Northern Bear plc

Restatement of financial information under International Financial Reporting Standards

Introduction

Northern Bear plc and its subsidiaries (the "Group") have historically prepared its consolidated financial statements under UK Generally Accepted Accounting Practice ("UK GAAP"). The AIM rules require the adoption of Adopted IFRSs as adopted by the EU ("adopted IFRS") [1] for periods commencing on or after 1 April 2007.

Adopted IFRS therefore will apply for the first time in the Group's financial statements for the year ending 31 March 2008. Accordingly the financial results for the 6 months ended 30 September 2007 have been prepared and reported under adopted IFRSs and the comparative financial information restated accordingly. As the Group published its first Annual Report to 31 March 2007 the date of transition to adopted IFRSs is the date of incorporation.

To explain how the Group's reported performance and financial position are affected by this change, information previously published under UK GAAP is restated under adopted IFRSs in the attached appendices as follows:

- Appendix 1 - IFRS accounting policies;
- Appendix 2 - Financial information on an adopted IFRS basis for the period from incorporation to 31 March 2007;
- Appendix 3 - Reconciliations from UK GAAP to adopted IFRSs of the consolidated income statement, consolidated balance sheet and consolidated cash flow statement for the period from incorporation to 31 March 2007 with explanations of the adjustments made;

This unaudited financial information has been prepared on the basis of adopted IFRSs expected to be applicable at 31 March 2008. These are subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the IASB and are therefore still subject to change. We will update our restated information for any such changes when they occur.

The adoption of IFRS has an impact on the presentation of the Group's accounts but does not change the underlying business performance. There are no changes to the business model, strategy, risk management processes or cash flows.

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[1] References to IFRS throughout this document refer to the application of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), including International Financial Reporting Standards ("IFRSs") International Accounting Standards ("IASs") and interpretations issued by the International Accounting Standard Board ("IASB") and its committees.

Overview of impact

For the period ended 31 March 2007 the net increase in total recognised income and expense attributable to equity holders of the company as a result of the conversion to adopted IFRS was £148,000. The details of these adjustments are given in Appendix 3.

Based on the accounting policies detailed in Appendix 1, the effect on key reported results is as follows:

	Period from incorporation to 31 March 2007	
	IFRS	UK GAAP
Operating profit (£000)	253	105
Profit/(loss) after tax (£000)	18	(130)
Net assets (£000)	9,616	9,468
Basic EPS (pence)	0.5p	(3.9p)

The area where IFRS has impacted on the results was goodwill arising from acquisitions which is no longer amortised, increasing reported profits and net assets.

Full details of the adjustments required are given in Appendix 3.

All of the other key operational areas of the Group's activities will remain unaffected by the adoption of IFRS, in particular:

Cash flow The adoption of IFRS will not affect the cash flows of the business

IFRS Accounting Policies

This section provides a summary of the Group's new accounting policies under adopted IFRSs for the year ended 31 March 2008. Where policies have changed under adopted IFRSs as compared to UK GAAP this is indicated by *.

(a) Basis of preparation

The financial information set out on pages 10 to 21 does not constitute the company's statutory accounts for the period ended 31 March 2007. Those accounts, which were prepared under UK GAAP, have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The financial information is presented in pounds sterling, rounded to the nearest thousand, and is prepared on the historical cost basis.

This financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 March 2007 or available for early adoption at 31 March 2008, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied which are as set out below when the first annual IFRS financial statements are prepared for the year ending 31 March 2008.

In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 March 2008 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 March 2008.

The accounting polices set out below have been applied consistently throughout the Group to all periods presented in this financial information.

The preparation of financial information in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting policies are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

(b) Basis of consolidation

Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial information from the date control commences until the date that control ceases.

Intracompany balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated when preparing the consolidated financial information.

(c) Intangible assets and goodwill*

In order for a business combination to exist, the purchased group of assets must constitute a business (an integrated set of activities and assets conducted and managed to lower costs) and will generally consist of inputs, processes and outputs.

Business combinations are accounted for using the acquisition method of accounting. The acquired identifiable tangible and intangible assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(d) Research

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

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight line basis over the estimated useful economic lives of each part of an item of property, plant and equipment. The depreciation rates are as follows:

Freehold buildings	2% straight line
Plant and machinery	15% diminishing balance
Motor vehicles	25% diminishing balance
Furniture, fittings and equipment	15-33% diminishing balance
Leasehold improvements	life of lease straight line

The residual value, and useful economic life, is reassessed annually. Land is not depreciated.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the first-in first out principle and includes expenditure incurred in acquiring the inventories, production and conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

(h) Cash and cash equivalents

'Cash and cash equivalents' comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Impairment*

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For goodwill which has an indefinite life the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of other assets within the unit on a pro-rata basis.

(j) Employee benefits

Defined contribution pension plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as service is provided.

Share-based payment transactions
The share option programme allows Group employees to acquire shares of the Company. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate model taking into account the terms and conditions upon which the share options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market conditions.

(k) Revenue

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

(l) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to the value of work performed. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(m) Expenses

(i) Operating lease payments

Payments under operating leases are recognised in the income and expenditure account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Finance income

Finance income comprises interest receivable on funds invested. Interest income is recognised in the income statement as it accrues using the effective interest method.

(iv) Finance expenses

Finance expenses comprise interest payable on borrowings.

(n) Income tax

Income tax on the profit or loss for the period comprises both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits nor differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse; based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that a related tax benefit will be realised.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Consolidated income statement

	Period from incorporation to 31 March 2007 Unaudited £000
Continuing operations	
Revenue	4,751
Cost of sales	(3,459)
Gross profit	1,292
Other operating income	9
Administrative expenses	(1,048)
Results from operating activities	253
Finance income	14
Finance expenses	(184)
Profit before income tax	83
Income tax	(65)
Loss for the period attributable to equity holders of the parent	18
Basic earnings per share	0.5p
Diluted earnings per share	0.5p

Appendix 2

Consolidated statement of changes in equity
period from incorporation to 31 March 2007

	Period from incorporation to 31 March 2007 Unaudited £000
Profit for the period	18
Shares issued	9,570
Share based payments	28
Net increase in total equity	9,616
Total equity at start of period	-
Total equity at end of period	9,616

Consolidated balance sheet

	31 March 2007 Unaudited £000
Assets	
Property, plant and equipment	1,718
Intangible assets – goodwill	12,414
Other investments	11
Total non-current assets	14,143
Inventories	197
Trade and other receivables	3,990
Prepayments	185
Cash and cash equivalents	494
Total current assets	4,866
Total assets	19,009
Equity	
Share capital	120
Share premium	1,479
Merger reserve	7,971
Retained earnings	46
Total equity attributable to equity holders of the parent	9,616
Liabilities	
Loans and borrowings	3,090
Deferred income	50
Deferred tax liabilities	52
Total non-current liabilities	3,192
Bank overdraft	1,096
Loans and borrowings	677
Trade and other payables	2,885
Current tax payable	952
Deferred income	591
Total current liabilities	6,201
Total liabilities	9,393
Total equity and liabilities	19,009

Consolidated statement of cash flows

	Period from incorporation to 31 March 2007 Unaudited £000
Cash flows from operating activities	
Profit for the period	18
Adjustments for:	
Depreciation	49
Finance income	(14)
Finance expense	184
Loss on sale of property, plant and equipment	5
Equity settled share-based payment transactions	28
Income tax expense	65
	335
Change in inventories	(44)
Change in trade and other receivables	(281)
Change in prepayments	(6)
Change in trade and other payables	181
	185
Interest received	14
Interest paid	(131)
Net cash inflow from operating activities	68
Cash flows from investing activities	
Proceeds from sale of property, plant and equipment	2
Acquisition of subsidiary, net of cash acquired	(95)
Acquisition of property, plant and equipment	(31)
Net cash outflow from investing activities	(124)
Cash flows from financing activities	
Proceeds from issue of share capital	2,425
Payment of transaction costs	(919)
Proceeds from new borrowings	2,350
Repayment of borrowings	(4,344)
Payment of finance lease liabilities	(58)
Net cash outflow from financing activities	(546)
Net decrease in cash and cash equivalents	(602)
Cash and cash equivalents at the start of the period	-
Cash and cash equivalents at the end of the period	(602)

Reconciliation of consolidated income statement - unaudited

for the period from incorporation to 31 March 2007

	UK GAAP	IFRS adjustments Goodwill amortisation (a)	Adopted IFRS
	£000	£000	£000
Continuing operations			
Revenue	4,751	-	4,751
Cost of sales	(3,459)	-	(3,459)
Gross profit	1,292	-	1,292
Other operating income	9	-	9
Administrative expenses	(1,196)	148	(1,048)
Results from operating activities	105	148	253
Finance income	14	-	14
Finance expenses	(184)	-	(184)
(Loss)/profit before income tax	(65)	148	83
Income tax expense	(65)	-	(65)
(Loss)/profit for the period	(130)	148	18

Explanation of the IFRS adjustments to the consolidated income statement for the year ended 31 December 2006 and 6 months ended 30 June 2006

(a) IFRS 3 – Business combinations

Under UK GAAP, the Group amortised the cost of goodwill arising on the acquisition of subsidiaries acquired over its useful life. Under IFRS 3, goodwill on acquisition is no longer amortised, but is held at its carrying value at the acquisition date and is then subject to impairment review at each reporting date.

The Group has restated the value of goodwill in its balance sheet to that at the acquisition date and has carried out an impairment review as at 31 March 2007. The impact has been to increase reported profit by £148,000 in the period from incorporation to 31 March 2007, which relates to the reversal of goodwill amortisation.

Reconciliation of consolidated balance sheet - unaudited

as at 31 March 2007

	UK GAAP	IFRS adjustment Goodwill amortisation (a)	IFRS
	£000	£000	£000
Assets			
Property, plant and equipment	1,718	-	1,718
Intangible assets	12,266	148	12,414
Other investments	11	-	11
Total non-current assets	13,995	148	14,143
Inventories	197	-	197
Trade and other receivables	3,990	-	3,990
Prepayments	185	-	185
Cash and cash equivalents	494	-	494
Total current assets	4,866	-	4,866
Total assets	18,861	148	19,009
Equity			
Share capital	120	-	120
Share premium	1,479	-	1,479
Merger reserve	7,971	-	7,971
Retained earnings	(102)	148	46
Total equity attributable to equity holders of the parent	9,468	148	9,616
Liabilities			
Loans and borrowings	3,090	-	3,090
Deferred income	50	-	50
Deferred tax liabilities	52	-	52
Total non-current liabilities	3,192	-	3,192
Bank overdraft	1,096	-	1,096
Loans and borrowings	677	-	677
Trade and other payables	2,885	-	2,885
Current tax payable	952	-	952
Deferred consideration	591	-	591
Total current liabilities	6,201	-	6,201
Total liabilities	9,393	-	9,393
Total liabilities and equity	18,861	148	19,009

Group cash flow statement

for the period from incorporation to 31 March 2007

The Group prepares the cash flow statement for both UK GAAP and IFRS using the indirect method. Consequently, adjustments made to working capital items in the balance sheet on conversion to IFRS lead to an adjustment in the IFRS cash flow statement. There are no significant changes between cash flows from operating activities, investing activities, and financing activities. No adjustments have been made to cash and cash equivalents, and no other adjustments have been made to the cash flow statement on conversion other than reclassifications.