

Forest Support Services Plc

Chairman's Statement

The Group has recorded a loss of £63,036 before taxation. The overall trading performance of the Group has been in line with expectations although the performance of individual businesses has varied widely.

Forest Highways has suffered delays in the start-dates of secured workload, particularly in Wales, and has traded at a level significantly below budget. The extended lead-times required to secure major trunk-road projects have afforded little opportunity for this subsidiary to re-direct capacity to cushion the effects of the short term dip in workload.

Forest Traffic Signals has performed strongly in all regions. At the Winchester depot, trading has been very strong. Workload and margin have been enhanced, reflecting recent efforts to broaden the customer base and improve utilisation. At the Newport and Bristol depots performance has been strong with earnings being significantly ahead of expectations. Some initial weaknesses in Government spending in Wales have been more than off-set by tender successes in other regions and by stronger trading in the later months. Start-up costs relating to the launch of Forest Access and Security have been incurred in the period, with trading being in line with budget.

Results

The Group has recorded a loss of £63,036 for the period. This compares with a loss of £3,885 for the equivalent period last year. The loss, on the weighted average number of shares in issue during the year, was 0.34p per share.

Turnover for the period was £3,031,092 (equivalent period last year: £2,941,859), an increase of 3%. The Group held cash at the period end of £434,754 (equivalent period last year £233,715).

As in previous years, the Group will not pay an interim dividend but expects to continue its progressive dividend policy.

Current Trading and Future Prospects

A large proportion of the demand for the Group's services originates from spending by local and central Government on road maintenance. Due to the inherent seasonality of the Government budgeting process, trading during the second six months is traditionally stronger than the first.

Initial trading during the second half at Forest Highways has seen an improvement in workload, with the first batch of delayed projects now underway. Trading levels however remain lower than expected and this factor, coupled with the weak start to the year, makes it unlikely that Forest Highways will achieve budget for the full year and is unlikely to contribute to Group earnings this year.

Forest Highways will shortly be relocated into new premises in Bristol that will be shared with Forest Traffic Signals. Once the relocation has been completed the range of traffic management services offered by Forest Highways will be broadened to improve the resilience of the revenue stream.

Forest Traffic Signals continues to perform strongly in all regions. At Winchester, workload continues to grow and the customer base has broadened. A satellite depot was opened on the Isle of Wight during November to exploit opportunities in that region. This depot will be administered from Winchester and will initially offer a limited range of services.

Workload at Newport and Bristol continues to grow; further tender successes have been achieved, including the winning of another Framework contract that will underpin workload for the full year and throughout the next. Initial trading at Forest Access and Security has been below budget although start-up losses incurred in the first half are expected to be recovered during the second half.

Conclusion

As reported at the full year, the short term disruptions in Government expenditure were anticipated and have not detracted from the Group's pursuit of its longer term strategy. During the period investment has continued in the development of the Group's service range and the expansion of regional coverage. The Group continues to pursue a strategy of organic growth with a key focus being to increase the scope of the business and develop future revenue streams.

Steps taken in past periods to broaden the business have yielded improvements in the resilience of the Group's revenue stream and it is expected that the Group will achieve a satisfactory conclusion to the full year.

Forest Support Services plc

Consolidated Income Statement

for the six months ended 30 September 2007

	Unaudited Six months to 30 September 2007	Unaudited Six months to 30 September 2006 (restated)	Audited Year to 31 March 2007
	£	£	£
REVENUE	3,031,092	2,941,859	6,233,853
Cost of sales	(2,161,664)	(2,114,642)	(4,273,078)
GROSS PROFIT	869,428	827,217	1,960,775
Administrative expenses	(923,721)	(827,176)	(1,671,259)
OPERATING (LOSS)/PROFIT	(54,293)	41	289,516
Finance costs	(16,500)	(8,838)	(19,925)
Finance income	7,757	4,912	9,990
(LOSS)/PROFIT BEFORE TAXATION	(63,036)	(3,885)	279,581
Taxation	-	(770)	88,169
(LOSS)/PROFIT FOR THE PERIOD	(63,036)	(4,655)	367,750
(LOSS)/EARNINGS PER SHARE			
Basic	(0.34p)	(0.02p)	1.97p
Fully diluted	n/a	n/a	n/a

Forest Support Services plc

Consolidated Balance Sheet

as at 30 September 2007

	Unaudited 30 September 2007 £	Unaudited 30 September 2006 (as restated) £	Audited 31 March 2007 £
NON-CURRENT ASSETS			
Goodwill	1,041,783	1,041,783	1,041,783
Property, plant and equipment	1,215,131	924,985	1,027,842
	2,256,914	1,966,768	2,069,625
CURRENT ASSETS			
Trade and other receivables	1,637,161	1,372,831	1,758,668
Deferred tax asset	118,443	12,145	118,443
Cash and cash equivalents	434,754	233,715	319,230
	2,190,358	1,618,691	2,196,341
CURRENT LIABILITIES			
Trade and other payables	925,556	917,433	1,127,398
Current tax liabilities	18,129	-	18,129
Obligations under finance leases	109,450	54,883	76,680
Bank loan	170,545	57,104	152,339
	1,223,680	1,029,420	1,374,546
NET CURRENT ASSETS	966,678	589,271	821,795
NON-CURRENT LIABILITIES			
Bank loan	325,669	70,682	66,658
Obligations under finance leases	250,204	112,468	121,992
	575,873	183,150	188,650
TOTAL LIABILITIES	1,799,553	1,212,570	1,563,196
NET ASSETS	2,647,719	2,372,889	2,702,770
EQUITY			
Share capital	935,350	935,350	935,350
Share premium	1,513,530	1,513,530	1,513,530
Retained earnings	198,839	(75,991)	253,890
	2,647,719	2,372,889	2,702,770

Forest Support Services plc

Consolidated Statement of Changes in Equity

for the six months ended 30 September 2007

	Share Capital £	Share Premium £	Retained Earnings £
Equity at 1 April 2006	935,350	1,513,530	(71,336)
Loss for the six months ended 30 September 2006	-	-	(4,655)
Equity at 30 September 2006	935,350	1,513,530	(75,991)
Profit for the six months ended 31 March 2007	-	-	372,405
Cost of share based awards	-	-	7,985
Equity dividends paid	-	-	(50,509)
Equity at 31 March 2007	935,350	1,513,530	253,890
Loss for the six months ended 30 September 2007	-	-	(63,036)
Cost of share based awards	-	-	7,985
Equity at 30 September 2007	935,350	1,513,530	198,839

Forest Support Services plc

Notes to the condensed interim financial statements

1. General Information

Forest Support Services Plc (the "Company") is a company domiciled in England and Wales whose registered office address is Forest House, Broad Quay Road, Felnax Industrial Estate, Newport NP19 4PN. The condensed consolidated interim financial statements of the Company for the six months ended 30 September 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

The condensed consolidated interim financial statements do not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

The financial information for the year ended 31 March 2007 has been extracted from the statutory accounts (which were prepared under UK GAAP) for that period and adjusted, as shown in note 5 below, to restate in accordance with International Financial Reporting Standards ("IFRS"). This note includes reconciliations of equity and the loss for comparative periods reported under UK GAAP to those reported for those periods under IFRS. The auditors' report on the statutory accounts was unqualified and did not contain a statement under Section 237 of the Companies Act 1985. A copy of those financial statements has been filed with the Registrar of Companies.

The Group's date of transition to IFRS was 1 April 2006 and condensed consolidated interim financial statements have been prepared in accordance with the first time adoption provisions set out in IFRS 1 First-time Adoption of International Financial Reporting Standards. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The condensed consolidated interim financial statements were authorised for issue on 17th December 2007.

2. Significant Accounting Policies

Basis of accounting

The condensed consolidated financial statements are unaudited and have been prepared in accordance with IFRS adopted by the EU.

The condensed consolidated financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of tangible fixed assets over their expected useful lives at the following rates:-

Property – over term of the lease

Plant and equipment – two to eight years

Share based payments

The Group issues equity-settled share based payments to certain employees. Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

Leases

Rentals payable under operating leases are charged against income on a straight line basis over the term of the lease.

Retirement benefit costs

The Group operates a defined contribution scheme for the benefit of certain of its employees. Contributions payable are charged as an expense as they fall due.

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Deferred taxation

Deferred tax 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. Timing differences are differences between the Group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax is recognised where recovery is more likely than not.

3. Earnings per share

Basic earnings per share is based on the earnings for the year attributable to shareholders and on the weighted average number of shares in issue during the year. The number of shares used for calculating basic earnings per share was 18,706,961. As the exercise price of the share options granted by the company exceeded the average market price of the shares during the year ended 31 March 2007, and given the losses reported for the two interim periods, there is no dilutive impact on earnings per share in the period.

4. Restatement of results for the six months ended 30 September 2006

Following the completion of the interim statement for the six months ended 30 September 2006, the Directors reviewed the group's depreciation methods and the allocation of items between fixed assets and stock. This review led to changes that impacted on the results for the six months ended 30 September 2006, and these have therefore been restated to provide comparable information. The effects of the changes were as follows:

1) Amounts previously included in stock were re-designated as fixed assets as the nature of these assets is that they have a useful economic life of more than 12 months. The stock has subsequently been depreciated in accordance with the group's accounting policies, leading to an increase in depreciation of £93,734.

2) The Directors reviewed the useful economic life of certain items of plant and machinery. Those that were previously depreciated over 2 years are now written off over a period of 3 years which has led to a reduction in the depreciation charge for the six months of £36,015. Those that were previously depreciated over 6 years are now written off over a period of 8 years which has led to a reduction in the depreciation charge for the year by £13,955.

5. Transition to IFRS

As stated in note 1, these are the Group's first condensed consolidated interim financial statements for part of the period covered by the first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in note 2 have been applied in preparing the consolidated condensed interim financial statements for the six months ended 30 September 2007, the financial information for the period ended 30 September 2006 and year ended 31 March 2007 and the preparation of an opening IFRS balance sheet at 1 April 2006 (the Group's date of transition).

In preparing its opening IFRS balance sheet, comparative information for the six months ended 30 September 2006 and for the year ended 31 March 2007, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

5. Transition to IFRS (continued)

Reconciliation of profit for the year ended 31 March 2007

	UK GAAP £	IFRS 3 Goodwill (note a) £	Restated under IFRS £
Revenue	6,233,853	-	6,233,853
Cost of sales	(4,273,078)	-	(4,273,078)
Gross profit	1,960,775	-	1,960,775
Administrative expenses	(1,754,359)	83,100	(1,671,259)
Operating profit	206,416	83,100	289,516
Finance costs	(19,925)	-	(19,925)
Finance income	9,990	-	9,990
Profit before taxation	196,481	83,100	279,581
Taxation	88,169	-	88,169
Profit for the period	284,650	83,100	367,750

Reconciliation of profit for the six months ended 30 September 2006

	UK GAAP £	IFRS 3 Goodwill (note a) £	Restated under IFRS £
Revenue	2,941,859	-	2,941,859
Cost of sales	(2,114,642)	-	(2,114,642)
Gross profit	827,217	-	827,217
Administrative expenses	(868,726)	41,550	(827,176)
Operating loss	(41,509)	41,550	41
Finance costs	(8,838)	-	(8,838)
Finance income	4,912	-	4,912
Loss before taxation	(45,435)	41,550	(3,885)
Taxation	(770)	-	(770)
Loss for the period	(46,205)	41,550	(4,655)

5. Transition to IFRS (continued)

Reconciliation of balance sheet as at 31 March 2007

	UK GAAP £	IFRS 3 Goodwill (note a) £	Restated under IFRS £
Goodwill	958,683	83,100	1,041,783
Property, plant and equipment	1,027,842	-	1,027,842
	1,986,525	83,100	2,069,625
Net current assets	821,795	-	821,795
Non-current liabilities	(188,650)	-	(188,650)
Net assets	2,619,670	83,100	2,702,770
Share capital	935,350	-	935,350
Share premium	1,513,530	-	1,513,530
Retained earnings	170,790	83,100	253,890
Profit for the period	2,619,670	83,100	2,702,770

Reconciliation of balance sheet as at 30 September 2006

	UK GAAP £	IFRS 3 Goodwill (note a) £	Restated under IFRS £
Goodwill	1,000,233	41,550	1,041,783
Property, plant and equipment	924,985	-	924,985
	1,925,218	41,550	1,966,768
Net current assets	589,271	-	589,271
Non-current liabilities	(183,150)	-	(183,150)
Net assets	2,331,339	41,550	2,372,889
Share capital	935,350	-	935,350
Share premium	1,513,530	-	1,513,530
Retained earnings	(117,541)	41,550	(75,991)
Profit for the period	2,331,339	41,550	2,372,889

Explanations

(a) Goodwill

Under UK GAAP, capitalised goodwill was amortised over its useful economic life. Under IFRS, this goodwill is no longer amortised but it is tested at least annually for impairment. The impairment tests carried out by the Group have identified no impairment loss and the amortisation provided under UK GAAP has been reversed.

