

Stadium

GROUP PLC



Interim Report 2007

Stadium

GROUP PLC

We are a leading supplier of superior and distinctive Electronic Manufacturing Services to select original equipment manufacturers at a globally competitive cost.

We have manufacturing plants in the UK and China, supported by commercial, design and supply chain infrastructure in the UK and Hong Kong.

We also have sales representation in France, Canada, the US and Australia.

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Chairman's statement

for the six months ended 30 June 2007

I am pleased to report a significant increase in profits and strong cash flows during a period in which underlying trading conditions have been somewhat challenging.

Trading conditions

Consumer markets in the UK and US showed evidence of a slowdown and demand from customers in these sectors, and especially automotive, was muted. Industrial markets held up rather better, especially in areas where demand is primarily driven by regulatory or environmental standards.

There continues to be a steady rate of enquiries for high quality manufacturing services from low cost countries, and China remains a key location in the sourcing strategy of most companies.

Whilst the continued weakness in the US dollar was helpful to importers, including many of our customers, this had a detrimental effect on the translation of revenues and earnings of our Asia operations.

Commodity prices began to settle after a period of turbulence during last year, albeit at a higher level. Similarly, operating costs continued to show signs of modest inflation and markets were generally more receptive to recognising these increases in selling prices.

Financial results and dividend

Revenues increased by 4% to £19.88m (2006: £19.18m), after allowing for adverse currency movements of approximately £1.35m. Gross margin increased by 1.6% to 22.9% (2006: 21.3%).

Operating profits grew by 21% to £1.40m (2006: £1.15m) after allowing for adverse currency movements of approximately £0.14m. Operating margin increased by 1% to 7.0% (2006: 6.0%).

Profit before exceptional property gains and taxation increased by 19% to £1.24m (2006: £1.04m) and earnings per share by 16% to 3.6p (2006: 3.1p).

Operating cash flow was particularly strong at £2.00m (before payment of pension contributions and taxation) compared with £0.57m in the first half of 2006, and £1.94m in the full year.

Net bank borrowings increased by £0.34m to £4.72m reflecting investment in fixed assets and acquisition of £0.92m, and contracts have been exchanged (subject only to searches) for the sale of surplus freehold property for net proceeds of approximately £3.4m for completion in October 2007.

It is proposed to increase the interim dividend by 4% to 1.20 pence per share (2006: 1.15 pence) payable on 5 October 2007.

Electronics

	2007 £m	2006 £m
Sales by source		
Asia	10.0	10.7
UK	3.9	3.0
Total	13.9	13.7
EMS	12.0	12.3
Power	1.9	1.4
Total	13.9	13.7
Operating profit	1.0	0.8
Operating margin	7.5%	6.1%

Electronic Manufacturing Services ("EMS")

Sales sourced from Stadium Asia increased by 6% at constant rates of exchange, although down by more than 6% when translated into Sterling. Widespread reductions in demand from consumer and automotive sectors were more than offset by the introduction of new customers and products launched in 2007.

Sales of UK sourced electronics showed like for like growth (excluding the effect of acquisitions in the current and prior years) of 8%. Demand from customers, primarily in industrial and commercial markets, remained steady during the period.

Operating margin improved to 7.5%, reflecting more favourable pricing and product mix in Asia and improved operating efficiency across the business.

Chairman's statement *continued*

for the six months ended 30 June 2007

Development of our capabilities in Asia has continued, and in May 2007 the plant was registered for the production of medical devices by the US Food and Drug Administration ("FDA"). Investment was also approved by the board to offer enhanced facilities for the in-house production of technical plastic injection mouldings; a valuable addition to our production base in China and a pre-cursor to obtaining certification under ISO13485 (Quality Management System for medical devices) targeted for early 2008.

Stadium Power

Sales of Stadium Power increased by 34% to £1.86m (2006: £1.39m), mainly as a consequence of the acquisition of KRP Power Source in August 2006. The technical, design and sales capability of the business was further enhanced by the acquisition of Ferrus Power in June 2007.

Progress has been made in developing a comprehensive range of standard and semi-standard products for more technically demanding applications in industrial, communications and, more recently, medical markets. Coupled with our custom design capabilities and access to volume production within Stadium Asia, this represents a valuable service to our customers.

KRP has made a significant contribution to the performance of the business in the first half, and the addition of Ferrus Power is expected to provide a similar uplift in future.

Branded Plastics

	2007 £m	2006 £m
Sales		
Babycare	2.5	2.6
Building Products	3.5	2.9
Total	6.0	5.5
Operating profit	0.4	0.5
Operating margin	7.4%	8.6%

Operating profits reduced by 6% to £0.44m (2006: £0.47m) despite a 9% increase in sales to £6.00m (2006: £5.48m).

Whilst sales of baby care products were largely unchanged, Stadium Building Products saw growth of 18% after securing product listings with large retail multiples in addition to its merchant outlets. The increased volume generated a positive contribution, albeit at lower margins than those achievable in more specialised markets.

Balance sheet and cash flow

Cash flow from operations, before pension contributions and taxation, exceeded £2m and represented 143% of operating profit. Net debt increased by £0.34m to £4.72m as a result of fixed assets investment of £0.26m and the acquisition of Ferrus Power in June 2007 for net cash consideration of £0.66m.

Contracts have been exchanged (subject only to searches) for the sale of surplus freehold property, currently let to tenants at Hartlepool, with a net book value of £3.25m. Completion is expected in October 2007 with net proceeds of approximately £3.4m; sufficient to reduce pro-forma net debt to approximately £1.3m and gearing to 16%. This transaction is expected to be neutral to future earnings, with depreciation, operating cost and interest cost savings offsetting the lease rental income forgone. The portion of the freehold site currently occupied by Stadium Group Plc will be retained for own use.

Prospects

Sales growth in the second half of the year will continue to be reliant upon the momentum provided by new business. Customers and products added in the first half are expected to maintain their strong performance, and there are further opportunities in the pipeline.

We continue to invest in new capabilities, and enter higher added value sectors, and are confident that these initiatives will provide opportunities for future growth.

Nick Brayshaw
Chairman

3 September 2007

Consolidated income statement (unaudited)

for the six months ended 30 June 2007

	Note	30 June 2007 £000's	30 June 2006 £000's (Restated note 13)	31 December 2006 £000's (Restated note 13)
Revenue – continuing operations	2	19,875	19,184	38,552
Cost of sales		(15,327)	(15,094)	(30,059)
Gross profit		4,548	4,090	8,493
Other income		219	213	429
Operating expenses		(3,370)	(3,149)	(6,499)
Operating profit – continuing operations	2	1,397	1,154	2,423
Finance costs	3	(155)	(109)	(262)
Profit before sale of property and tax		1,242	1,045	2,161
Profit on sale of property		–	362	340
Profit before tax		1,242	1,407	2,501
Taxation		(237)	(165)	(341)
Profit for the period	2	1,005	1,242	2,160
Basic earnings per share	5	3.6p	4.4p	7.5p
Diluted earnings per share	5	3.6p	4.4p	7.6p
Statement of group total recognised income and expense				
Actuarial loss in pension scheme net of deferred tax		–	–	(298)
Net expense recognised directly in equity		–	–	(298)
Profit for the period		1,005	1,242	2,160
Total recognised income and expense for the period	7	1,005	1,242	1,862

Consolidated balance sheet (unaudited)

at 30 June 2007

	Note	30 June 2007 £000's	30 June 2006 £000's (Restated note 13)	31 December 2006 £000's (Restated note 13)
Assets				
Non-current assets				
Property, plant and equipment		6,704	10,262	10,102
Goodwill		1,524	536	1,020
Deferred tax assets		1,907	2,082	1,907
		10,135	12,880	13,029
Current assets				
Inventories		5,234	6,074	5,872
Trade and other receivables		8,142	7,849	7,571
Cash and cash equivalents		1,007	20	296
		14,383	13,943	13,739
Non-current assets classified as held for sale	10	3,247	–	–
		17,630	13,943	13,739
Total assets		27,765	26,823	26,768
Equity				
Equity share capital	11	1,440	1,439	1,440
Share premium	11	4,233	4,225	4,233
Capital redemption reserve	11	88	88	88
Translation reserve	11	(998)	(438)	(885)
Retained earnings	7,11	3,380	2,722	3,046
Total equity	11	8,143	8,036	7,922
Non-current liabilities				
Long-term borrowings	6	3,815	379	2,713
Deferred tax liabilities		–	26	–
Net pension liability		5,824	6,369	6,356
Total non-current liabilities		9,639	6,774	9,069
Current liabilities				
Bank overdrafts		1,881	3,317	1,434
Current portion of long-term borrowings		32	33	532
Trade payables		4,817	5,603	4,899
Current tax payable		432	372	188
Other payables		2,821	2,688	2,724
Total current liabilities		9,983	12,013	9,777
Total liabilities		19,622	18,787	18,846
Total equity and liabilities		27,765	26,823	26,768

Consolidated cash flow statement (unaudited)

for the six months ended 30 June 2007

	Note	30 June 2007 £000's	30 June 2006 £000's (Restated note 13)	31 December 2006 £000's (Restated note 13)
Net cash flow from operating activities	8	1,434	(263)	461
Investing activities				
Purchase of property, plant and equipment		(265)	(1,375)	(1,683)
Sale of property, plant and equipment		12	726	686
Acquisition of subsidiary net of cash acquired		(666)	–	(569)
Cash flows from investing activities		(919)	(649)	(1,566)
Financing activities				
Equity share capital subscribed		–	49	58
Interest paid		(155)	(109)	(250)
Increase/(decrease) in bank loans		610	(112)	2,703
Dividends paid on ordinary shares	4	(706)	(691)	(1,022)
Cash flows from financing activities		(251)	(863)	1,489
Net increase/(decrease) in cash and cash equivalents		264	(1,775)	384
Cash and cash equivalents at start of period		(1,138)	(1,522)	(1,522)
Cash and cash equivalents at end of period		(874)	(3,297)	(1,138)

Notes

1 Basis of preparation

The annual financial statements of Stadium Group plc for the year ending 31 December 2007 will be prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the EU. Accordingly, the interim financial report has been prepared using accounting policies consistent with those which will be adopted by the Group in the financial statements.

The Group's IFRS accounting policies, set out below, have been consistently applied to all the periods presented. The information has been prepared under the historical cost convention.

The comparative figures for the year ended 31 December 2006 do not constitute statutory accounts for the purposes of s240 of the Companies Act 1985. A copy of the statutory accounts for the year ended 31 December 2006, prepared under UK GAAP, has been delivered to the Registrar of Companies and contained an unqualified auditors' report in accordance with s235 of the Companies Act 1985.

Basis of consolidation

The Group financial information consolidates that of the company and its subsidiaries. Businesses acquired or disposed of during the period are consolidated from the effective date of acquisition or until the effective date of disposal.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation consists of the excess of the fair value of the consideration over the fair value of the Group's interest in the identifiable tangible and intangible assets net of liabilities including contingencies of the business acquired at the date of acquisition.

Goodwill is recognised as an asset at cost less any recognised impairment losses. It is reviewed for impairment at least annually and any impairment is recognised immediately in the Income Statement.

Goodwill arising on acquisitions prior to the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 2005 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of goods and services provided to customers net of returns, discounts, value added tax and other sales taxes. Revenue is recognised when goods are despatched and title has passed to the customer and the collectability of the revenue is reasonably assured.

Property, plant and equipment

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

Depreciation is charged at rates calculated to write down the cost of assets (excluding freehold land) over their estimated useful lives by equal instalments at the following rates:

Freehold buildings	2%
Plant and machinery	10% – 25%
Fixtures and equipment	10% – 25%

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost is determined on a first-in-first-out basis including transport and handling costs and, in the case of manufactured products, includes all direct expenditure and production overheads based on normal levels of activity.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable surpluses from which the future reversal of the underlying timing differences can be deducted.

Pension costs

Defined benefit scheme

Assets and liabilities arising from retirement benefit obligations and the related funding are reflected at fair value in the financial statements, and operating and finance costs are recognised in the financial periods in which they arise. Gains and losses arising from actuarial experience during the accounting period are recognised in the statement of total recognised gains and losses.

Defined contribution schemes

Contributions payable are charged to the Income Statement in the accounting period in which they are incurred.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the prevailing rate on the date of the transaction.

Trading assets and liabilities denominated in foreign currencies are translated into Sterling at the rate prevailing at the period end. Gains and losses arising on the translation of foreign currencies are dealt with as part of operating profit.

The assets and liabilities of foreign subsidiary undertakings are translated into Sterling at the period end exchange rate. The income and expenditure of foreign subsidiary undertakings are translated into Sterling at the average exchange rate prevailing during the period. Exchange differences arising on retranslation of opening assets and liabilities, long term financing denominated in foreign currency and the trading of foreign subsidiary undertakings are taken directly to the translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as Sterling denominated assets and liabilities (see note 13). As permitted by IFRS1, the Group elected to deem cumulative currency translation differences to be £nil as at 31 December 2005.

Financial Instruments

The Group's financial instruments comprise borrowings, some cash and liquid resources and items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to manage the finance of the Group's operations.

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

Trade receivables:

Trade receivables do not carry any interest and are stated at their nominal value less appropriate allowances for estimated irrecoverable amounts.

Bank borrowings:

Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the Income Statement and are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise.

Trade payables:

Trade payables do not carry any interest and are stated at their nominal value.

Equity instruments:

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

It has been, throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group does not consider that it has any obligations or rights under derivative financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below.

Interest rate risk:

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group holds cash and borrowings in various currencies at floating rates of interest.

Liquidity risk:

As regards liquidity, the Group's policy is to maintain undrawn overdraft borrowing facilities in order to provide flexibility in the management of the Group's liquidity.

Foreign currency risk:

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than Sterling, being the Group's functional currency. The Group matches payments and receipts to minimise exposure, and buys the currency when the liability falls due.

2 Segmental analysis
By operation

	June 2007			Consolidated £000's
	Electronics £000's	Branded Plastics £000's	Unallocated & Adjustments £000's	
Revenue – external customers	13,877	5,998	–	19,875
Operating profit	1,040	441	(84)	1,397
Interest payable				(156)
Interest receivable				1
Taxation				(237)
Profit on sale of freehold property				–
Profit for the period				1,005

	June 2006 (Restated)			Consolidated £000's
	Electronics £000's	Branded Plastics £000's	Unallocated & Adjustments £000's	
Revenue – external customers	13,706	5,478	–	19,184
Operating profit	831	472	(149)	1,154
Interest payable				(110)
Interest receivable				1
Taxation				(165)
Profit on sale of freehold property				362
Profit for the period				1,242

Notes *continued*

2 Segmental analysis *continued*

	June 2007			Consolidated £000's
	Electronics £000's	Branded Plastics £000's	Unallocated & Adjustments £000's	
Segment assets	13,862	6,375	7,528	27,765
Segment liabilities	(5,763)	(1,529)	(12,330)	(19,622)
Segment net assets	8,099	4,846	(4,802)	8,143
Expenditure on property, plant and equipment	119	141	5	265
Depreciation and amortisation	257	103	35	395

	June 2006 (Restated)			Consolidated £000's
	Electronics £000's	Branded Plastics £000's	Unallocated & Adjustments £000's	
Segment assets	15,020	6,049	5,754	26,823
Segment liabilities	(6,135)	(1,553)	(11,099)	(18,787)
Segment net assets	8,885	4,496	(5,345)	8,036
Expenditure on property, plant and equipment	1,102	259	14	1,375
Depreciation and amortisation	285	72	87	444

2 Segmental analysis *continued*
By geographic location

	June 2007		
	Revenue – external customers by location of customer £000's	Net assets by location of assets £000's	Capital expenditure by location of assets £000's
UK	13,851	3,882	208
Europe	2,010	–	–
Asia	1,376	4,261	57
Americas	1,430	–	–
Other	1,208	–	–
	19,875	8,143	265

	June 2006 (Restated)		
	Revenue – external customers by location of customer £000's	Net assets by location of assets £000's	Capital expenditure by location of assets £000's
UK	11,683	2,871	302
Europe	1,726	–	–
Asia	2,624	5,165	1,073
Americas	1,776	–	–
Other	1,375	–	–
	19,184	8,036	1,375

Notes *continued*

3 Finance costs comprises:

	Six months 30 June 2007 £000's	Six months 30 June 2006 £000's	Year ended 31 December 2006 £000's
Interest receivable	1	1	2
Interest payable on bank loan and overdrafts	(156)	(100)	(252)
Other finance costs	–	(10)	(12)
	(155)	(109)	(262)

4 Dividends

	Six months 30 June 2007 £000's	Six months 30 June 2006 £000's	Year ended 31 December 2006 £000's
Ordinary dividends:			
Final dividend 2006 of 2.45p (2005: 2.4p)	(706)	(691)	(691)
Interim dividend 2006 of 1.15p	–	–	(331)
	(706)	(691)	(1,022)

An interim dividend of 1.20 pence per share amounting to £346,000 will be paid on 5 October 2007, to shareholders on the register on 14 September 2007.

5 Earnings per share

	Six months ended 30 June			
	2007	2007	2006	2006
	Earnings	EPS	Earnings (Restated note 13)	EPS (Restated)
	£000's	Pence	£000's	Pence
Profit before sale of property	1,005	3.6	880	3.1
Profit on sale of property	-	-	362	1.3
Basic earnings per share	1,005	3.6	1,242	4.4
Share option costs	35	-	35	-
Fully diluted earnings per share	1,040	3.6	1,277	4.4

The calculation of basic earnings per share is based on the profit for the financial period and the weighted average number of ordinary shares in issue (June 2007 : 28,804,698 shares, June 2006: 28,716,273 shares, December 2006: 28,755,369 shares).

Fully diluted earnings per share reflect dilutive options granted resulting in weighted average number of shares of 29,671,473 ordinary shares (June 2006: 29,356,916 shares, December 2006: 29,383,301 shares).

6 Creditors: amounts due after more than one year

	30 June 2007 £000's	30 June 2006 £000's	31 December 2006 £000's
Bank loans (secured)	3,815	379	2,713
	3,815	379	2,713

Notes *continued*

7 Profit and loss account

The movement on profit and loss account for the financial period is as follows:

	Six months 30 June 2007	Six months 30 June 2006 (Restated note 13)	Year ended 31 December 2006 (Restated note 13)
	£000's	£000's	£000's
Balance at beginning of period	3,046	2,136	2,136
Total net gains recognised	1,005	1,242	1,862
Share option costs recognised	35	35	70
Dividends paid (Note 4)	(706)	(691)	(1,022)
Balance at end of period	3,380	2,722	3,046

8 Net cash inflow from operating activities

	30 June 2007	30 June 2006 (Restated note 13)	31 December 2006 (Restated note 13)
	£000's	£000's	£000's
Operating profit	1,397	1,154	2,423
Share option costs	35	35	70
Depreciation	395	444	864
Loss on sale of plant and equipment	3	–	–
Decrease/(increase) in stocks	803	(131)	169
(Increase)/decrease in debtors	(365)	(1,225)	(715)
(Decrease)/increase in creditors	(265)	291	(872)
Net cash inflow from trading activities	2,003	568	1,939
Difference between pension charge and cash contributions	(533)	(570)	(1,092)
Tax paid	(36)	(261)	(386)
Net cash inflow/(outflow) from operating activities	1,434	(263)	461

9 Analysis of changes in net debt

	31 Dec 2006 £000's	Cashflow £000's	Exchange £000's	30 June 2007 £000's
Cash	296	711	–	1,007
Overdrafts	(1,434)	(447)	–	(1,881)
Loans due within one year	(532)	500	–	(32)
Loans due after one year	(2,713)	(1,110)	8	(3,815)
Net debt	(4,383)	(346)	8	(4,721)

10 Non-current assets classified as held for sale

The company has marketed property which is currently let to third party tenants on commercial terms. The property comprises factory, warehouse and office space located adjacent to the Electronics division's Hartlepool facility. The property has a carrying value of £3.25 million, which is reported as unallocated in the segment analysis. The sale is expected to be completed with net proceeds of approximately £3.4 million during the current financial year.

11 Shareholders funds

	Share capital £000's	Share premium £000's	Capital redemption reserve £000's	Translation reserve £000's	P&L account £000's	Total £000's
At 31 December 2005 as previously reported	1,432	4,184	88	–	2,136	7,840
Shares issued to satisfy options exercised	7	41	–	–	–	48
Reclassification of exchange differences on overseas subsidiary	–	–	–	(438)	438	–
Retained profit to 30 June 2006 (under IFRS)	–	–	–	–	148	148
At 30 June 2006 (under IFRS – unaudited)	1,439	4,225	88	(438)	2,722	8,036
Shares issued to satisfy options exercised	1	8	–	–	–	9
Reclassification of exchange differences on overseas subsidiary	–	–	–	(447)	447	–
Retained profit to 31 December 2006 (under IFRS)	–	–	–	–	(123)	(123)
At 31 December 2006 (under IFRS – unaudited)	1,440	4,233	88	(885)	3,046	7,922
Exchange differences on overseas subsidiary	–	–	–	(113)	–	(113)
Retained profit to 30 June 2007 (under IFRS)	–	–	–	–	334	334
At 30 June 2007 (under IFRS – unaudited)	1,440	4,233	88	(998)	3,380	8,143

12 Acquisition of Ferrus Power Limited (“Ferrus”)

On 15 June 2007 the Company acquired 100% of the issued share capital of Ferrus, a company registered in England and Wales that designs and manufactures custom power supplies, for cash consideration.

The assets of Ferrus at the date of acquisition were as follows:

	Book value £000's	Fair value adjustment £000's	Fair value £000's
Plant, property and equipment	43	–	43
Inventories	165	–	165
Receivables	206	–	206
Payables (due in < 1 year)	(150)	(101)	(251)
Net trading assets	264	(101)	163
Consideration – paid and payable		(920)	
– acquisition costs		(21)	
– total cash outflow		(941)	
– cash balance acquired		275	(666)
Goodwill arising on acquisition			503

13 Explanation of transition to IFRS

The Group did not identify a need to restate profit or equity for periods preceding 1 January 2006 as a result of adopting IFRS. Consequently, the Group has not presented a reconciliation of equity at 1 January 2006.

Reconciliation of equity at 30 June 2006

	Note	UK GAAP £000's	Effect of transition to IFRS £000's	IFRS £000's
Assets				
Non-current assets				
Property, plant and equipment		10,262	–	10,262
Goodwill	a	470	66	536
Deferred tax assets	b	–	2,082	2,082
		10,732	2,148	12,880
Current assets				
Inventories		6,074	–	6,074
Trade and other receivables		7,849	–	7,849
Cash and cash equivalents		20	–	20
		13,943	–	13,943
Non-current assets classified as held for sale		–	–	–
		13,943	–	13,943
Total assets		24,675	2,148	26,823
Equity				
Equity share capital		1,439	–	1,439
Share premium		4,225	–	4,225
Capital redemption reserve		88	–	88
Translation reserve	c	–	(438)	(438)
Retained earnings	a,c	2,218	504	2,722
Total equity		7,970	66	8,036
Non-current liabilities				
Long-term borrowings		379	–	379
Deferred tax liabilities		26	–	26
Net pension liability	b	4,287	2,082	6,369
Total non-current liabilities		4,692	2,082	6,774
Current liabilities				
Bank overdrafts		3,317	–	3,317
Current portion of long-term borrowings		33	–	33
Trade payables		5,603	–	5,603
Current tax payable		372	–	372
Other payables		2,688	–	2,688
Total current liabilities		12,013	–	12,013
Total liabilities		16,705	2,082	18,787
Total equity and liabilities		24,675	2,148	26,823

13 Explanation of transition to IFRS *continued*
Reconciliation of profit at 30 June 2006

	Note	UK GAAP £000's	Effect of transition to IFRS £000's	IFRS £000's
Revenue		19,184	–	19,184
Cost of sales		(15,094)	–	(15,094)
Gross profit		4,090	–	4,090
Other income		213	–	213
Operating expenses	a	(3,215)	66	(3,149)
Operating profit		1,088	66	1,154
Profit on sale of property		362	–	362
Finance costs		(109)	–	(109)
Profit before tax		1,341	66	1,407
Taxation		(165)	–	(165)
Profit for the period		1,176	66	1,242

- a IAS 38 'Intangible Assets' requires goodwill to have an indefinite useful life. The goodwill was frozen on the date of transition to IFRS (1 January 2006), therefore the charge of £66,000 for the six months to 30 June 2006 is no longer recognised under IFRS.
- b Under UK GAAP the defined benefit pension scheme liability was reflected in the financial statements net of deferred taxation. On transition to IFRS this has been shown in the accounts as a deferred tax asset.
- c The translation reserve historically under UK GAAP has been included in retained earnings, but is required to be disclosed separately under IFRS.

13 Explanation of transition to IFRS *continued*
Reconciliation of equity at 31 December 2006

	Note	UK GAAP £000's	Effect of transition to IFRS £000's	IFRS £000's
Assets				
Non-current assets				
Property, plant and equipment		10,102	–	10,102
Goodwill	a	872	148	1,020
Deferred tax assets	b	–	1,907	1,907
		10,974	2,055	13,029
Current assets				
Inventories		5,872	–	5,872
Trade and other receivables		7,571	–	7,571
Cash and cash equivalents		296	–	296
		13,739	–	13,739
Non-current assets classified as held for sale		–	–	–
		13,739	–	13,739
		24,713	2,055	26,768
Total assets				
Equity				
Equity share capital		1,440	–	1,440
Share premium		4,233	–	4,233
Capital redemption reserve		88	–	88
Translation reserve	c	–	(885)	(885)
Retained earnings	a,c	2,013	1,033	3,046
		7,774	148	7,922
Non-current liabilities				
Long-term borrowings		2,713	–	2,713
Deferred tax liabilities		–	–	–
Net pension liability	b	4,449	1,907	6,356
		7,162	1,907	9,069
Current liabilities				
Bank overdrafts		1,434	–	1,434
Current portion of long-term borrowings		532	–	532
Trade payables		4,899	–	4,899
Current tax payable		188	–	188
Other payables		2,724	–	2,724
		9,777	–	9,777
		16,939	1,907	18,846
		24,713	2,055	26,768

13 Explanation of transition to IFRS *continued*
Reconciliation of profit at 31 December 2006

	Note	UK GAAP £000's	Effect of transition to IFRS £000's	IFRS £000's
Revenue		38,552	–	38,552
Cost of sales		(30,059)	–	(30,059)
Gross profit		8,493	–	8,493
Other income		429	–	429
Operating expenses	a	(6,647)	148	(6,499)
Operating profit		2,275	148	2,423
Profit on sale of property		340	–	340
Finance costs		(262)	–	(262)
Profit before tax		2,353	148	2,501
Taxation		(341)	–	(341)
Profit for the period		2,012	148	2,160

- a IAS 38 'Intangible Assets' requires goodwill to have an indefinite useful life. The goodwill was frozen on the date of transition to IFRS (1 January 2006), therefore the charge of £148,000 for the year to 31 December 2006 is no longer recognised under IFRS.
- b Under UK GAAP the defined benefit pension scheme liability was reflected in the financial statements net of deferred taxation. On transition to IFRS this has been shown in the accounts as a deferred tax asset.
- c The translation reserve historically under UK GAAP has been included in retained earnings, but is required to be disclosed separately under IFRS.



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