June 2008</b>	<b>7,097</b>	<b>53,344</b>	<b>60,441</b>	<b>—</b>
<b>Net book value as at 30 June 2008</b>				
As at 30 June 2007	17,438	5,992	23,430	1,862
As at 31 August 2006	17,958	6,378	24,336	10,935

Plant and equipment also includes fixtures and fittings and motor vehicles.

The impairment provisions that were acquired with the DM Technical Services group have been updated to take account of the performance of each branch during 2008.

During the year ended 30 June 2008 a property held under assets held for sale was disposed of for the sum of £2,425,000, with a profit on disposal of £454,000.

In the table, the net book value for the group includes £855,000 (2007: £273,000) in respect of plant and equipment held under finance leases. The depreciation charge for the year includes £164,000 (2007: £38,000) in respect of these assets. Leased assets are pledged as security for the related finance lease liabilities.

## 11. Future Capital Commitments

Contracted for but not provided in these financial statements

2008 £'000	2007 £'000
92	279

## 12. Leasing Commitments

Total future minimum payments under operating leases are as follows:

On leases which expire:

in one year or less

in more than one year, but not more than five years

in more than five years

2008 Property £'000	2007 Property £'000	2008 Other £'000	2007 Other £'000
146	66	153	130
714	1,229	494	829
14,492	16,226	—	—
15,352	17,521	647	959

The property lease commitment includes £2,121,000 included in a provision for costs associated with onerous leases (note 20).

## 13. Inventories

Raw materials

Work in progress

2008 £'000	2007 £'000
2,369	2,028
7,964	6,582
10,333	8,610

No inventories were pledged as security for liabilities.

## 14. Trade and Other Receivables

	2008 £'000	2007 £'000
Trade receivables	21,270	19,196
Amounts provided for doubtful debts	(1,761)	(1,994)
Other receivables	1,328	963
Prepayments	1,820	1,906
	<b>22,657</b>	<b>20,071</b>

Due to their short-term nature, the carrying value of trade and other receivables approximates to their fair value.

Trade receivables that have not been received within the payment terms agreed are classified as overdue. The ageing of overdue amounts as at 30 June excluding impairment are as follows:

	2008 £'000	2007 £'000
Not yet due	17,927	15,813
Past due but not more than 30 days	1,652	1,380
Past due more than 30 days but not more than 60 days	225	495
Past due more than 60 days	1,466	1,508
	<b>21,270</b>	<b>19,196</b>

## 15. Trade and Other Payables

	2008 £'000	2007 £'000
Trade and other payables	7,651	6,049

## 16. Short-term Liabilities

	2008 £'000	2007 £'000
Other payables	1,711	694
Other taxation and social security	2,764	2,097
Accruals	8,308	6,694
	<b>12,783</b>	<b>9,485</b>

Other payables include HP liabilities of £653,000 (2007: £67,000).

## 17. Tax Liabilities and Deferred Taxation

### Tax liabilities

	2008 £'000	2007 £'000
Tax liabilities	2,040	852

### Deferred taxation

Provision for deferred taxation consists of the following amounts:

	2008 £'000	2007 £'000
Accelerated capital allowances	1,159	1,269
Tax losses being carried forward	(40)	(238)
Other temporary differences	(682)	(769)
	437	262
Pension scheme asset	2,046	4,102
	2,483	4,364

Deferred tax not recognised in the group is as follows:

	2008 £'000	2007 £'000
Excess management charges	189	193
Eligible unrelieved foreign tax	207	207
	396	400

## 18. Cash and Cash Equivalents

	2008 £'000	2007 £'000
Cash and cash equivalents	12,886	5,387

<b>Cash and cash equivalents</b>		
	2008 £'000	2007 £'000
UK sterling	9,899	137
Australian dollars	592	4,200
US dollars	2,088	1,044
Euros	32	6
AE dirhams	275	—
<b>Balance Sheet</b>	<b>12,886</b>	<b>5,387</b>
Bank overdraft	(22)	(3,743)
<b>Per cash flow statement</b>	<b>12,864</b>	<b>1,644</b>

Cash and cash equivalents receive interest at the floating rate and are carried on the balance sheet at a value approximate to their fair values.

### Analysis of net debt

	2008 £'000	2007 £'000
Term loans	13,500	15,000
Bank loans	10,090	10,090
Bank overdraft	22	3,743
Cash at bank and in hand	(12,886)	(5,387)
Prepaid facility fee	(230)	(305)
	<b>10,496</b>	<b>23,141</b>
Interest rate swaps	175	962
	<b>10,671</b>	<b>24,103</b>

Net debt of £10,671,000 includes the fair value of the interest rate swap taken out with effect from 18 June 2007 (see note 19).

## 19. Borrowings

### a) Bank loans and short-term borrowings

	2008 £'000	2007 £'000
Bank loans	1,590	1,590
Bank overdraft	22	3,743
	<b>1,612</b>	5,333

### b) Long-term borrowings

	2008 £'000	2007 £'000
Term loans	12,000	13,500
Bank loans	10,000	10,000
Prepaid facility fee	(230)	(305)
	<b>21,770</b>	23,195
The term loans are repayable:		
in more than one year, but less than two years	1,500	1,500
in more than two years, but not more than five years	6,000	5,500
in more than five years	4,500	6,500
	<b>12,000</b>	13,500
The bank loans are repayable:		
in more than one year, but less than two years	5,000	—
in more than two years, but not more than five years	5,000	10,000
	<b>10,000</b>	10,000

In 2007 DM Technical Services Limited replaced its existing facilities with a new term loan payable over a seven year period for £15,000,000 and a new bank loan in the form of a three year revolving loan for £5,000,000 and a five year revolving loan for £5,000,000. All loans are with Halifax Bank of Scotland.

Cumulative redeemable preference shares of £1 each totalling £27,000,000 were issued in 2006 by DM Technical Services Limited in order to part finance the acquisition of Dowding & Mills plc. The coupon rate applicable to these shares is 10% per annum until 31 January 2009 and accordingly £1,650,000 was charged to interest payable during the year to 31 August 2006 and £2,263,000 was charged to interest payable during the ten month period ended 30 June 2007. In June 2007 the shares were acquired by Castle Support Services plc as part of the reverse acquisition of Castle Support Services plc by DM Technical Services Limited. On acquisition the preference shareholders waived the cumulative interest due to them of £3,913,000. For the year to 30 June 2008 interest has been eliminated on consolidation.

Castle Support Services plc, together with its UK subsidiaries, has entered into joint and several guarantees with its bankers to cover UK bank borrowings. Gross UK facilities covered by this guarantee totalled £23,715,000.

## 19. Borrowings

*continued*

### c) Derivative financial instruments

The objectives, policies and strategies associated with the use of derivative financial instruments are discussed in the "Financial Risk Management Objectives and Policies" section of the Report of the Directors.

### Fair values of financial assets and liabilities

With the exception of the interest rate swaps the book value of the group's financial instruments approximate to their fair value. The rate of interest used for computing the fair value of the fixed interest rate swaps is based on the six month LIBOR rate as at 30 June 2008.

	2008 Book value £'000	2008 Fair value £'000	2007 Book value £'000	2007 Fair value £'000
Interest rate swaps	175	175	962	962

### Interest rate risk

The UK sterling liabilities shown take into account interest rate swaps which have been used to manage the interest rate profile of the group. These exclude short-term payables which approximate to their fair value at the balance sheet date.

An interest rate swap taken out with effect from 18 June 2007 for a notional amount of £12,500,000 exchanges variable rate borrowings for a fixed rate of 6.25%; this amount is shown as a fixed rate liability. This arrangement decreases in line with the term loan and expires in March 2014.

Financial liabilities (excluding short-term payables)	Total £'000	Floating rate £'000	Fixed rate £'000	WA* fixed interest rates (%)	WA* period for which rate is fixed (Years)
UK sterling	23,557	11,807	11,750	6.25	6.00
<b>Total</b>	<b>23,557</b>	<b>11,807</b>	<b>11,750</b>		

\* Weighted average

The floating rates are determined with reference to the following rates:

UK sterling — UK bank base rates

The sensitivity analyses have been calculated on the exposure to interest rates at the balance sheet date and have been determined against floating rate liabilities. A 10% increase/decrease in interest rates, assuming all other variables remained constant, would result in profit before tax being £65,000 lower/higher than reported.

The financial assets receive interest at the floating rate and are carried on the balance sheet approximate to their fair values.

Financial assets	2008 £'000	2007 £'000
Trade and other receivables	20,837	18,165
Cash and cash equivalents	12,886	5,387
	<b>33,723</b>	23,552

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 19. Borrowings

continued

### Maturity analysis of financial liabilities

The following disclosures show the maturity profile of financial liabilities excluding the fair value of the interest rate swaps as at 30 June 2008:

Maturity of financial liabilities	Total £'000	UK Term loans £'000	Others £'000	Non- derivatives £'000
In one year or less	13,738	1,590	22	12,126
Between one and two years	6,500	1,500	5,000	—
Between two and five years	11,000	6,000	5,000	—
In more than five years	4,270	4,500	(230)	—
	<b>35,508</b>	<b>13,590</b>	<b>9,792</b>	<b>12,126</b>

### Forward contracts

Forward contracts are used to hedge foreign exchange exposures arising on forecast payments in foreign currencies. This is consistent with the group policy on managing currency risk. No forward contracts were outstanding as at 30 June 2008.

### Currency risk

The group has used a sensitivity technique that measures the estimated change to the fair value of the group's financial instruments of a 10% strengthening or weakening in sterling against all other currencies, from the closing rates as at 30 June 2008, with all other variables remaining constant. A 10% variation would have an impact on the balance sheet of £460,000. All of this would be taken to the income statement.

## 20. Long-term Provisions

	Restructuring £'000	Service benefits £'000	Pension £'000	Total £'000
As at 31 August 2006	3,112	—	5	3,117
Charged to income statement	245	—	—	245
Utilised during the period	(441)	—	—	(441)
As at 30 June 2007	2,916	—	5	2,921
Charged to income statement	1,794	—	—	1,794
Acquired	—	25	—	25
Utilised during the year	(460)	—	—	(460)
<b>As at 30 June 2008</b>	<b>4,250</b>	<b>25</b>	<b>5</b>	<b>4,280</b>

### Restructuring

£2,121,000 of the remaining restructuring provision relates to onerous property leases. As a result of the UK restructuring the group has several leased properties that it no longer occupies, some of which have been sub-let to third parties. Application of IAS37 requires provision for all irrecoverable costs on onerous leases. Additional amounts would become payable only if any/all of the sub-lessees default on the contractual terms of the sub-lease. Cash expenditure relating to these leases is expected to be £810,000 over the next two years.

As at 30 June 2008, the group, based on best estimates, holds provisions of £2,129,000 in order to cover any future environmental costs but, due to their nature, it is not possible to predict precisely when these provisions will be utilised.

### Service benefits

Certain employees at the group's recently acquired subsidiary, Intersel Dowding and Mills FZCO, are due additional service payments on termination of their contract of employment. These are provided for as liabilities accrue.

### Pension provision

This represents amounts provided for future pension obligations in overseas companies.

## 21. Share Capital

Following the reverse acquisition of Castle Support Services plc, the share capital reported as at 30 June 2007 represented that of Castle Support Services plc:

<b>Authorised</b>	<b>Thousands</b>	<b>£'000</b>
As at 30 September 2006 — Ordinary Shares of £10 each	500	5,000
Increase in authorised share capital effected on 18 June 2007	4,495	44,950
50:1 share split effected on 18 June 2007	244,755	—
Conversion of preference shares on 18 June 2007	250	50
<b>As at 30 June 2007 — Ordinary Shares of £0.20</b>	<b>250,000</b>	<b>50,000</b>
<b>Redeemable Preference Shares of £1.00 each</b>		
As at 30 September 2006	50	50
Conversion to ordinary shares on 18 June 2007	(50)	(50)
<b>As at 30 June 2007</b>	<b>—</b>	<b>—</b>

<b>Issued, called up and fully paid</b>	<b>Thousands</b>	<b>£'000</b>
As at 30 September 2006 — Ordinary Shares of £10 each	158	1,576
50:1 share split effected on 18 June 2007	7,721	—
	7,879	1,576
Shares issued in respect of the acquisition of DM Technical Services Limited	118,180	23,636
	<b>126,059</b>	<b>25,212</b>

There has been no movement in share capital during the year to 30 June 2008.

<b>Authorised</b>	<b>2008 Thousands</b>	<b>2008 £'000</b>
Ordinary Shares of £0.20 each		
At end of year	<b>250,000</b>	<b>50,000</b>
<b>Issued, called up and fully paid</b>	<b>Thousands</b>	<b>£'000</b>
Ordinary Shares of £0.20 each		
At end of year	<b>126,059</b>	<b>25,212</b>

Under the authority granted to it by its shareholders at its AGM on 27 November 2007, Castle contracted to purchase its own ordinary shares as follows:

<b>Shares acquired Date</b>	<b>Shares acquired Number</b>	<b>Share price £</b>	<b>Consideration £</b>
31 December 2007	21,650	0.88	19,052
7 January 2008	20,025	0.88	17,622
14 January 2008	14,850	0.87	12,920
<b>Total</b>	<b>56,525</b>		<b>49,594</b>

The total consideration and associated costs have been classified as other reserves in the balance sheet.

## 22. Minority Interests

	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
As at 1 July 2007	—	—
Acquisitions (see note 27)	263	—
Share of profit for the year	202	—
As at 30 June 2008	465	—

## 23. Reconciliation of Movement in Equity

	Share capital £'000	Reverse acquisition reserve £'000	Foreign translation reserve £'000	Other reserves £'000	Profit and loss account £'000	Total equity £'000
As at 1 September 2006	5,150	—	—	—	1,046	6,196
Currency translation differences	—	—	243	—	—	243
On acquisition of DM Technical Services Limited	20,062	(13,057)	—	—	—	7,005
Actuarial gain on retirement benefit plan	—	—	—	—	12,265	12,265
Taxation on actuarial gain on retirement benefit plan	—	—	—	—	(3,434)	(3,434)
Change on deferred tax rate from 30% to 28%	—	—	—	—	(319)	(319)
Profit for the period	—	—	—	—	14,093	14,093
As at 30 June 2007	25,212	(13,057)	243	—	23,651	36,049
Currency translation differences	—	—	1,874	—	—	1,874
Actuarial loss on retirement benefit plan	—	—	—	—	(12,345)	(12,345)
Taxation on actuarial loss on retirement benefit plan	—	—	—	—	3,456	3,456
Profit for the period	—	—	—	—	12,650	12,650
Dividends paid	—	—	—	—	(8)	(8)
Purchase of own shares	—	—	—	(50)	—	(50)
As at 30 June 2008	25,212	(13,057)	2,117	(50)	27,404	41,626

## 24. Employee Benefit Obligations

The group has accounted for pensions in accordance with IAS19 as set out below. The disclosures for the period ended 30 June 2007 show the performance of the DM Technical Services pension scheme over the course of the period and the effect of the reverse acquisition of the Castle Support Services pension scheme on 19 June 2007.

### UK Schemes

During the period the group operated two defined benefit schemes for the majority of its UK employees. The schemes formally combined during the year. The schemes' assets are held separately from those of the group and are administered by the trustees and managed professionally.

The Dowding & Mills scheme was subject to full actuarial valuation as at April 2004 by an independently qualified actuary and updated to 30 June 2008.

The Castle Support Services scheme was subject to full actuarial valuation as at 30 September 2005 by an independently qualified actuary and updated to 30 June 2008.

The funding valuation of the pension scheme as at 23 April 2008 is currently under way.

The anticipated employer contribution to the scheme in the coming year is £2,900,000 (2007: £2,900,000).

The key assumptions used in the IAS19 valuations are:

Criteria	Assumptions at 30 June 2008	Assumptions at 30 June 2007
Valuation method	<b>Projected unit</b>	Projected unit
Discount rate	<b>6.50%</b>	5.80%
Increase to pensions in payment		
— to 6 April 1997 (dependent upon category of membership)	<b>0%/3%</b>	0%/3%
— between 6 April 1997 and 1 June 2004	<b>3.70%</b>	3.00%
— between 1 June 2004 and 5 April 2005	<b>3.50%</b>	2.75%
— after 5 April 2005	<b>2.50%</b>	2.50%
Salary increases	<b>3.50%</b>	2.75%
Demographic assumptions		
— Pre-retirement	<b>PA92sc</b>	PA92sc
— Post-retirement	<b>2010 +2</b>	2010 +2
	<b>PA92sc</b>	PA92sc
	<b>2007 +2</b>	2007+2

The value of assets in the schemes and the expected rate of return were:

	Long-term rate of return expected at 30 June 2008	Market value at 30 June 2008 £'000	Long-term rate of return expected at 30 June 2007	Market value at 30 June 2007 £'000
Equities	<b>8.20%</b>	<b>85,497</b>	8.25%	96,551
Bonds	<b>5.75%</b>	<b>24,546</b>	5.40%	29,065
Secured annuities	<b>6.50%</b>	<b>12,063</b>	5.80%	12,824
Other	<b>6.70%</b>	<b>4,037</b>	6.70%	4,984
Total market value of assets		<b>126,143</b>		143,424
Present value of scheme liabilities		<b>(118,837)</b>		(125,679)
Surplus		<b>7,306</b>		17,745
Unrecognised surplus		—		(3,095)
Recognised surplus		<b>7,306</b>		14,650
Deferred tax liability		<b>(2,046)</b>		(4,102)
Net pension surplus		<b>5,260</b>		10,548

## 24. Employee Benefit Obligations

*continued*

The amounts recognised in the balance sheet are as follows:

	<b>30 June 2008 £'000</b>	30 June 2007 £'000	31 August 2006 £'000
Present value of funded obligations	<b>(118,837)</b>	(125,679)	(131,330)
Fair value of scheme assets	<b>126,143</b>	143,424	115,334
	<b>7,306</b>	17,745	(15,996)
Restriction of surplus	—	(3,095)	—
Asset/(liability) in the balance sheet	<b>7,306</b>	14,650	(15,996)
Deferred tax (liability)/asset	<b>(2,046)</b>	(4,102)	4,799
Net asset/(liability) in the balance sheet	<b>5,260</b>	10,548	(11,197)

The amounts recognised in the income statement are as follows:

	<b>30 June 2008 £'000</b>	30 June 2007 £'000
Current service cost	<b>1,292</b>	1,395
Gains on settlements and curtailments	—	(5,405)
Included in operating profit	<b>1,292</b>	(4,010)
Interest on obligation	<b>7,089</b>	5,384
Expected return on scheme assets	<b>(10,460)</b>	(6,730)
Included in net financing costs	<b>(3,371)</b>	(1,346)

Cumulative actuarial gains and losses recognised in equity are as follows:

	<b>30 June 2008 £'000</b>	30 June 2007 £'000
As at start of period	<b>16,208</b>	3,943
Net actuarial (losses)/gains recognised in the period	<b>(15,440)</b>	12,729
Movement in restriction on recognition of surplus	<b>3,095</b>	(464)
As at 30 June	<b>3,863</b>	16,208

## 24. Employee Benefit Obligations

continued

### Reconciliation of the present value of scheme liabilities and assets

	30 June 2008 £'000	30 June 2007 £'000
<b>Change in the present value of the defined benefit obligation</b>		
Opening defined benefit obligation	125,679	131,330
Acquisition of Castle scheme	—	7,969
Service cost	1,292	1,395
Interest cost	7,089	5,384
Employees' contributions	1,126	1,064
Gains on settlements and curtailments	—	(5,404)
Actuarial gains	(6,460)	(5,534)
Benefits paid	(9,889)	(10,525)
Closing defined benefit obligation	118,837	125,679
<b>Change in the fair value of scheme assets</b>		
Opening fair value of scheme assets	143,424	115,334
Acquisition of Castle scheme	—	20,794
Expected return	10,460	6,730
Actuarial (losses)/gains	(21,900)	7,195
Contributions by the employer	2,922	2,832
Contributions by employees	1,126	1,064
Benefits paid	(9,889)	(10,525)
Closing fair value of scheme assets	126,143	143,424

### History of experience gains and losses

	30 June 2008 £'000	30 June 2007 £'000	31 August 2006 £'000
Difference between the actual and expected return on scheme assets	(21,900)	8,715	(1,218)
% of scheme assets	(20%)	7%	(1%)
Experience gains and losses on scheme liabilities	729	156	132
% of scheme liabilities	1%	0%	0%
Total amount recognised in the SORIE	(15,440)	12,265	765
% of scheme liabilities	(13%)	10%	1%

The valuation performed at 23 April 2004 showed the market value of assets in the Dowding & Mills scheme (including annuities purchased for pensioners at a notional market value) was £86,661,000 and that their actuarial value, taken as equal to their market value, represented 86% of the benefits that had accrued to members after allowing for assumed future increases in earnings. The funding rate was set at 16.8% from 1 June 2004. The actuary certified that the revised funding arrangements agreed are adequate to deal with the deficit.

The Dowding & Mills scheme's accrual rate is set at 1/100th from 1 June 2005 to 31 January 2007 and 1/80th thereafter.

The valuation performed at 30 September 2005 showed the market value of assets in the Castle Support Services scheme (including annuities purchased for pensioners at a notional market value) was £109,898,000 and that their actuarial value, taken as equal to their market value, represented 122% of the benefits that had accrued to members after allowing for assumed future increases in earnings. The funding rate remained at nil.

The last active member of the Castle Support Services scheme has retired and almost all of the members of that scheme have now had their benefits secured by annuities purchased in their individual names. The winding up of this scheme has commenced and no additional liabilities have been identified at this stage.

Certain UK employees are members of company defined contribution and stakeholder pension schemes. Contributions to the schemes in the period were £56,000 (2007: £49,000) with no outstanding contributions at the period end.

## 24. Employee Benefit Obligations

*continued*

### Overseas Schemes

The group operates a number of schemes on behalf of employees in overseas subsidiaries. The US and Australian staff are covered by defined contribution schemes in their respective countries. The total cost in the period of these schemes was £581,000 (2007: £449,000). There are no pension arrangements in the Dubai subsidiary.

## 25. Contingent Liabilities

Bank facilities in the UK are supported by cross-guarantees given by Castle Support Services plc and its subsidiaries. The group has entered into trade and other guarantees in the normal course of business which at 30 June 2008 amounted to £333,000 (30 June 2007: £495,000). The bank facilities include a guarantee for £10,000,000 which commenced in June 2007. This has been granted to the pension scheme in relation to the future contributions payable. This guarantee can only be called upon in the event of default by the group in respect of the schedule of contributions prevailing at the time. No such default occurred in the period. The guarantee reduces by the greater of £166,000 or the actual contribution required by the employer under the schedule of contributions each month. As at 30 June 2008 the guarantee stood at £7,833,000.

## 26. Reconciliation of movement in net debt

	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
Increase/(decrease) in cash and cash equivalents	10,381	(7,070)
Debt related cash flows from financing activities	1,500	(3,031)
Amortisation of facility fee	(75)	—
Translation differences	839	362
Movement in interest rate swaps	787	(2,187)
Preference shares eliminated on consolidation	—	27,000
	<b>13,432</b>	15,074
Net debt at beginning of period	<b>(24,103)</b>	(39,177)
Net debt at end of period	<b>(10,671)</b>	(24,103)

## 27. Acquisitions

### Intersel FZE

On 2 January 2008 the group completed the acquisition of a 50% shareholding in Intersel FZE (Intersel) for a total consideration of AED 13,700,000 (£1,869,000).

Of the consideration, AED 1,900,000 (£261,000) was deferred pending finalisation of Intersel's 2007 financial accounts and was paid in August 2008.

Based in Dubai, UAE, Intersel employs *circa* 40 engineers operating from a 1,700 square metre property providing electro-mechanical services to the oil, gas and energy generation sectors, predominantly within the Middle East territories.

During the 12 month period ended 31 December 2007 Intersel reported revenue of AED 13,347,000 (£1,823,000), operating profits of AED 3,361,000 (£459,000) and profits both before and after tax of AED 3,102,000 (£424,000).

Since the acquisition, revenue for the 6 month period to 30 June 2008 was AED 10,229,000 (£1,397,000) and profit before tax was AED 2,762,000 (£377,000).

The fair value of net assets acquired is set out in the following table:

	Notes	Acquiree's book value £'000	Fair value adjustments £'000	Acquisition amounts £'000
Property, plant and equipment		697	—	<b>697</b>
Inventories	a	439	(164)	<b>275</b>
Trade and other receivables	a	472	(94)	<b>378</b>
Cash and cash equivalents		74	—	<b>74</b>
Trade and other payables	a	(545)	(14)	<b>(559)</b>
Bank loans and short-term borrowings		(43)	—	<b>(43)</b>
Long-term provisions and liabilities		(282)	—	<b>(282)</b>
		812	(272)	<b>540</b>
Share of assets acquired (50%)				<b>270</b>
Goodwill	b			<b>1,599</b>
Total investment				<b>1,869</b>
Satisfied by:				
Acquisition costs				<b>1,608</b>
Deferred consideration				<b>261</b>
				<b>1,869</b>
The net cash flows in the period arising on the acquisition were:				
Acquisition costs				<b>(1,608)</b>
Net cash acquired				<b>32</b>
Net cash outflow				<b>(1,576)</b>

The following notes apply:

- Certain fair value adjustments have been made in order to align Intersel's accounting policies with those of the group.
- The goodwill arising principally reflects the opportunity for the group to apply its expertise to new markets. There are no identifiable assets, either tangible or intangible, to which this value could be appropriately ascribed.

## 27. Acquisitions

*continued*

### E.M.R. (North East) Limited

On 4 April 2008 the group completed the acquisition of E.M.R. (North East) Limited ("EMR") for a consideration of up to £310,000.

Of the consideration, £92,000 is deferred and becomes payable dependent upon reported profitability over the period 1 April 2008 to 31 March 2011.

Based in Middlesbrough, EMR employs 12 engineers providing electro-mechanical services to local industry.

During the 12 month period ended 31 July 2007 EMR reported revenue of £685,000, operating profits of £60,000, profits before tax of £43,000 and profits after tax of £33,000.

Since the acquisition, revenue for the 3 month period to 30 June 2008 was £139,000 and a loss before tax of £1,000.

The fair value of net assets acquired is set out in the following table:

	Notes	Acquiree's book value £'000	Fair value adjustments £'000	Acquisition amounts £'000
Property, plant and equipment		48	—	48
Inventories		37	—	37
Trade and other receivables	a	129	(3)	126
Trade and other payables	b	(145)	(4)	(149)
Bank loans and short-term borrowings		(40)	—	(40)
Long-term provisions and liabilities		(22)	—	(22)
		7	(7)	—
Goodwill	c			310
Total investment				310
Satisfied by:				
Acquisition costs				218
Deferred consideration				92
				310
The net cash flows in the period arising on the acquisition were:				
Acquisition costs				(218)
Net short-term borrowings acquired				(40)
Net cash outflow				(258)

The following notes apply:

- Certain fair value adjustments have been made in order to align EMR's accounting policies with those of the group.
- A fair value adjustment has been made to provide for corporation tax due on profits reported up to acquisition date.
- The goodwill arising principally reflects the opportunities afforded by integrating EMR into the Castle group. There are no identifiable assets, either tangible or intangible, to which this value could be appropriately ascribed.

## 28. Profit on Disposal of Property, Plant and Equipment

On 31 August 2007 the group completed the disposal of its vacant freehold property in Weedon, Northamptonshire.

The gross proceeds before professional costs from the sale were £2,425,000 resulting in a profit on sale of property, plant and equipment of £454,000.

During the 10 month period to 30 June 2007 the Dowding & Mills group completed the sale and leaseback of seven of its UK-based properties. The sale of six of the properties was concluded in December 2006 and they have been leased back on a 15-year term without break options. The sale of the seventh property was concluded in September 2006 and has been leased back on a 12-year term with break options afforded to the group at years 5, 8 and 10; no break options are afforded to the lessor. In relation to the seventh property the directors consider it important to retain sufficient flexibility to enable the group to unlock the benefits of relocating the facility to a more appropriate site than is currently occupied. The rental terms attributed to the seven leases are considered to be at market rates. The net proceeds generated by these transactions was *circa* £14,700,000 and a £5,610,000 profit on disposal of property, plant and equipment was credited to the income statement.

## 29. Related Party Transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

## 30. Dealing Disclosure Requirements

Under the provisions of Rule 8.3 of the Takeover Code (the "Code"), if any person is, or becomes, "interested" (directly or indirectly) in 1% or more of any class of "relevant securities" of Castle, all "dealings" in any "relevant securities" of that company (including by means of an option in respect of, or a derivative referenced to, any such "relevant securities") must be publicly disclosed by no later than 3.30 pm (London time) on the London business day following the date of the relevant transaction. This requirement will continue until the date on which the "offer period" ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an "interest" in "relevant securities" of Castle, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the Code, all "dealings" in "relevant securities" of Castle by Castle, or by any of its "associates", must be disclosed by no later than 12 noon (London time) on the London business day following the date of the relevant transaction. A disclosure table, giving details of the companies in whose "relevant securities" "dealings" should be disclosed, and the number of such securities in issue, can be found on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk).

"Interests in securities" arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an "interest" by virtue of the ownership or control of securities, or by virtue of any option in respect of or derivative referenced to, securities.

Terms in quotation marks are defined in the Code, which can also be found on the Panel's website. If you are in any doubt as to whether or not you are required to disclose a "dealing" under Rule 8, you should consult the Panel.

If you are in any doubt as to the application of Rule 8 to you, please contact an independent financial adviser authorised under the Financial Services and Markets Act 2000, consult the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk) or contact the Panel on telephone number +44 (0)20 7638 0129 or fax +44 (0)20 7236 7013. In accordance with Rule 2.10 of the Code, Castle confirms that it has in issue admitted to trading on the London Stock Exchange plc 126,001,875 ordinary shares of 20 pence each under the International Securities Identification Number GBO0B1XLC667.

## 31. Transition to International Financial Reporting Standards

Castle Support Services plc has adopted International Financial Reporting Standards (IFRS) for the financial year ended 30 June 2008 in line with the timeframe for all AIM quoted companies. Previously the group had applied United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Castle Support Services' first published financial statements under IFRS were in respect of the six months ended 31 December 2007.

The following explains the impact of the adoption of IFRS on the group's results and quantifies the expected impact on 2007 financial information which will be used for comparison purposes, including the August 2006 balance sheet, previously prepared under UK GAAP.

Adoption of IFRS will have no effect on the group's strategy, operations of its business or its trading cash flows. Distributable reserves in Castle Support Services are also unaffected.

### Contents of Note 31

A: Summary of IFRS impact

B: Basis of preparation and transition arrangements

C: Explanatory notes on the impact of IFRS

Appendices:

Reconciliations of financial statements from UK GAAP to IFRS

### A. Summary of IFRS impact

The areas of accounting that are most significantly impacted are:

- Financial instruments
- Goodwill
- Overseas translation
- Employee benefits
- Assets held for sale
- Deferred tax

The following table summarises the impact of the adoption on the group's profit for the ten months ended 30 June 2007:

	10 months ended 30 June 2007 £'000
Profit before tax as reported under UK GAAP	21,997
IFRS adjustments:	
Reversal of goodwill amortised	674
Reversal of depreciation against properties held for sale	47
Interest rate swaps	(2,187)
Loss in respect of financial instruments	(2,700)
Holiday pay	(227)
Overseas foreign exchange translation	—
Profit before tax as reported under IFRS	17,604

## 31. Transition to International Financial Reporting Standards

*continued*

The impact on total equity (and net assets) as at 31 August 2006 and 30 June 2007 is shown in the table below:

	31 August 2006 £'000	30 June 2007 £'000
Total equity as reported under UK GAAP	6,451	37,870
IFRS adjustments:		
Reversal of goodwill amortised	—	674
Reversal of depreciation against properties held for sale	—	47
Interest rate swaps	1,225	(962)
Holiday pay	(289)	(517)
Deferred tax	(1,191)	(1,063)
Total equity as reported under IFRS	6,196	36,049

Detailed reconciliation information for the relevant statements is provided in the Appendices.

### B. Basis of preparation and transition arrangements

#### IFRS1 Exemptions

The group has applied IFRS1 'First Time Adoption of International Financial Reporting Standards' to provide a starting point for reporting under IFRS. The group's date of transition to IFRS is 31 August 2006 and all comparative information in the financial statements is restated to reflect the group's adoption of IFRS, except where otherwise required or permitted under IFRS1. IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements, which is 30 June 2008. As a general principle IFRS1 requires the standards effective at the reporting date to be applied retrospectively. However, retrospective application is prohibited in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of the particular transactions are already known. A number of optional exemptions from full retrospective application of IFRS are granted where the cost of compliance is deemed to exceed the benefits to users of the financial statements.

The group has elected not to apply IFRS to any business combinations before the date of transition — 31 August 2006.

### C. Explanatory notes on the impact of IFRS

The following notes explain the impact that the adoption of IFRS has had on the group's consolidated results. Detailed reconciliations are set out in the Appendices, showing the impact on the income statement for the ten month period ended 30 June 2007 and on the balance sheets as at 31 August 2006 and 30 June 2007.

#### Income statement impact

##### 1. Goodwill

Under IAS38 'Intangible Assets', goodwill is not amortised but instead is reviewed annually for impairment. The group has elected to not apply IFRS 3 retrospectively from the transition balance sheet date of 31 August 2006. The net book value of goodwill has therefore been frozen at 31 August 2006 with no further amortisation charged on goodwill held at that date or on subsequent acquisitions.

An impairment review is also required at the date of transition under IFRS1 in accordance with the guidelines set out in IAS36 'Impairment of Assets' regardless of whether any indications of impairment exist. The group reviewed the goodwill held at the date of transition and no impairment was noted.

The adjustments taken through the income statement in the period to 30 June 2007 have been set out below:

	10 months ended 30 June 2007 £'000
Reversal of goodwill amortisation previously charged	674

## 31. Transition to International Financial Reporting Standards

*continued*

### 2. Assets held for sale

IFRS5 'Non-current assets held for sale and discontinued operations' requires that any non-current assets held for sale and any related liabilities should be separately classified on the balance sheet and not depreciated from the date they meet the criteria to be recognised as held for sale. As at 31 August 2006, £10,900,000 of property was reclassified as held for sale. At 30 June 2007 only one of the properties, with a carrying value of £1,900,000, was left remaining to be sold.

The adjustments taken through the income statement in the period to 30 June 2007 have been set out below:

	10 months ended 30 June 2007 £'000
Reversal of depreciation charge on properties held for sale	47

### 3. Financial instruments

#### 3.1 Treatment of interest rate swaps

IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments Recognition and Measurement' requires any derivative financial instruments held by the group to be recognised, measured and disclosed in the financial statements at fair value.

	10 months ended 30 June 2007 £'000
Charge from interest rate swap liabilities	(2,187)

#### 3.2 Treatment of premium on cumulative preference shares of subsidiary

IFRS requires that the premium paid by Castle Support Services plc to acquire cumulative preference shares as part of the acquisition of DM Technical Services Limited be charged through the income statement rather than included in the reverse acquisition reserve arising on the transaction.

	10 months ended 30 June 2007 £'000
Charge from write off of premium	(2,700)

### 4. Employee benefits

IFRS has introduced more detailed guidance on recognising employee benefits in the accounts when the benefit is earned as opposed to when it is paid. The group has made provision for accrued holiday pay.

	10 months ended 30 June 2007 £'000
Charge in respect of holiday pay accrual	(227)

## 31. Transition to International Financial Reporting Standards

*continued*

### 5. Overseas translation

IFRS specifies that the investors must translate results of foreign operations whose functional currency is not that of the investor at actual rates or averages as approximations. Use of the closing rate for results is no longer permitted. Assets and liabilities, however, are still translated at closing rate.

The net adjustment taken through the income statement at profit before tax level for the period ended 30 June 2007 is shown below and the profit after tax translation can be found in appendix 2.1.

	10 months ended 30 June 2007 £'000
Change from closing rate to average rate	—

### Balance sheet effects

#### 1. Deferred tax and retirement benefits

IAS12 'Income Taxes' requires that full provision be made for all taxable temporary timing differences except those arising on goodwill. The principal impact of adopting IAS12 has been to recognise deferred tax liabilities on temporary differences arising on intangible assets and to account for deferred tax on assets held for sale. Retirement benefit surpluses and deficits are now shown before deferred tax on the balance sheet.

#### 2. Capitalised software

Under IAS38 'Intangible Assets' capitalised software is required to be no longer classified as a tangible asset but reclassified as an 'other intangible' in non-current assets.

The capitalised software held by Castle Support Services has a finite economic life and is therefore still amortised in line with IAS38 'Intangible Assets'.

The effect of this requirement is merely a reclassification within non-current assets of £110,000 at 31 August 2006.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## Castle Support Services plc Appendices

### 1. Reconciliation of balance sheet as at 31 August 2006 (date of transition to IFRS)

	UK GAAP £'000	Assets held for sale £'000	Capitalised software £'000	Interest rate swaps £'000	Holiday pay £'000	Deferred tax £'000	Deferred tax on retirement benefits £'000	IFRS £'000
<b>Non-current assets</b>								
Goodwill	15,105							15,105
Other intangible assets	—		110					110
Property, plant and equipment	35,381	(10,935)	(110)					24,336
Deferred tax	613					(1,191)	4,799	4,221
<b>Total non-current assets</b>	<b>51,099</b>	(10,935)	—	—	—	(1,191)	4,799	<b>43,772</b>
<b>Current assets</b>								
Inventories	7,214							7,214
Trade and other receivables	20,817			1,225				22,042
Cash and cash equivalents	8,567							8,567
<b>Total current assets</b>	<b>36,598</b>	—	—	1,225	—	—	—	<b>37,823</b>
<b>Non-current assets held for sale</b>	<b>—</b>	10,935						<b>10,935</b>
<b>Total assets</b>	<b>87,697</b>	—	—	1,225	—	(1,191)	4,799	<b>92,530</b>
<b>Current liabilities</b>								
Trade and other payables	(8,001)							(8,001)
Short-term provisions and liabilities	(9,820)				(289)			(10,109)
Tax liabilities	(142)							(142)
Bank loans and short- term borrowings	(391)							(391)
<b>Total current liabilities</b>	<b>(18,354)</b>	—	—	—	(289)	—	—	<b>(18,643)</b>
<b>Non-current liabilities</b>								
Long-term borrowings	(48,578)							(48,578)
Long-term provisions and liabilities	(3,117)							(3,117)
Retirement benefit liabilities	(11,197)						(4,799)	(15,996)
<b>Total non-current liabilities</b>	<b>(62,892)</b>	—	—	—	—	—	(4,799)	<b>(67,691)</b>
<b>Total liabilities</b>	<b>(81,246)</b>	—	—	—	(289)	—	(4,799)	<b>(86,334)</b>
<b>Net assets</b>	<b>6,451</b>	—	—	1,225	(289)	(1,191)	—	<b>6,196</b>
<b>Total equity</b>								
Share capital	5,150							5,150
Profit and loss account	1,301			1,225	(289)	(1,191)		1,046
<b>Equity shareholders' funds</b>	<b>6,451</b>	—	—	1,225	(289)	(1,191)	—	<b>6,196</b>

**Castle Support Services plc**  
**Appendices**

**2.1 Reconciliation of profit for the ten months ended 30 June 2007**

	<b>UK GAAP</b> <b>£'000</b>	Assets held for sale depreciation write-back £'000	Goodwill amortisation write-back £'000	Interest rate swaps £'000	Cumulative preference shares of subsidiary £'000	Overseas translation £'000	Deferred tax £'000	Holiday pay £'000	<b>IFRS</b> <b>£'000</b>
Turnover	87,259					(86)			87,173
Cost of sales	(62,637)	23				77		(227)	(62,764)
<b>Gross profit</b>	<b>24,622</b>	23	—	—	—	(9)	—	(227)	<b>24,409</b>
Selling, distribution and administration expenses	(14,513)	24	674			13			(13,802)
Profit on disposal of property, plant and equipment	5,610								5,610
Gain on pension settlement	3,488								3,488
<b>Operating profit</b>	<b>19,207</b>	47	674	—	—	4	—	(227)	<b>19,705</b>
Interest payable in respect of cumulative preference shares of subsidiary	(2,263)								(2,263)
Net gain realised on waiver of interest due on cumulative preference shares	3,913				(2,700)				1,213
Other finance income	1,346								1,346
Interest rate swaps — fair value	—			(2,187)					(2,187)
Net interest	(206)					(4)			(210)
<b>Profit before tax</b>	<b>21,997</b>	47	674	(2,187)	(2,700)	—	—	(227)	<b>17,604</b>
Tax	(3,621)					(18)	128		(3,511)
<b>Profit after tax</b>	<b>18,376</b>	<b>47</b>	<b>674</b>	<b>(2,187)</b>	<b>(2,700)</b>	<b>(18)</b>	<b>128</b>	<b>(227)</b>	<b>14,093</b>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## Castle Support Services plc Appendices

### 2.2 Reconciliation of balance sheet as at 30 June 2007

	UK GAAP £'000	Assets held for sale depreciation write-back £'000	Assets held for sale £'000	Capitalised software £'000
<b>Non-current assets</b>				
Goodwill	14,436			
Other intangible assets	—			90
Property, plant and equipment	25,335	47	(1,862)	(90)
Retirement benefit assets	10,548			
<b>Total non-current assets</b>	<b>50,319</b>	47	(1,862)	—
<b>Current assets</b>				
Inventories	8,610			
Trade and other receivables	20,071			
Cash and cash equivalents	5,387			
<b>Total current assets</b>	<b>34,068</b>	—	—	—
<b>Non-current assets held for sale</b>	<b>—</b>		1,862	
<b>Total assets</b>	<b>84,387</b>	47	—	—
<b>Current liabilities</b>				
Trade and other payables	(6,049)			
Short-term provisions and liabilities	(8,968)			
Tax liabilities	(852)			
Bank loans and short-term borrowings	(5,333)			
<b>Total current liabilities</b>	<b>(21,202)</b>	—	—	—
<b>Non-current liabilities</b>				
Long-term borrowings	(23,195)			
Long-term provisions and liabilities	(2,921)			
Deferred tax	801			
<b>Total non-current liabilities</b>	<b>(25,315)</b>	—	—	—
<b>Total liabilities</b>	<b>(46,517)</b>	—	—	—
<b>Net assets</b>	<b>37,870</b>	47	—	—
<b>Total equity</b>				
Share capital	25,212			
Reverse acquisition reserve	(15,757)			
Foreign currency translation reserve	—			
Profit and loss account	28,415	47		
<b>Equity shareholders' funds</b>	<b>37,870</b>	47	—	—

Interest rate swaps £'000	Cumulative preference shares of subsidiary £'000	Holiday pay £'000	Write-back goodwill amortisation £'000	Overseas translation £'000	Deferred tax £'000	Deferred tax on retirement benefits £'000	<b>IFRS £'000</b>
			674				15,110 90 23,430 14,650
			674			4,102	<b>53,280</b>
—	—	—	674	—	—	4,102	8,610 20,071 5,387
—	—	—	—	—	—	—	<b>34,068</b> <b>1,862</b>
—	—	—	674	—	—	4,102	<b>89,210</b>
		(517)					(6,049) (9,485) (852) (5,333)
— (962)	—	(517)	—	—	—	—	<b>(21,719)</b>
(962)	—	—	—	—	(1,063)	(4,102)	(24,157) (2,921) (4,364)
(962)	—	—	—	—	(1,063)	(4,102)	<b>(31,442)</b>
(962)	—	(517)	—	—	(1,063)	(4,102)	<b>(53,161)</b>
<b>(962)</b>	—	<b>(517)</b>	<b>674</b>	—	<b>(1,063)</b>	—	<b>36,049</b>
	2,700						25,212 (13,057) 243
(962)	(2,700)	(517)	674	243 (243)	(1,063)		23,651
<b>(962)</b>	—	<b>(517)</b>	<b>674</b>	—	<b>(1,063)</b>	—	<b>36,049</b>

# Report of the independent auditors to the members of Castle Support Services plc (Company)

We have audited the parent company financial statements of Castle Support Services plc for the year ended 30 June 2008 which comprise the company balance sheet and notes 1 to 10. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the consolidated financial statements of Castle Support Services plc for the year ended 30 June 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Report of the Directors is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Report of the Directors, the Statement of Directors' Responsibilities and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

## **Opinion**

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the parent company financial statements.

## **GRANT THORNTON UK LLP**

Registered Auditors  
Chartered Accountants  
Leicester  
10 October 2008

# Company Balance Sheet

as at 30 June 2008

	Notes	30 June 2008		30 June 2007	
		£'000	£'000	£'000	£'000
<b>NET ASSETS EMPLOYED</b>					
<b>Fixed assets</b>					
Investments in subsidiaries	3		<b>27,332</b>		24,901
<b>Current assets</b>					
Debtors	5	<b>49</b>		188	
Cash at bank and in hand		<b>17</b>		16	
<hr/>					
<b>Creditors</b> — Amounts falling due within one year	6	<b>66</b>		204	
		<b>(310)</b>		(92)	
<hr/>					
Net current (liabilities)/assets			<b>(244)</b>		112
<hr/>					
<b>Total assets less current liabilities and net assets</b>			<b>27,088</b>		25,013
<hr/>					
<b>REPRESENTED BY</b>					
Called up share capital	7		<b>25,212</b>		25,212
Other reserves	7		<b>(50)</b>		—
Profit and loss account	2		<b>1,926</b>		(199)
<hr/>					
<b>Shareholders' funds</b>	4		<b>27,088</b>		25,013

The financial statements on pages 55 to 60 were approved on behalf of the Board of Directors and signed by T G Davies and T I Barrett on 10 October 2008.

# Notes to the Parent Company Financial Statements

for the year ended 30 June 2008

## 1. Basis of Preparation

The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below and have been applied consistently in both years presented.

### Investments

Investments in subsidiary companies are stated at cost, less provisions for diminution in carrying value, plus amounts outstanding on intra-group balances. The group's residual interest of 25% in its former Continental European businesses has been treated as an investment — the group exerts no significant influence over the operations of these businesses.

### Treasury Shares

Castle Support Services shares which have been purchased and not cancelled are held as treasury shares and deducted from shareholders' equity.

## 2. Profit and Loss Account

The parent company has taken advantage of Section 230 of the Companies Act 1985 allowing it not to publish a separate profit and loss account. The profit for the year ended 30 June 2008 was £2,125,000 (2007: loss of £199,000). Auditors' remuneration for audit services to the company was £15,000 (2007: £15,000). The company has no employees other than the directors whose remuneration was borne by subsidiary undertakings.

	2008 £'000
At beginning of year	(199)
Retained profit for the year	2,125
At close of year	1,926

## 3. Investments in Subsidiaries

	2008 £'000	2007 £'000
<b>Company</b>		
Shares in group companies at cost	35,376	32,605
Shares issued in relation to the reverse acquisition of Castle at nominal value	23,637	23,637
Amounts due to group companies	(31,681)	(31,341)
As at 30 June	27,332	24,901

### 3. Investments in Subsidiaries

*continued*

	2008 £'000	2007 £'000
Investments at beginning of period	24,901	1,576
Purchase of preference shares in DM Technical Services Limited	2,771	29,700
Shares issued in relation to the reverse acquisition of Castle at nominal value	—	23,637
Acquisition costs capitalised in relation to the reverse acquisition of Castle	—	1,329
Amounts due to group companies	(340)	(31,341)
Investments at end of period	27,332	24,901

During the period the group acquired the fully issued share capital of E.M.R. (North East) Limited and through its subsidiary company, Dowding and Mills Gulf Holdings, a 50% interest in Intersel FZE. Intersel FZE was converted into Intersel Dowding & Mills FZCO upon the acquisition of the group's interest.

#### Principal subsidiary companies

Subsidiary	Country of incorporation
Lonrho Africa Trade & Finance Limited	England
DM Technical Services Limited	England
Dowding and Mills plc	England
Dowding and Mills (UK) Limited	England
Dowding and Mills (Europe) b.v.	Netherlands
Dowding and Mills (Pacific) Pty Ltd	Australia
Dowding and Mills (Australia) Pty Ltd	Australia
Equipment Maintenance Services Inc.	USA
Dowding and Mills Gulf Holdings	UAE
Intersel Dowding & Mills FZCO	UAE
E.M.R. (North East) Limited	England

The group owns 25% of AGW Benelux Holdings b.v. This is treated as an investment in these financial statements as the group does not have significant influence over the operating and financial policies of that company.

The group owns 50% of Intersel Dowding and Mills FZCO. This is treated as a subsidiary in these accounts as the group exercises a significant influence over the operating and financial policies of that company.

All other subsidiary companies at 30 June 2008 were wholly owned. Lonrho Africa Trade & Finance Limited, DM Technical Services Limited, Dowding and Mills plc, Dowding and Mills (Europe) b.v. and Dowding and Mills Gulf Holdings are held as investment holding companies whilst all others provide electro-mechanical maintenance and repair services to industry and commerce. A full list of subsidiary undertakings is filed with the Annual Return at Companies House.

### 4. Reconciliation of Movements in Shareholders' Funds

	12 months to 30 June 2008 £'000	10 months to 30 June 2007 £'000
Retained profit for the period	2,125	(199)
Equity subscription during the period	—	23,636
Purchase of treasury shares	(50)	—
Opening shareholders' funds	25,013	1,576
Closing shareholders' funds	27,088	25,013

## 5. Debtors

	2008 £'000	2007 £'000
Other debtors	42	125
Prepayments	7	63
	<b>49</b>	<b>188</b>

## 6. Creditors — Amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	37	—
Accruals	273	92
	<b>310</b>	<b>92</b>

## 7. Share Capital

Following the reverse acquisition of Castle Support Services plc the share capital reported as at 30 June 2007 represented that of Castle Support Services plc:

<b>Authorised</b>	Thousands	£'000
As at 30 September 2006 — Ordinary Shares of £10 each	500	5,000
Increase in authorised share capital effected on 18 June 2007	4,495	44,950
50:1 share split effected on 18 June 2007	244,755	—
Conversion of preference shares on 18 June 2007	250	50
As at 30 June 2007 — Ordinary Shares of £0.20	<b>250,000</b>	<b>50,000</b>

Redeemable Preference Shares of £1.00 each		
As at 30 September 2006	50	50
Conversion to ordinary shares on 18 June 2007	(50)	(50)
As at 30 June 2007	—	—

<b>Issued, called up and fully paid</b>	Thousands	£'000
As at 30 September 2006 — Ordinary Shares of £10 each	158	1,576
50:1 share split effected on 18 June 2007	7,721	—
	<b>7,879</b>	<b>1,576</b>
Shares issued in respect of the acquisition of DM Technical Services Limited	118,180	23,636
	<b>126,059</b>	<b>25,212</b>

## 7. Share Capital

*continued*

There has been no movement in share capital during the year to 30 June 2008.

<b>Authorised</b>	<b>2008 Thousands</b>	<b>2008 £'000</b>
Ordinary Shares of £0.20 each At end of year	<b>250,000</b>	<b>50,000</b>
<b>Issued, called up and fully paid</b>	<b>Thousands</b>	<b>£'000</b>
Ordinary Shares of £0.20 each At end of year	<b>126,059</b>	<b>25,212</b>

Under the authority granted to it by its shareholders at its AGM on 27 November 2007, Castle contracted to purchase its own ordinary shares as follows:

<b>Shares acquired</b>	<b>Shares acquired Number</b>	<b>Share price £</b>	<b>Consideration £</b>
<b>Date</b>			
31 December 2007	21,650	0.88	19,052
7 January 2008	20,025	0.88	17,622
14 January 2008	14,850	0.87	12,920
Total	<b>56,525</b>		<b>49,594</b>

The total consideration and associated costs has been classified as other reserves in the balance sheet.

## 8. Contingent Liabilities

Bank facilities in the UK are supported by cross-guarantees given by Castle Support Services plc and its subsidiaries.

The group has entered into trade and other guarantees in the normal course of business which at 30 June 2008 amounted to £333,000 (30 June 2007: £495,000).

The bank facilities include a guarantee for £10,000,000 which commenced in June 2007. This has been granted to the pension scheme in relation to the future contributions payable. This guarantee can only be called upon in the event of default by the group in respect of the schedule of contributions prevailing at the time. No such default occurred in the period. The guarantee reduces by the greater of £166,000 or the actual contribution required by the employer under the schedule of contributions each month. As at 30 June 2008 the guarantee stood at £7,833,000.

## 9. Related Party Transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

## 10. Deferred Taxation

There is no provision for deferred taxation in the parent company.

Deferred tax not recognised in the parent company is as follows:

	2008 £'000	2007 £'000
Excess management charges	189	193

**Registered Office:**

Camp Hill, Birmingham, B12 0JJ  
Registered in England No. 5351402

**Registrars:**

Equiniti  
The Causeway, Worthing,  
West Sussex, BN99 6ZL

**Auditors:**

Grant Thornton UK LLP

## **CASTLE SUPPORT SERVICES plc**

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