

**CASTLE SUPPORT SERVICES plc**

**Transition to International Financial  
Reporting Standards**

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## **Transition to International Financial Reporting Standards**

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

Castle Support Services' first published financial statements under IFRS will be in respect of the six months ended 31 December 2007, with the first Annual Report and Accounts prepared on this basis being in respect of the year ending 30 June 2008 ("2008").

This document 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.

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## 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 four months ended 31 December 2006 and ten months ended 30 June 2007.

	4 months ended 31 December 2006 £'000	10 months ended 30 June 2007 £'000
<b>Profit before tax as reported under UK GAAP</b>	8,652	21,997
<b>IFRS adjustments:</b>		
Reversal of goodwill amortised	270	674
Reversal of depreciation against properties held for sale	37	47
Interest rate swaps	( 959)	( 2,187)
Loss in respect of financial instruments	-	( 2,700)
Holiday pay	59	( 227)
Overseas foreign exchange translation	( 12)	-
<b>Profit before tax as reported under IFRS</b>	<b>8,047</b>	<b>17,604</b>

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

	31 August 2006 £'000	31 December 2006 £'000	30 June 2007 £'000
<b>Total equity as reported under UK GAAP</b>	6,451	12,576	37,870
<b>IFRS adjustments:</b>			
Reversal of goodwill amortised	-	270	674
Reversal of depreciation against properties held for sale	-	37	47
Interest rate swaps	1,225	266	( 962)
Holiday pay	( 289)	( 230)	( 517)
Deferred tax	( 1,191)	616	( 1,063)
<b>Total equity as reported under IFRS</b>	<b>6,196</b>	<b>13,535</b>	<b>36,049</b>

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

## **B. Basis of preparation and transition arrangements**

### **Statement of compliance**

These extracts of the unaudited statements of Castle Support Services plc have been prepared, for the first time, to reflect the anticipated impact of International Financial Reporting Standards ('IFRS') and are covered by IFRS 1 "First-time Adoption of IFRS" in respect of measurement matters.

The financial information in this document does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The auditor has issued unqualified opinions on the Group's UK GAAP financial statements for the period ended 31 August 2006 and period ended 30 June 2007.

### **IFRS 1 Exemptions**

The Group has applied IFRS 1 '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 IFRS 1. IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements, which will be 30 June 2008. As a general principle IFRS 1 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 judgments 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 four month period ended 31 December 2006 and ten month period ended 30 June 2007 and on the balance sheets at 31 August 2006, 31 December 2006 and 30 June 2007.

### Income statement impact

#### 1. Goodwill

Under IAS 38 '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 IFRS 1 in accordance with the guidelines set out in IAS 36 '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 statements in each of the periods have been set out below:

	4 months ended 31 December 2006 £'000	10 months ended 30 June 2007 £'000
Reversal of goodwill amortisation previously charged	270	674

#### 2. Assets held for sale

IFRS 5 '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 £10.9m of property was reclassified as held for sale. At 30 June 2007 only one of the properties, with a carrying value of £1.9m was left remaining to be sold.

The adjustments taken through the income statements in each of the periods have been set out below:

	4 months ended 31 December 2006 £'000	10 months ended 30 June 2007 £'000
Reversal of depreciation charge on properties held for sale	37	47

### 3. Financial instruments

#### 3.1 Treatment of interest rate swaps

IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 '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.

	4 months ended 31 December 2006 £'000	10 months ended 30 June 2007 £'000
Charge from interest rate swap liabilities	( 959)	( 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.

	4 months ended 31 December 2006 £'000	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 accounts when the benefit is earned as opposed to when it is paid. The Group has made provision for accrued holiday pay.

	4 months ended 31 December 2006 £'000	10 months ended 30 June 2007 £'000
Credit/ (charge) in respect of holiday pay accrual	59	( 227)

## 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 adjustments taken through the income statements at profit before tax level in each of the periods have been set out below:

	<b>4 months ended 31 December 2006 £'000</b>	<b>10 months ended 30 June 2007 £'000</b>
Change from closing rate to average rate	( 12)	-

## Balance sheet effects

### 1. Deferred tax and retirement benefits

IAS 12 'Income Taxes' requires that full provision be made for all taxable temporary timing differences except those arising on goodwill. The principal impact of adopting IAS 12 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 IAS 38 '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 IAS 38 'Intangible Assets'.

The effect of this requirement is merely a reclassification within non-current assets of £0.1m at 31 August 2006.











## **D. 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. Subsidiaries are entities over which the group has the power to control the financial and operating policies so as to obtain benefits from its activities. The group obtains and exercises control through voting rights.

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.

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 and the consolidated financial information of the company is therefore a continuation of the financial information of DM Technical Services Limited and its subsidiaries. The purchase method of accounting has been used for companies acquired by the DM Technical Services group.

The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

### *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 IFRS 3 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 is subject to annual impairment reviews.

### *Other intangible assets*

Computer software is included at cost and cost less estimated residual amount is amortised on a straight line basis over its useful economic life. The amortisation charge is shown within administration expenses in the income statement.

### *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 IAS 36. 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 and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale or revaluation of held for sale assets is included in "other income" or "other expense" in the income statement.

### *Inventories*

The basis of valuation of inventories is the lower of cost and net realisable value. Cost is made up of the actual cost of material, 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 on 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 group 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 at which a choice of classification or accounting treatment is available. 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.

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.

Derivative financial instruments are categorised as at fair value through profit or loss with changes in fair values recognised in the income statement.

The hedge accounting rules of IAS 39 are not being used in respect of the interest rate swaps.

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 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 any discount is 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 IAS 17, the economic ownership of a leased asset is transferred to the lessee only if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. All leases fall to be accounted for as operating leases

#### *Taxation*

Current tax is the tax currently payable based on taxable profit for the year.

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, except where they relate to items that are charged or credited directly to equity (ie actuarial gains / losses on retirement benefit plans) in which case the related deferred tax is also charged or credited directly to equity.

#### *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 June 2007. The assets of the schemes are held separately from those of the group, being invested with Legal & General Investment Management Limited.

The group operates various other 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.

For those schemes that operate on a defined benefit basis IAS 19 has been adopted.

As permitted by IAS 34, the values in this interim statement are derived from the valuation disclosed in the 30 June 2007 financial statements of the group, using the same basis as those values.

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit credit 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 against administration costs. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs.

The group has taken advantage of the exemption in IFRS 1 and has elected to recognise all cumulative actuarial gains and losses at the date of transition to IFRS.

*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. Income and expenses are translated at the average rate for the period.

The group has taken advantage of the exemption in IFRS 1 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.