



**DRS Data & Research Services plc**

# interim financial statements 2005

– first time adoption of IFRS



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# chairman's statement

## results

Results for the first half of 2005 reflect the strength of the Company's main markets but are down on the same period in 2004 for two reasons. Firstly, 2004 results were dominated by the London Mayor, Assembly and European Parliamentary election project. This single project contributed approximately £4,000,000 of turnover in 2004 which is consequently down by a similar amount this year. Secondly, investment in e-Marker® products and services is continuing as planned and this has resulted in a trading loss for the first half of 2005 as predicted in the 2004 end of year report.

Although DRS contributed to the printing of some ballot papers for the General Election earlier in the year, the use of electronic counting or voting was not permitted in this election. Therefore no significant election work has occurred for 2005.

The development of e-Marker® has progressed according to plan and is a very significant long-term investment. Since establishing the rights to supply and sell e-Marker® with our High Court action in 2002/03, we have worked closely with a number of awarding bodies to introduce our new technology into the examination system. Although still requiring substantial investment in the short-term, the Board remains confident that this collaboration will produce excellent long-term benefits to DRS.

## financial summary

Turnover for the first half of 2005 was £6,325,000 compared with £9,728,000 for the first half of 2004. The decrease in turnover is wholly attributable to the London Mayor, Assembly and European Parliamentary election project which added approximately £4,000,000 to the first half of 2004. This is reflected in the fall of scanning equipment and print sales within the Segmental Analysis, which is reported for the first time within the Notes to the Accounts. This segmental information also shows that the Company has experienced price competition in international scanner and print sales. Loss before tax for the 28 weeks ending 15 July 2005 was £277,000 compared with a profit of £1,126,000 for the same period in 2004.

## dividend

The Board's policy of paying dividends remains unchanged. However, having suffered a trading loss in the first half of the year, the Board believes it would be prudent to know the full year results before proposing a dividend in the current year. Therefore the Board does not recommend payment of an interim dividend (2004: 0.5p per share), but will review the total payout at the year end.

## trading highlights

The Board is very pleased that the high level of investment in developing e-Marker® is now starting to be recognised as work has now progressed from trials in previous years to substantial quantities of live marking in 2005. Three major awarding bodies in England, Wales and Ireland (AQA, WJEC and CCEA) have used various types of DRS e-Marker® to assist in the marking of over 3,000,000 examination scripts. The number of examiners using the system has risen from less than one hundred last year to nearly five thousand this summer.

Early in the year, DRS completed a contract for pre-test work on the forthcoming Nigerian Census for the supply of forms, scanners, software and services. Significantly this was the first census work by DRS to use a combination of image capture and ICR (Intelligent Character Recognition) and it is expected that the successful integration of these technologies to the Company's established census offerings will attract greater business in the future.

## chairman's statement continued

Election projects have featured in 2005 although not on the scale of last year. The Argyll and Bute Community Council elections which took place in April were successfully e-Counted in record time. This was the first Scottish Council to use electronic counting and the results were delivered within 1½ hours, a process that would have taken 7-8 hours if counted manually. With 19 contested elections involving 109 candidates standing for 75 Community Council seats, and taking into account the breadth of this sparsely populated council area, the process of printing, dispatching and counting 19 different types of multi-seat ballot papers was going to be a complex task. Argyll and Bute Council decided that the only efficient and effective way to overcome the large distances and isolation was to have an all postal, electronically counted election.

DRS also printed over 800,000 ballot papers for the General Election in May. The five London Boroughs who chose DRS to supply their ballot papers received them ahead of schedule and the entire project was very successful.

Supply of the PhotoScribe® PS900 scanners has continued with sales to five countries including our first sale in Rwanda. DRS also won a United Nations project for voter registration in Liberia, which involved the printing of over 3,000,000 forms and the supply of PS900 scanners.

### our people

As always, the people in DRS are its major asset. The planned change within the Company to develop and support new products and services has required additional skills achieved by training existing staff or recruiting new staff as required. The process is working extremely well and the enhanced team is rising to the challenge.

The Company is becoming increasingly involved in larger projects. This has required the introduction of formal project management methodology, centred on 'Prince 2', and the training and recruitment of project managers to work to this formal standard. This formal project management culture has now become a key part of DRS and plays a significant part in both winning and implementing major projects. The sales team has also been expanded this year with key posts being created for International and UK markets.

I am pleased to announce that with effect from the 12 September 2005 Chris Batterham FCA has been appointed to the Board of DRS as a non-Executive Director. Chris joins us with a wealth of experience, having held several board posts including Finance Director of Unipalm, the first internet company to float anywhere in the world and the best-performing share on the London Stock Exchange in 1995. Since then he has held non-Executive Directorships in a number of high technology companies, including Staffware plc, SDL plc and the Invesco TechMark Enterprise Trust. Chris' appointment to the Board as an independent Director enables DRS to comply with the requirements of good corporate governance for a company of this size.



## prospects

After winning the pre-test for the Nigerian Census we were pleased to announce in July that we had also won a European Development Fund contract for printing the forms for the main census due to take place at the end of 2005. The contract will require the printing and shipment of over 30 million A3 forms and will be the single biggest print job that DRS will have undertaken, worth more than £1,800,000.

Building on the success of PhotoScribe® scanners in our traditional International markets, we have new prospects in North America where negotiations are under way for the supply of scanners into two specialist markets.

Development of services to LEAs continues and we expect to print and process well over 100,000 applications for school admissions later in the year for this sector.

Having successfully completed major e-Marker® projects for the summer series of GCSEs, the prospects for future expansion are very encouraging. Our main partner AQA announced its intention to increase the volume of examinations processed by e-Marker® from 30% this year to 100% in 2007. We are already supplying e-Marker® to other awarding bodies and we believe that it is technologically more advanced compared with the competition. Following the success of our summer series of examinations, with favourable comments from the media, many professional bodies are interested in the benefits of e-Marker® and we are confident that this market will continue to grow. However, the Company will be required to maintain its current level of development expenditure throughout the second half of this year and into 2006 to support this growth.

## outlook

The exact date for the Nigerian Census is uncertain and so a substantial proportion of the expected print revenue may move from 2005 to 2006. Should this occur, it is unlikely that this anticipated 2005 revenue will be replaced with alternative business before the end of the year, delaying trading recovery until 2006.

The anticipated acceptance of e-Marker® in the main examinations market of the UK has come to fruition and looks extremely promising for the future. Whilst as a Company we remain susceptible to the timing of large one-off contracts we believe that the expected future success of e-Marker® will eventually result in greater levels of recurring contracted revenues thereby smoothing the effect on our results of one-off contracts.

## interim income statement

	<b>28 weeks ended 15 July 2005 £000</b>	<b>28 weeks ended 16 July 2004 £000</b>
Sales	6,325	9,728
Cost of sales	(4,163)	(6,400)
<b>Gross profit</b>	<b>2,162</b>	<b>3,328</b>
Other operating income	93	103
Selling and marketing costs	(720)	(561)
Administrative expenses	(1,797)	(1,727)
Finance costs – net	(15)	(17)
<b>(Loss)/profit before income tax</b>	<b>(277)</b>	<b>1,126</b>
Tax credit/(charge)	58	(312)
<b>(Loss)/profit for the period</b>	<b>(219)</b>	<b>814</b>

**(Loss)/earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share)**

Basic	6	(0.68p)	2.40p
Diluted	6	(0.68p)	2.36p



	At 15 July 2005 £000	At 16 July 2004 £000	At 16 December 2004 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4,364	4,552	4,333
Intangible assets	608	39	27
Deferred income tax assets	2	–	–
	4,974	4,591	4,360
<b>Current assets</b>			
Inventories	1,558	2,149	1,751
Trade and other receivables	2,904	4,873	1,978
Other financial assets at fair value through profit or loss	1,665	2,636	3,419
Cash and cash equivalents	1,175	–	1,478
	7,302	9,658	8,626
<b>Total assets</b>	12,276	14,249	12,986
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	1,731	1,731	1,731
Share premium account	5,377	5,377	5,377
Capital redemption reserve	115	115	115
Treasury Shares	(1,166)	(1,160)	(1,166)
Own shares reserve	(122)	(122)	(122)
Profit and loss account	2,177	3,207	2,692
<b>Total equity</b>	8,112	9,148	8,627
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	1,000	1,000	1,000
Deferred income tax liabilities	–	32	38
	1,000	1,032	1,038
<b>Current liabilities</b>			
Trade and other payables	3,116	3,099	3,255
Current income tax liabilities	48	895	66
Borrowings	–	75	–
	3,164	4,069	3,321
<b>Total liabilities</b>	4,164	5,101	4,359
<b>Total equity and liabilities</b>	12,276	14,249	12,986

## interim statement of changes in shareholders' equity

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury Shares £000	Own shares reserve £000	Profit and Loss account £000	Total £000
At 1 January 2004	1,731	5,377	115	–	(122)	2,716	9,817
Purchase of Treasury Shares	–	–	–	(1,160)	–	–	(1,160)
Profit for the period	–	–	–	–	–	814	814
Employee Share-Based compensation	–	–	–	–	–	18	18
Dividend	–	–	–	–	–	(341)	(341)
At 16 July 2004	1,731	5,377	115	(1,160)	(122)	3,207	9,148
Purchase of Treasury Shares	–	–	–	(6)	–	–	(6)
Loss for the period	–	–	–	–	–	(379)	(379)
Employee Share-Based compensation	–	–	–	–	–	24	24
Dividend	–	–	–	–	–	(160)	(160)
At 31 December 2004	1,731	5,377	115	(1,166)	(122)	2,692	8,627
Loss for the period	–	–	–	–	–	(219)	(219)
Employee Share-Based compensation	–	–	–	–	–	25	25
Dividend	–	–	–	–	–	(321)	(321)
At 15 July 2005	1,731	5,377	115	(1,166)	(122)	2,177	8,112

# interim cash flow statement



	<b>28 weeks ended 15 July 2005 £000</b>	<b>28 weeks ended 16 July 2004 £000</b>
<b>Cash flows from operating activities</b>		
Cash generated from operations	(752)	(3,108)
Interest paid	(31)	(28)
Income tax paid	–	(105)
Net cash used in operating activities	(783)	(3,241)
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment (PPE)	(429)	(194)
Proceeds from sale of PPE	15	15
Purchase of intangible assets	(647)	–
Purchases of available-for-sale financial assets	(21)	(78)
Proceeds from sale of available-for-sale financial assets	1,781	3,725
Interest received	102	142
Net cash generated from investing activities	801	3,610
<b>Cash flows from financing activities</b>		
Purchase of Treasury Shares	–	(1,166)
Dividends paid to Company's shareholders	(321)	(341)
Net cash (used in)/generated from financial activities	(321)	(1,507)
<b>Net decrease in cash and cash equivalents</b>	<b>(303)</b>	<b>(1,138)</b>
Cash and cash equivalents at beginning of period	1,478	1,063
<b>Cash and cash equivalents at end of period</b>	<b>1,175</b>	<b>(75)</b>

## 1.0 introduction

DRS has adopted International Financial Reporting Standards (IFRS) with effect from 1 January 2005. Our transition date was 1 January 2004 as this is the start date of the earliest period for which we will present full comparative information under IFRS in our 2005 Annual Report and Accounts.

The financial information represents our current best estimates and may be affected by business or other changes or changes to IFRS or the interpretation thereof. As such, it should be treated with appropriate caution. The information is based on IFRS expected to be effective at 31 December 2005.

This document presents the unaudited Income Statement and cash flow statement for the 28 weeks ended 16 July 2004 and 28 weeks ended 15 July 2005, and Balance Sheets as at 16 July 2004, 31 December 2004 and 15 July 2005. A statement of the changes in equity is provided for the periods from 1 January 2004 to 15 July 2005.

## 2.0 summary of significant accounting policies

### 2.1 basis of preparation

These 2005 interim financial statements are for the 28 weeks ended 16 July 2005. They have been prepared in accordance with IAS 34 Interim Financial Reporting, and are covered by IFRS 1 First time adoption of IFRS, as they are part of the financial statements for the year ending 31 December 2005.

DRS' financial statements were prepared in accordance with United Kingdom's Generally Accepted Accounting Practice (GAAP) until 31 December 2004. GAAP differs in some areas from IFRS; IFRS 1 mandates that most IFRS are to be applied fully retrospectively. This means that the transition Balance Sheet as at 1 January 2004 needs to be restated assuming that the IFRS accounting policies had always been applied. The comparative figures in respect of 2004 were restated to reflect these adjustments, except as described in the accounting policies.

Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the Company's equity and its net income and cash flows are provided in Note 4. The transition from GAAP to IFRS has no effect upon the cash flows generated by the Company. The IFRS cash flow statement is presented in a different format to that previously reported under GAAP with cash flows split into three categories – operating activities, investing activities and financing activities. The reconciling items between the two reporting formats have no net impact on cash flows generated.

### 2.2 segment reporting

Segmental data in this statement is analysed across the core functions of data handling (being scanning machines, print, software and bureau services). The analysis reflects the work undertaken by the direct cost centres within the Company. The cost of resources managed by indirect cost centres have been apportioned to the core functions by the most appropriate methods that can be consistently applied. Many of these support services are shared.

### 2.3 foreign currency translation

The Company tries to deal in Sterling wherever possible in order to avoid the risk of foreign currency exchange rate movements.

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of period-end monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

### 2.4 property, plant and equipment

Land and buildings relate to the Company's Head Office at Linford Wood, Milton Keynes. All property, plant and equipment are shown at cost less depreciation, except for land which is shown at cost. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on a straight-line basis to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Freehold buildings	50 years
Computer equipment	3 years
Fixtures and fittings	5 years
Plant and machinery	3 – 10 years
Rental machines	3 years

Property, plant and equipment are subject to review for impairment where indications of impairment exist. Any impairment is charged to the Income Statement as it arises.

## 2.5 intangible assets

### (a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised over their estimated useful lives of three years.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software that has been capitalised is amortised on a straight-line basis over three years from the date it is put to operational use.

### (b) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of their use on a straight-line basis over the period of its expected benefit, not exceeding three years.

## 2.6 investments – financial assets at fair value through profit or loss

The Company uses financial instruments comprising fixed interest corporate bonds and fixed interest funds which it has classified as financial assets at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the Balance Sheet date. Realised and unrealised gains and losses arising from changes in fair value are included in the Income Statement. The fair values of quoted investments are based on current bid prices.

## 2.7 inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and, where appropriate, a proportion of attributable production overheads. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

## 2.8 trade and other receivables

Trade and other receivables are stated at their nominal amount after deducting provision for doubtful debts.

## 2.9 cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, term deposits and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

## 2.10 share capital

Comprises ordinary shares with a nominal value of 5p each.

Where the Company purchases Treasury Shares, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, re-issued or disposed of. Where such shares are subsequently sold or re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

## 2.11 borrowings

The Company's only borrowing is a secured loan taken out in June 2001 to purchase the freehold land and buildings. The loan is shown at fair value at point of recognition, net of transactions costs incurred, thereafter at amortised cost using the effective interest rate method. Interest thereon is charged to the Income Statement as it accrues.

## 2.12 accounting for income taxes

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the Balance Sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the Income Statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. 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 for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, 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.

Most changes in deferred tax assets or liabilities are recognised as a component of the tax expense in the Income Statement. Only changes in deferred tax assets or liabilities that relate to a change in the value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

## 2.13 employee benefits

### (a) Pension obligations

The Company operates defined contribution pension schemes under which the Company pays fixed contributions into separate entities. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions to the pension scheme are charged to the Income Statement as they accrue, thereby matching the cost of the Company's pension obligations to the period of employment to which they relate.

### (b) Bonus plans and profit sharing

The Company recognises a liability and expense for bonuses and profit sharing. Managers may be entitled to a bonus based on a formula that takes into consideration turnover, EPS, residual income in relation to employees' responsibilities and an assessment of the individual's performance which includes non financial criteria.

Employees who do not participate in the bonus scheme are entitled to participate in a profit sharing scheme based on the Company's operating profit. The cost of providing these schemes is accrued against profits in the period in which the bonus is earned.

### **(c) Share-based employee remuneration**

All share-based payment arrangements granted after 7 November 2002 are recognised in the financial statements. The company operates equity-settled share-based remuneration plans for remuneration of certain employees.

All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options or shares awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the Income Statement with a corresponding credit to shareholders' funds. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options or shares expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options fulfilled by the issue of new shares, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium. Options or share grants fulfilled from shares held by employee share trusts are credited to the own share reserve.

## 2.14 revenue recognition

Turnover is the total amount receivable by the Company for goods supplied and services provided net of VAT and trade discounts.

Sales of goods are recognised when the Company has delivered products to the customer and collectability of the related receivables is reasonably assured.

Sales of services are recognised in the accounting period in which the services are rendered.

Rental income is recognised on a straight-line basis over the period of the lease. In the case of long-term contracts, turnover is recognised to the extent that the Company has obtained the right to consideration, and is primarily the proportion of total contract value that costs incurred to date bear to total expected contract costs.

## 2.15 leases

### **(a) The Company is the lessee**

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

### **(b) The Company is the lessor**

Scanning machines leased to third parties under operating leases are included in property, plant and equipment in the Balance Sheet. They are depreciated over their expected useful lives. Rental income is recognised on a straight-line basis over the lease term.

## 2.16 dividends

Under IFRS proposed dividends do not meet the definition of a liability until such time as they have been approved by shareholders at the Annual General Meeting. Therefore, DRS will no longer recognise a liability in any period for dividends that have been proposed but will not be approved until after the Balance Sheet date.

## 2.17 interim measurement note

### (a) Revenue pattern

The education examination and assessment work undertaken which currently represents approx 15% of the Company's turnover is subject to seasonal fluctuations with peak demand in the summer months. Elections, censuses, voter registration and ad hoc print work represents large one-off contracts that account for approximately 30% of turnover giving the Company's turnover its lumpy character. One-off contracts have dominated trading patterns over the last couple of years; however, the growth in education examination and assessment work is starting to become the dominant trend. The remaining 55% of business relates to recurrent work that retains a relatively consistent level throughout the year.

### (b) Current income tax

Current income tax expense is recognised in these interim financial statements based on management's best estimates of the weighted average annual income tax rate expected for the full financial year.

### (c) Costs

Costs incurred unevenly during the financial year are deferred only if the expenditure directly relates to future revenue and that there is reasonable certainty that the future business will be profitable after having absorbed the deferred costs.

## 2.18 new accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. The Company believes that these new standards and interpretations will have little effect on the Company and the impact on reporting requirements is minimal.

## 3.0 financial risk management

### 3.1 financial risk factors

The Company's activities expose it to a variety of financial risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

#### (a) Currency risk

The Company operates internationally and is subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. The Company does not hedge any transactions, and foreign exchange differences on retranslation of foreign assets and liabilities are recognised in the Income Statement.

#### (b) Credit risk

The Company has no significant concentrations of credit risk. Where appropriate, sales to overseas customers are usually underwritten using letters of credit unless the customer makes a significant up-front payment. A summary of all customers with indebtedness greater than £100,000 is prepared on a monthly basis for the directors and senior managers to review.

#### (c) Price risk

The Company is exposed to a price risk on fixed interest corporate bonds which are classified on the Balance Sheet as financial assets at fair value through profit or loss.

#### (d) Interest rate risk

The Company finances its operations through a mixture of shareholders' funds and bank loans. The Company exposure to interest rate fluctuations on its borrowings is managed by the use of capped floating facilities. The Company mixes the duration of its deposits to reduce the impact of interest rate fluctuations.

#### (e) Liquidity risk

The Company takes a prudent approach to managing liquidity risk to ensure sufficient cash is available to meet foreseeable needs and to invest cash assets safely and profitably.



## 4.0 transition to IFRS

### 4.1 basis of transition to IFRS

The Company's financial statements for the year ended 31 December 2005 will be the first financial statements that comply with IFRS. These interim financial statements which form part of the financial statements for the full year have been prepared to comply with IFRS as described in Note 2.1.

In preparing these interim financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full respective application of IFRS as set out opposite.

#### 4.1.1 exemptions from full retrospective application elected by the company

The Company has taken advantage of the following exemptions. No other exemptions are considered relevant.

##### (a) Fair value as deemed cost exemption

DRS has elected to measure the land and buildings at Linford Wood, Milton Keynes at fair value as at 1 January 2004. The application of this exemption is detailed in Note 4.2.2(a)

##### (b) Share-based payment transaction exemption

The Company has elected to apply the share-based payment exemption. It applies IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but have not vested by 1 January 2005. The application of this exemption is detailed in Note 4.2.5(a).

## 4.2 reconciliations between IFRS and UK GAAP

### 4.2.1 summary of equity

	01/01/2004	16/07/2004	31/12/2004
Total equity under UK GAAP	9,651	9,169	8,493
Restatement of Linford Wood office to fair value	(158)	(161)	(163)
Reversal of ordinary dividend proposal	341	161	321
Overall impact of recognising deferred tax in accordance with IAS12	(17)	(21)	(24)
	9,817	9,148	8,627

notes to the interim financial statements continued

4.2.2 reconciliation of equity at 1 January 2004

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	a	5,005	(200)	4,805
Intangible assets	b	–	42	42
Deferred income tax assets		–	–	–
		5,005	(158)	4,847
<b>Current assets</b>				
Inventories		2,107	–	2,107
Trade and other receivables		1,999	–	1,999
Other financial assets at fair value through profit or loss		6,312	–	6,312
Cash and cash equivalents		1,063	–	1,063
		11,481	–	11,481
Total assets		16,486	(158)	16,328
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders</b>				
Share capital		1,731	–	1,731
Treasury Shares		–	–	–
Fair value and other reserves		5,370	–	5,370
Retained earnings and other reserves	e	2,550	166	2,716
Total equity		9,651	166	9,817
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings		1,000	–	1,000
Deferred income tax liabilities	c	60	17	77
		1,060	17	1,077
<b>Current liabilities</b>				
Trade and other payables	d	5,102	(341)	4,761
Current income tax liabilities		673	–	673
Borrowings		–	–	–
Provisions and other liabilities		–	–	–
		5,775	(341)	5,434
<b>Total liabilities</b>		<b>6,835</b>	<b>(324)</b>	<b>6,511</b>
<b>Total equity and liabilities</b>		<b>16,486</b>	<b>(158)</b>	<b>16,328</b>



## explanation of the effect of the transition to IFRS

The following explains the material adjustments to the Balance Sheet and Income Statement.

(a)	Property, plant and equipment	
	Restatement of Linford Wood head office to fair value	(158)
	Reclassification of software licenses as an intangible asset	(42)
		(200)
(b)	Intangible assets	
	Reclassification of software licenses as an intangible asset	42
(c)	Deferred income tax liabilities	
	Overall impact of recognising deferred tax in accordance with IAS12	17
(d)	Trade and other payables (current)	
	Reversal of proposed ordinary dividend payable	(341)
(e)	Retained earnings	
	Restatement of Linford Wood head office to fair value	(158)
	Overall impact of recognising deferred tax in accordance with IAS12	(17)
	Reversal of proposed ordinary dividend payable	341
	Total impact – increase in retained earnings	166

notes to the interim financial statements continued

4.2.3 reconciliation of equity at 16 July 2004

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	a	4,752	(200)	4,552
Intangible assets	b	–	39	39
Deferred income tax assets		–	–	–
		4,752	(161)	4,591
<b>Current assets</b>				
Inventories		2,149	–	2,149
Trade and other receivables		4,873	–	4,873
Other financial assets at fair value through profit or loss		2,636	–	2,636
Cash and cash equivalents		–	–	–
		9,658	–	9,658
<b>Total assets</b>		<b>14,410</b>	<b>(161)</b>	<b>14,249</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders</b>				
Share capital		1,731	–	1,731
Treasury Shares		(1,160)	–	(1,160)
Fair value and other reserves		5,370	–	5,370
Retained earnings and other reserves	e	3,228	(21)	3,207
<b>Total equity</b>		<b>9,169</b>	<b>(21)</b>	<b>9,148</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings		1,000	–	1,000
Deferred income tax liabilities	c	11	21	32
		1,011	21	1,032
<b>Current liabilities</b>				
Trade and other payables	d	3,260	(161)	3,099
Current income tax liabilities		895	–	895
Borrowings		75	–	75
Provisions and other liabilities		–	–	–
		4,230	(161)	4,069
<b>Total liabilities</b>		<b>5,241</b>	<b>(140)</b>	<b>5,101</b>
<b>Total equity and liabilities</b>		<b>14,410</b>	<b>(161)</b>	<b>14,249</b>



## explanation of the effect of the transition to IFRS

The following explains the material adjustments to the Balance Sheet and Income Statement.

(a)	Property, plant and equipment	
	Restatement of Linford Wood head office to fair value	(161)
	Reclassification of software licenses as an intangible asset	(39)
		(200)
(b)	Intangible assets	
	Reclassification of software licenses as an intangible asset	39
(c)	Deferred income tax liabilities	
	Overall impact of recognising deferred tax in accordance with IAS12	21
(d)	Trade and other payables (current)	
	Reversal of proposed ordinary dividend payable	(161)
(e)	Retained earnings	
	Restatement of Linford Wood head office to fair value	(161)
	Overall impact of recognising deferred tax in accordance with IAS12	(21)
	Reversal of proposed ordinary dividend payable	161
	Total impact – increase in retained earnings	(21)

notes to the interim financial statements continued

4.2.4 reconciliation of equity at 31 December 2004 and 1 January 2005

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	a	4,523	(190)	4,333
Intangible assets	b	–	27	27
Deferred income tax assets		–	–	–
		4,523	(163)	4,360
<b>Current assets</b>				
Inventories		1,751	–	1,751
Trade and other receivables		1,978	–	1,978
Other financial assets at fair value through profit or loss		3,419	–	3,419
Cash and cash equivalents		1,478	–	1,478
		8,626	–	8,626
Total assets		13,149	(163)	12,986
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders</b>				
Share capital		1,731	–	1,731
Treasury Shares		(1,166)	–	(1,166)
Fair value and other reserves		5,370	–	5,370
Retained earnings and other reserves	e	2,558	134	2,692
<b>Total equity</b>		<b>8,493</b>	<b>134</b>	<b>8,627</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings		1,000	–	1,000
Deferred income tax liabilities	c	14	24	38
		1,014	24	1,038
<b>Current liabilities</b>				
Trade and other payables	d	3,576	(321)	3,255
Current income tax liabilities		66	–	66
Borrowings		–	–	–
Provisions and other liabilities		–	–	–
		3,642	(321)	3,321
<b>Total liabilities</b>		<b>4,656</b>	<b>(297)</b>	<b>4,359</b>
<b>Total equity and liabilities</b>		<b>13,149</b>	<b>(163)</b>	<b>12,986</b>



## explanation of the effect of the transition to IFRS

The following explains the material adjustments to the Balance Sheet and Income Statement.

(a)	Property, plant and equipment	
	Restatement of Linford Wood head office to fair value	(163)
	Reclassification of software licenses as an intangible asset	(27)
		(190)
(b)	Intangible assets	
	Reclassification of software licenses as an intangible asset	27
(c)	Deferred income tax liabilities	
	Overall impact of recognising deferred tax in accordance with IAS12	24
(d)	Trade and other payables (current)	
	Reversal of proposed ordinary dividend payable	(321)
(e)	Retained earnings	
	Restatement of Linford Wood head office to fair value	(163)
	Overall impact of recognising deferred tax in accordance with IAS12	(24)
	Reversal of proposed ordinary dividend payable	321
	Total impact – increase in retained earnings	134

notes to the interim financial statements continued

4.2.5 reconciliation of net income for 28 weeks ended 16 July 2004

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Sales		9,728		9,728
Cost of sales		(6,400)		(6,400)
<b>Gross profit</b>		<b>3,328</b>		<b>3,328</b>
Other operating income		103		103
Selling and marketing costs		(561)		(561)
Administrative expenses	(a)	(1,719)	(8)	(1,727)
Finance costs – net		(17)		(17)
<b>Profit before tax</b>		<b>1,134</b>	<b>(8)</b>	<b>1,126</b>
Income tax expense	(b)	(308)	(4)	(312)
<b>Profit for the period</b>		<b>826</b>	<b>(12)</b>	<b>814</b>

explanation of the effect of the transition to IFRS

The following explains the material adjustments to the Balance Sheet and Income Statement.

(a)	Administrative expenses	(3)
	Restatement of Linford Wood head office to fair value	(5)
	Share-based payment charge under IFRS 2	(8)
		(8)
(b)	Total effect of measuring deferred tax in accordance with IAS12	(4)

The Company has changed its reporting format from nature of expense to a functional breakdown. This decision allows the presentation of Income Statements in a format that operationally reflects the running of the business, further details of which are given in the segmental information provided in Note 5.



#### 4.2.6 reconciliation of net income for year ended 31 December 2004

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Sales		14,408		14,408
Cost of sales		(9,993)		(9,993)
<b>Gross profit</b>		<b>4,415</b>		<b>4,415</b>
Other operating income		206		206
Selling and marketing costs		(1,055)		(1,055)
Administrative expenses	(a)	(3,088)	(15)	(3,103)
Finance costs – net		(26)		(26)
<b>Profit before tax</b>		<b>452</b>	<b>(15)</b>	<b>437</b>
Income tax expense	(b)	5	(7)	(2)
<b>Profit for the period</b>		<b>457</b>	<b>(22)</b>	<b>435</b>

#### explanation of the effect of the transition to IFRS

The following explains the material adjustments to the Balance Sheet and Income Statement.

(a)	Administrative expenses	
	Restatement of Linford Wood head office to fair value	(5)
	Share-based payment charge under IFRS 2	(10)
		(15)
(b)	Total effect of measuring deferred tax in accordance with IAS12	(7)

#### 4.2.7 reconciliation of cash flow for the six months ended 16 July 2004

The change from UK GAAP to IFRS does not change the actual cash held in the Company. Under IFRS the profit before tax figure is reduced by £8,000, the depreciation charge is increased by £3,000 and amortisation of the share-based payment charge under IFRS 2 is increased by £5,000 leaving the cash generated from operations unchanged. The format of the cash flow statement itself has changed, but the cash generated remains the same.

## 5.0 segment information

The principal activities of the Company continue to be the provision of data capture services, the manufacture, sale and support of optical and image scanning equipment, design and printing of documentation used for data capture and associated software and bureau services. Approximately half the Company's revenue relates to products and services, and the other half relates to providing tailored data capture solutions. The Company is organised functionally, with each function of the business specialising in its own area of expertise. Project managers look to the functional areas in providing the appropriate tailored mix of products and services to fulfil each specific contract. In turn the functional areas are supported by indirect cost centre departments such as Research and Development, Communication and Information Development, and IT Support.

### (a) Primary reporting format – business segments

Reflects the principal activities of the Company: Scanning equipment; Print; and Software and Bureau services.

The segmental results for the 28 weeks ended 15 July 2005 are as follows:

	<b>Scanning equipment</b>	<b>Print</b>	<b>Software and services</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Sales	2,201	1,876	2,248	6,325
Apportioned costs	(1,566)	(1,602)	(2,559)	(5,727)
Operating margin	635	274	(311)	598
Unallocated costs				(875)
Loss before tax				(277)

The segmental results for the 28 weeks ended 16 July 2004 are as follows:

	<b>Scanning equipment</b>	<b>Print</b>	<b>Software and services</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Sales	3,967	3,524	2,237	9,728
Apportioned costs	(2,888)	(2,326)	(2,541)	(7,755)
Operating margin	1,079	1,198	(304)	1,973
Unallocated costs				(847)
Profit before tax				1,126



## 6.0 earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. Shares held in employee share trusts are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	July 2005			July 2005		
	Earnings £	Weighted average number of shares	per share	Earnings £	Weighted average number of shares	per share
Basic earnings per share						
Earnings attributable to ordinary shareholders	(219,000)	32,111,071	(0.68p)	814,000	33,931,601	2.40p
Dilutive effect of shares in restricted share scheme					264,757	
Dilutive effect of options under unapproved share option scheme					71,182	
Dilutive effect of options under the Enterprise Management Incentive Scheme					212,276	
Dilutive earnings per share		32,111,071	(0.68p)		34,479,816	2.36p

notes to the interim financial statements continued

7.0 dividends per share

	<b>Amount payable £000</b>	<b>Dividend per share Pence</b>
Dividend on ordinary shares		
Final paid May 2004	341	1.0
Interim paid November 2004	160	0.5
Total	501	1.5
Final paid May 2005	321	1.0
Total	321	1.0

## directors and advisers

### Directors

Malcolm Brighton\* OBE, Chairman  
Christopher Michael Batterham\*  
Stephen Mark Beats  
Gary Brighton  
Simon John Day  
Lord (Neil) Kinnock of Bedwelty\*  
Anthony Christopher Lee  
Ann Geraldine Limb\*  
Arthur Mark Tebbutt  
Nigel Victor Turnbull\*†

\*non-Executive

†Senior Independent Director

### Company Secretary

Arthur Mark Tebbutt

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