

**FOR IMMEDIATE RELEASE**

**29 September 2008**

**CORAC GROUP PLC**

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE  
2008**

Corac Group plc ("Corac") the intellectual property, engineering and licensing group specialising in compressor technology, announces its interim results for the six months ended 30 June 2008.

**Operational Highlights**

***Downhole Gas Compressor ('DGC')***

- Implementation of DGC technology and field trial progresses - flow loop testing demonstrates performance, capability and reduced risks associated with deployment; JIP partners satisfied with field trial results to date
- Eni SpA field trial order win
- Increasing interest from other gas majors as DGC becomes better known in industry

***Industrial Air***

- Further compressor units with customers for evaluation
- Pre-production Industrial Air units operating in Taiwan, China and Austria
- Corac's units 20% more energy efficient than competitors' products

**Financial Highlights**

- Loss after tax £1.28m reflecting increased investment in R & D in line with managements' expectations
- Strong support from existing and new institutional shareholders raised £4.4m (net) in December 2007 placing
- Cash available £4.1m (£3.6m cash, £0.5m R & D tax credit)

**Commenting on the future, Chairman, Gerry Musgrave, said:**

*"It is pleasing to report six months of solid progress since our year end results. Operationally we have made great headway, announcing the first order for our downhole gas compressor in June and have seen considerable interest from other gas majors as our technology becomes increasingly known in the industry.*

*Corac now has pre-production Industrial Air units operating in factories in Taiwan, China and Austria and anticipates further orders in due course. In the current climate the power savings that our units provide become ever more significant to our end users and demonstrate the importance of green credentials now required by companies.*

*The economic case for DGC deployment in gas fields is compelling. Recent energy price increases strengthens this case. We remain focussed on delivering a successful field trial and being in an excellent position to address the increasing market opportunities."*

**For further information:**

**Professor Gerry Musgrave, Executive  
Chairman**

**Philip Newell, Finance Director  
Corac Group plc**

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***NOTES TO EDITORS***

**Corac is an intellectual property, engineering and licensing group which holds many patents. It focuses on high speed electrical direct drive turbo machinery based on its unique expertise in gas bearings. Corac has created an innovative 'no oil' turbo compressor together with a unique gas seal, and is part of a joint industry programme for the downhole gas extraction industry.**

Further information on Corac is available on the internet at [www.corac.co.uk](http://www.corac.co.uk)

**Chairman's Statement**

**Introduction**

It is pleasing to report a further six months of solid progress since our year end results.

Operationally we have made great headway and, as the

implementation of our Downhole Gas Compression (DGC) programme progresses, we have considerably enhanced our team at Corac, particularly in the power electronics field.

We are pleased to welcome Philip Newell as our first full-time Finance Director who brings extensive financial and commercial experience gained in international groups and smaller high growth technology companies.

We have also appointed Siân Westerman, Managing Director in the Investment Banking Division of NM Rothschild & Sons Limited as a Non-Executive Director to the Board. Siân's wise counsel and experience with corporates will be an invaluable support to our growing business as we address a marketplace dominated by large players.

## **Operational Highlights**

### **Downhole Gas Compression (DGC)**

In June we were very pleased to announce the first order for our downhole gas compressor.

ENI SpA, a Joint Industry Programme (JIP) partner, placed an order for the field trial unit to be deployed in its assets in Southern Italy. It had been expected that the first field trial would be for Repsol YPF, another JIP partner, in Argentina. However it became clear in the first quarter of this year that politics in the region would prevent this. Repsol is now looking for other sites for its field trial. This change, and the bringing forward of ENI's plans, has required re-design of the DGC for the specific conditions in the Italian gas field and hence we are aiming for deployment in the first quarter of 2009.

Our other JIP partner, Conoco Phillips (UK) Ltd. continues to actively support the Programme.

There is increasing interest in the DGC from other gas majors as it becomes better known in the industry. By placing a compressor near the mouth of a well, as opposed to on a rig at the surface, extra artificial lift can be obtained from a flowing well to give enhanced recovery over a shorter period of time and deployment towards the end of the life of a well can give up to five years of additional positive production.

Since January 2007 the DGC has been subjected to extensive trials in simulated downhole conditions in a flow loop test rig at Spadeadam in Cumbria. The tests have proved very encouraging with all three JIP partners being satisfied with progress for the development and operation of the DGC and with results of tests to date.

One of the world's leading service companies shares our vision of the potential of DGC and is working closely with us and ENI to ensure success. This will considerably benefit the detailed and complicated deployment of the DGC and help to ensure that the most appropriate

and reliable ancillary equipment is used. The remaining two JIP partners will continue to be active members of the Consortium and will be involved in studying the field trial results for their own deployments.

### **Industrial Air**

Corac now has pre-production Industrial Air units operating in factories in Taiwan, China and Austria. We anticipate further orders in due course as a result of our partners' continuing marketing efforts. Meanwhile work continues to further improve the unit's efficiency and to reduce manufacturing costs. Our units have approximately 20% greater energy efficiency than those of our competitors which will provide significant power savings and also assist in demonstrating potential green values for our end users.

### **Financials**

The Board has decided to adopt International Financial Reporting Standards (IFRS) which has resulted in a requirement to restate last year's figures on an IFRS basis.

The six months to 30 June 2008 show a loss after tax of £1,280,000 (six months to 30 June 2007 - loss of £725,000). This is a consequence of the ongoing significant investment in our technology and business to fully develop the DCG and take it to market.

The number of shares in issue as at 30 June 2008 was 86,549,322.

### **Summary**

We have been very encouraged by the positive feedback that we have received from our customers following the factory deployment of pre-production Industrial Air units and expect further orders in due course.

The Company believes that the economic case for gas operating companies to deploy Corac's DGC machines is compelling, particularly given the recent unprecedented growth in turnover and profits seen in the gas industry.

Our preparations for the field trial are helping us to increase our practical knowledge and experience of deployment in the field and to strengthen our valuable operational relationships with suppliers and service providers. This should provide us with procedures for the future roll out of the DGC. We believe that the DGC field trial will increase our credibility and profile within the gas industry and should encourage early additional deployments.

In the short term we remain focused on ensuring that the DGC field trial progresses smoothly.

Professor G Musgrave  
Executive Chairman  
26 September 2008

**Condensed consolidated interim income statement  
For the six months ended 30 June 2008**

	unaudited Six months ended  30 June 2008 £'000	unaudited Six months ended  30 June 2007 £'000	unaudited  Year ended 31 December 2007 £'000
<b>Continuing operations</b>			
Revenue	460	765	1,438
Cost of sales	(408)	(603)	(1,212)
Gross profit	52	162	226
Research and development costs	(1,026)	(616)	(1,554)
Administrative expenses	(692)	(627)	(1,282)
Other operating income - grants receivable	-	61	117
Operating loss	(1,666)	(1,020)	(2,493)
Finance income	124	77	148
<b>Loss before income tax</b>	(1,542)	(943)	(2,345)
Income tax credit	262	218	605
<b>Loss for the period attributable to shareholders</b>	(1,280)	(725)	(1,740)
Loss per share expressed in pence per share	pence	pence	pence
Basic loss per share	(1.5)	(1.0)	(2.3)

As stated in note 1, the comparative figures for the financial year ended 31 December 2007 have been extracted from the Group's statutory accounts for that financial year and restated from UK Generally Accepted Accounting Principles (UK GAAP) to International Financial Reporting Standards (IFRS). The UK GAAP version of those accounts has been reported on by the Group's auditors and delivered to the Registrar of Companies.

**Condensed consolidated interim balance sheet**  
**As at 30 June 2008**

	unaudited 30 June 2008 £'000	unaudited 30 June 2007 £'000	unaudited 31 December 2007 £'000
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	126	161	152
<b>Current assets</b>			
Trade and other receivables	1,609	569	1,099
Other short term financial assets	1,000	500	250
Cash and cash equivalents	2,621	1,948	5,000
	<u>5,230</u>	<u>3,017</u>	<u>6,349</u>
<b>Total assets</b>	<u>5,356</u>	<u>3,178</u>	<u>6,501</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	(371)	(641)	(388)
<b>Net assets</b>	<u>4,985</u>	<u>2,537</u>	<u>6,113</u>
<b>EQUITY</b>			
Share capital	8,655	7,481	8,625
Share premium	4,333	864	4,250
Capital redemption reserve	575	575	575
Own shares held by Employee Benefit Trust	(379)	(298)	(281)
Share based payment reserve	142	192	236
Retained earnings	(8,341)	(6,277)	(7,292)
<b>Total equity</b>	<u>4,985</u>	<u>2,537</u>	<u>6,113</u>

**Condensed consolidated interim statement of changes in equity**  
**For the six months ended 30 June 2008**

Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares held by EBT £'000	Share- based payment reserve £'000	Retained earnings £'000	Total £'000

<b>As at 1 January 2008</b>	8,625	4,250	575	(281)	236	(7,292)	6,113
Issue of shares	30	83	-	-	-	-	113
Shares transferred on exercise of options	-	-	-	116	-	-	116
Purchase of own shares by EBT	-	-	-	(214)	-	-	(214)
IFRS 2 share option charge	-	-	-	-	48	-	48
Transfers on exercise of share options	-	-	-	-	(142)	142	-
EBT gain on exercise of share options	-	-	-	-	-	89	89
Loss for the period	-	-	-	-	-	(1,280)	(1,280)
<b>As at 30 June 2008</b>	<b>8,655</b>	<b>4,333</b>	<b>575</b>	<b>(379)</b>	<b>142</b>	<b>(8,341)</b>	<b>4,985</b>

<b>As at 1 January 2007</b>	7,443	858	575	(298)	150	(5,552)	3,176
Issue of shares	38	6	-	-	-	-	44
IFRS 2 share option charge	-	-	-	-	42	-	42
Loss for the period	-	-	-	-	-	(725)	(725)
<b>As at 30 June 2007</b>	<b>7,481</b>	<b>864</b>	<b>575</b>	<b>(298)</b>	<b>192</b>	<b>(6,277)</b>	<b>2,537</b>

<b>As at 1 January 2007</b>	7,443	858	575	(298)	150	(5,552)	3,176
Issue of shares	1,182	3,392	-	-	-	-	4,574
Shares transferred on exercise of options	-	-	-	17	-	-	17
IFRS 2 share option charge	-	-	-	-	86	-	86
Loss for the period	-	-	-	-	-	(1,740)	(1,740)
<b>As at 31 December 2007</b>	<b>8,625</b>	<b>4,250</b>	<b>575</b>	<b>(281)</b>	<b>236</b>	<b>(7,292)</b>	<b>6,113</b>

**Condensed consolidated interim cash flow statement  
For the six months ended 30 June 2008**

	unaudited	unaudited	unaudited
	Six	Six	Year
	months	months	ended
	ended	ended	31
	30 June	30 June	December
	2008	2007	2007
	£'000	£'000	£'000

<b>Net cash outflow from operating activities</b>			
Loss before income tax	(1,542)	(943)	(2,345)
Adjustments for:			
Finance income	(124)	(77)	(148)
Profit on sale of fixed assets	-	-	(1)
Depreciation of property, plant & equipment	47	40	84
Share based payment expense	48	42	86
Increase in trade and other payables	(248)	(100)	(242)
Decrease in trade and other receivables	(17)	(671)	(925)
	<u>(1,836)</u>	<u>(1,709)</u>	<u>(3,491)</u>
Income tax received	-	519	519
<b>Net cash used in operating activities</b>	<u>(1,836)</u>	<u>(1,190)</u>	<u>(2,972)</u>
<b>Cash flows from investing activities</b>			
Finance income	124	77	148
Purchase of property, plant and equipment	(21)	(9)	(44)
Proceeds from sale of property, plant and equipment	-	-	1
Net cash from investing activities	<u>103</u>	<u>68</u>	<u>105</u>
<b>Cash flows from financing activities</b>			
Proceeds of issue of shares	113	44	4,839
Expenses of issue of shares	-	-	(265)
EBT shares transferred on exercise of employee share options	205	-	17
EBT purchase of shares	(214)	-	-
Cash transferred to long term deposits	(750)	(250)	-
Net cash from financing activities	<u>(646)</u>	<u>(206)</u>	<u>4,591</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(2,379)</u>	<u>(1,328)</u>	<u>1,724</u>
Cash and cash equivalents at beginning of period	5,000	3,276	3,276
<b>Cash and cash equivalents at end of period</b>	<u>2,621</u>	<u>1,948</u>	<u>5,000</u>

## Notes to the condensed consolidated interim financial statements For the six months ended 30 June 2008

### 1. Basis of preparation

These interim financial statements are the first financial statements following the adoption of International Financial Reporting Standards ("IFRS") by the European Union. As the Group has not previously published a full set of financial statements under IFRS, this announcement contains reconciliations from previously reported amounts under UK Generally Accepted Accounting Principles ("UK

GAAP") together with explanations of the changes and an analysis of the impact on the Group of adopting IFRS.

The condensed consolidated interim financial statements for the six months ended 30 June 2008 have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union. The financial statements have been prepared under the historical cost convention.

The financial information included in this report is unaudited and has not been reviewed by the auditor and does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

The accounts for the year ended 31 December 2007, on which the auditor gave an unqualified audit opinion, were prepared in accordance with UK GAAP and not in accordance with IFRS and have been filed with the Registrar of Companies.

## 2. Revenues

All revenues have been derived from the Group's research and development activities and the commercialisation of its resultant intellectual property.

## 3. Loss per share

The calculation of the loss per share is based on the loss for the period divided by the weighted average number of shares in issue during the period as follows:

	unaudited Six months ended	unaudited Six months ended	unaudited Year ended 31 December 2007
	30 June 2008 number	30 June 2007 number	December 2007 number
Weighted average number of shares in issue	<u>85,229,890</u>	<u>74,799,618</u>	<u>75,730,433</u>

The weighted average number of shares in issue has been reduced by the weighted average number of shares held by the Employee Benefit Trust. Diluted loss per share is not calculated as the conversion to ordinary shares would be anti-dilutive.

## 4. Shares issues

At 31 December 2007 Corac Group plc had called up share capital of 86,254,059 ordinary shares of nominal value £0.10 each. During the 6 months to 30 June 2008, the Company issued 295,263 ordinary shares to satisfy the exercise of employee share options for cash consideration of £112,782 which increased nominal equity by £29,526 and share premium by £83,256. At 30 June 2008 Corac Group plc had

called up share capital of 86,549,322 ordinary shares of nominal value £0.10 each.

## **5. Copies of the interim financial statements**

Copies of the interim statement will be sent to shareholders. Further copies will be available from the company's registered office at Brunel Science Park, Kingston Lane, Uxbridge, Middlesex UB8 3PQ for one month from today.

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

### **1. Introduction**

For periods up to and including 31 December 2007, Corac Group plc (Corac") has prepared its financial statements in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"). The Group's first published Interim Financial Statements under International Financial Reporting Standards ("IFRSs") are in respect of the six months ended 30 June 2008 and the first Annual Report and Accounts prepared on this basis will be for the year ending 31 December 2008.

As the Group has not previously published a full set of financial statements under IFRS, this statement presents and explains the changes to the financial statements of the Group arising from the adoption of IFRS and contains reconciliations from previously reported amounts under UK GAAP. These restated financial figures will be the principal comparative figures in the 2008 financial statements and have been released to provide details of the impact of adopting IFRS on the Group.

This document presents previously published UK GAAP information restated on an IFRS basis. It is important to recognise that the move from UK GAAP to IFRS does not change the cash flows of the Group nor does it impact Group strategy or commercial decisions.

### **2. Summary of changes**

The changes to the financial statements of the Group arising from the adoption of IFRS are:

- The recording of a holiday pay accrual; and
- The consolidation of subsidiaries

The IFRS compliant accounting policies and reconciliations between financial statements previously presented under UK GAAP and the IFRS presentation are included in the following appendices:

- Appendix A: IFRS Group accounting policies  
 Appendix B: Reconciliation of the balance sheet as at 1 January 2007 (being the date of transition to IFRS)  
 Appendix C: Reconciliation of the income statement for the year ended 31 December 2007  
 Appendix D: Reconciliation of the balance sheet as at 31 December 2007  
 Appendix E: Reconciliation of material adjustments to the cash flow statement

### 3. Summary of impacts on Financial Statements

#### (i) Summary income statement impact for the six months ended 30 June 2007

The table below shows the impact of IFRS adoption on the Group consolidated income statement for the six months ended 30 June 2007.

	Before tax unaudited £'000	after tax unaudited £'000	loss per share unaudited pence
<b>Reported loss under UK GAAP</b>	(920)	(702)	(0.94)
IFRS adjustments			
IAS 19 "Employee Benefits"	(23)	(23)	(0.03)
IAS 27 "Consolidated and Separate Financial Statements"	-	-	-
<b>Loss under IFRS</b>	<b>(943)</b>	<b>(725)</b>	<b>(0.97)</b>

#### (ii) Summary income statement impact for the year ended 31 December 2007

The table below shows the impact of IFRS adoption on the Group consolidated income statement for the year ended 31 December 2007.

	Before tax unaudited £'000	after tax unaudited £'000	loss per share unaudited pence
<b>Reported loss under UK GAAP</b>	(2,338)	(1,733)	(2.29)
IFRS adjustments			
IAS 19 "Employee Benefits"	(7)	(7)	(0.01)
IAS 27 "Consolidated and Separate Financial Statements"	-	-	-
<b>Loss under IFRS</b>	<b>(2,345)</b>	<b>(1,740)</b>	<b>(2.30)</b>

#### (iii) Impact on shareholders' equity

The table below shows the impact of IFRS adoption on the Group's consolidated net assets at 1 January 2007, 30 June 2007 and 31 December 2007:

	As at 1 January 2007 unaudited £'000	As at 30 June 2007 unaudited £'000	As at 31 December 2007 unaudited £'000
<b>Total shareholders' equity under UK GAAP</b>	3,176	2,560	6,120
IFRS adjustments			
IAS 19 "Employee Benefits"	(5)	(28)	(12)
IAS 27 "Consolidated and Separate Financial Statements"	5	5	5
<b>Total shareholders' equity under IFRS</b>	<b>3,176</b>	<b>2,537</b>	<b>6,113</b>

#### 4. Details of changes

##### (i) IAS 19 "Employee Benefits"

IAS 19 requires companies to make an accrual for holiday pay. At the date of the transition a £5,000 holiday pay accrual was recognised with a corresponding adjustment being made to retained earnings.

##### (ii) IAS 27 "Consolidated and Separate Financial Statements"

IAS 27 requires the company to prepare consolidated accounts.

Under UK GAAP the Directors had determined that it was more appropriate not to prepare consolidated accounts since they believed that the amounts involved were not material and that greater clarity of presentation was provided by the presentation of accounts for the Company as an individual undertaking. The Directors therefore claimed exemption from producing group accounts under Section 229 of the Companies Act 1985.

Under IFRS the consolidated financial statements comprise financial statements of Corac Group plc and all of its subsidiary undertakings.

#### Appendix A: IFRS Group accounting policies

##### Introduction

The following are the revised Group accounting policies that the Directors have established in order to prepare the interim financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and which the Directors anticipate will be complied with in the Interim Financial Statements in respect of the six months ended 30 June 2008 and the annual financial statements for the year ending 31 December 2008, being the Group's first IFRS financial

statements.

Financial statements were formerly prepared under applicable United Kingdom Generally Accepted Accounting Principles ("UK GAAP"). Effective from the date of transition to IFRS of 1 January 2007, the financial statements are now prepared under applicable IFRSs. Comparative information has been restated in accordance with IFRSs. The accounting policies that have been applied in the opening balance sheet have, unless otherwise stated, also been consistently applied throughout all periods presented in the financial statements.

#### ***Basis of preparation***

The consolidated financial statements have been prepared under the historical cost convention.

The principal accounting policies of the Group are set out below.

#### ***Accounting estimates and judgements***

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and contingent liabilities. The estimates and assumptions are based on historical experience and other factors considered reasonable at the time, but actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimate is revised. Material estimates and assumptions are made in particular relating to the useful life of non-current assets, the recognition of revenues from research, development, engineering services and grants (including where there are limited or subjective milestones in the relevant agreements) and the establishment of provisions for taxes, trade receivables and share based payments.

#### ***Consolidation***

The consolidated financial statements incorporate the financial statements of Corac Group plc and all of its subsidiary undertakings (the "Group"). Control is achieved where the parent company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Intra-group transactions, balances, income and expenses are eliminated fully on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

#### ***Revenue***

Revenue on contracts is recognised by reference to the stage of completion of the transaction. Under this method revenues recorded represent the aggregate of costs incurred during the year and a portion of estimated profit on individual contracts based on the relationship of costs incurred to total estimated costs for each contract. Revisions in estimates are reflected in the accounting period when the revision becomes known. Anticipated losses on contracts are charged against income in their entirety when the losses become evident.

Revenue from the sale of services is recognised over the period that

the services are provided and turnover from up front licence fees is recognised on commencement of the licence. Revenue from research and development services for third parties, including cost recharges, is recognised over the period such services are provided. Revenues exclude VAT and trade discounts.

### ***Income taxes***

Income tax recoverable in respect of research and development cash tax credits is recognised when the decision has been taken to claim such amounts in cash. Until such a decision is made, the potential tax benefit arising from research and development expenditure is included in tax losses carried forward.

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

Deferred income tax is provided in full, using the liability method, on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred income tax is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

### ***Share-based payments***

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements.

The Group's equity-settled share-based payments to its employees and directors are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable. Options granted before 2006 were valued using the Black-Scholes model. Options granted in 2006 and after were valued using the Monte Carlo model.

The value of any shares or options granted is charged to the consolidated income statement over the period the shares vest, with a corresponding credit to reserves. When share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

### ***Short-term employee benefit costs***

The undiscounted amount of short-term benefits attributable to services that have been rendered in the period are recognised as an expense, unless specifically required or permitted within the scope of IFRS reporting to be included in the cost of an asset. Any difference between the amount of cost recognised and cash payments made is treated as a liability or prepayment as appropriate.

***Research and development***

Research costs are expensed as incurred. Development expenditure is capitalised when it can be separately measured and its future recoverability can be reasonably regarded as assured. Careful judgment by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based upon the information available at each balance sheet date.

Following initial recognition, the related asset is amortised over the period of the expected future sales with impairment reviews being carried out at least annually. The asset is carried at cost less any accumulated amortisation and impairment losses. The Group has not yet capitalised any development costs as the criteria set out in IAS 38, "Intangible Assets", have not been met.

***Pensions***

The Group operates a defined contribution pension scheme and a stakeholder pension scheme for employees. The assets of the scheme are held separately from those of the Group. The pension cost charged represent the amounts payable by the Group and is expensed as they become payable.

***Property, plant and equipment***

Property, plant and equipment is stated at historical cost less accumulated depreciation and any provision for impairment. Depreciation is provided on the cost of property, plant and equipment at rates calculated to write off each asset on a straight-line basis over its estimated useful economic life as follows:

Computer equipment	33% per annum
Office furniture and fittings	20% per annum
Plant and machinery	20% per annum

Short leasehold improvements are amortised over the term of the lease.

***Inventories and work in progress***

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out formula. Cost includes materials, direct labour and an attributable portion of manufacturing overheads based on normal levels of activity.

***Employee benefit trust***

The assets and liabilities of the Employee Benefit Trust ("EBT") have been included in the Group accounts. Any assets held by the EBT cease to be recognised in the Group balance sheet when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group income statement.

### ***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.

### ***Government grants***

Government grants of a revenue nature are credited to the income statement (as other operating income) on a case-by-case basis over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants are only recognised when there is a reasonable assurance that any conditions have been met and that the grants will be received.

### ***Interest receivable***

Interest receivable represents interest earned on cash deposits.

### ***Financial instruments***

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

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Actual bad debts are written off when identified. Trade and other payables are not interest bearing and are stated at their nominal value.

### ***Equity***

Equity comprises the following:

- "Share capital" which represents the nominal value of equity shares.
- "Share premium" which represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Capital redemption reserve" which constitutes a non distributable reserve which arose on the acquisition by the company of its own shares.
- "Own shares held by Employee Benefit Trust" which represents the costs of purchasing own shares held by the Employee Benefit Trust
- "Share based payment reserve" which represents equity-settled share-based employee remuneration until such share options are exercised or lapse
- "Retained earnings" which represents retained profits and losses

## **Appendix B: Reconciliation of the balance sheet as at 1 January**

**2007**

(being the date of transition to IFRS)

	UK GAAP previously reported £'000	Effect of transition to IFRS		IFRS £'000
		Employee Benefits IAS 19 £'000	Consolidate subsidiaries IAS 27 £'000	
<b>ASSETS</b>				
<b>Non current assets</b>				
Property, plant and equipment	192	-	-	192
<b>Current assets</b>				
Trade and other receivables	770	-	-	770
Other short term financial assets	250	-	-	250
Cash and cash equivalents	3,276	-	-	3,276
	4,296	-	-	4,296
<b>Total assets</b>	4,488	-	-	4,488
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	(1,312)	(5)	5	(1,312)
<b>Net assets</b>	3,176	(5)	5	3,176
<b>EQUITY</b>				
Share capital	7,443	-	-	7,443
Share premium	858	-	-	858
Capital redemption reserve	575	-	-	575
Own shares held by Employee Benefit Trust	(298)	-	-	(298)
Share based payment reserve	150	-	-	150
Retained earnings	(5,552)	(5)	5	(5,552)
<b>Total equity</b>	3,176	(5)	5	3,176

**Appendix C: Reconciliation of the income statement for the year ended 31 December 2007**

	UK GAAP previously reported £'000	Effect of transition to IFRS		IFRS £'000
		Employee Benefits IAS 19 £'000	Consolidate subsidiaries IAS 27 £'000	
<b>Revenue</b>	1,438	-	-	1,438

Cost of sales	(1,210)	(2)	-	(1,212)
Gross profit	228	(2)	-	226
Research and development costs	(1,549)	(5)	-	(1,554)
Administrative expenses	(1,282)	-	-	(1,282)
Other operating income - grants receivable	117	-	-	117
Operating loss	(2,486)	(7)	-	(2,493)
Interest receivable and similar income	148	-	-	148
<b>Loss before income tax</b>	<b>(2,338)</b>	<b>(7)</b>	<b>-</b>	<b>(2,345)</b>
Income tax credit	605	-	-	605
<b>Loss for the period attributable to shareholders</b>	<b>(1,733)</b>	<b>(7)</b>	<b>-</b>	<b>(1,740)</b>
Loss per share expressed in pence per share				
Basic and diluted loss per share	(2.3)	-	-	(2.3)

**Appendix D: Reconciliation of the balance sheet as at 31 December 2007**

	UK GAAP previously reported £'000	Effect of transition to IFRS		IFRS £'000
		Employee Benefits IAS 19 £'000	Consolidate subsidiaries IAS 27 £'000	
<b>ASSETS</b>				
<b>Non current assets</b>				
Property, plant and equipment	152	-	-	152
<b>Current assets</b>				
Trade and other receivables	1,099	-	-	1,099
Other short term financial assets	250	-	-	250
Cash and cash equivalents	5,000	-	-	5,000
	6,349	-	-	6,349
<b>Total assets</b>	<b>6,501</b>	<b>-</b>	<b>-</b>	<b>6,501</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	(381)	(12)	5	(388)
<b>Net assets</b>	<b>6,120</b>	<b>(12)</b>	<b>5</b>	<b>6,113</b>

<b>EQUITY</b>				
Share capital	8,625	-	-	8,625
Share premium	4,250	-	-	4,250
Capital redemption reserve	575		-	575
Own shares held by Employee Benefit Trust	(281)	-	-	(281)
Share based payment reserve	236	-	-	236
Retained earnings	(7,285)	(12)	5	(7,292)
<b>Total equity</b>	<b>6,120</b>	<b>(12)</b>	<b>5</b>	<b>6,113</b>

#### **Appendix E: Explanation of material adjustments to the cash flow statement**

Income taxes received of £519,000 in the six months ended 30 June 2007 and in the year to 31 December 2007 are classified as part of operating cash flows under IAS 7 but were previously included in a separate category of Taxation under UK GAAP. Cash and cash equivalents include short term deposits under IFRSs. Under UK GAAP movements in short term deposits were included under a separate management of liquid resources category. There are no other material differences between the cash flow statement presented under IFRSs and the cash flow statement presented under UK GAAP.

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