

INSTORE PLC
(formerly Brown & Jackson plc)
RESTATEMENT OF FINANCIAL INFORMATION UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS

Instore plc (“the Group”) is preparing for the adoption of International Financial Reporting Standards (“IFRS”) for the 52 weeks ending 25 February 2006. As part of this transition, the Group today presents its results and accounting policies prepared under IFRS for the 52 weeks ended 26 February 2005 and the 26 weeks ended 28 August 2004, together with explanations and reconciliations of the changes. This announcement is intended to assist readers of the Group’s financial statements to understand the impact of IFRS in advance of the publication of the Group’s 2005 Interim Financial Statements in October 2005.

The primary changes to the Group’s previously reported financial information at 26 February 2005 and 28 August 2004 resulting from the adoption of IFRS are as a result of the following:

- Recognition of lease incentives received over the life of the lease;
- Recognition of a fair value charge for share based payments; and
- Related deferred tax adjustments.

The adoption of IFRS represents an accounting change only and does not affect the cash flows of the Group or its operations.

For the 52 weeks ended 26 February 2005, the impact of the adoption of IFRS is to reduce operating profit and profit on ordinary activities before taxation by £0.6 million from £6.8 million to £6.2 million, principally being £0.2 million related to lease incentives and £0.4 million related to share based payments. As at 26 February 2005, net assets after the adoption of IFRS reduced to £49.5 million from £51.4 million, the principal difference relating to the cumulative effect of lease incentives.

Full reconciliations between UK GAAP and IFRS of the balance sheets at 29 February 2004, 28 August 2004 and 26 February 2005 and the income statements for the 26 weeks ended 28 August 2004 and the 52 weeks ended 26 February 2005 are set out in the attached announcement.

The Group is monitoring future developments in IFRS on an ongoing basis. Such developments may result in the inclusion of additional adjustments in the year end financial statements.

The interim results for the 26 weeks ended 27 August 2005 will be announced on 20 October 2005.

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1 INTRODUCTION

Instore plc (formerly Brown & Jackson plc) and its subsidiary companies (“the Group”) currently prepare consolidated financial statements in accordance with UK Generally Accepted Accounting Practice (“UK GAAP”). Following a European Union Regulation issued in 2002, the Group will now report its consolidated figures under International Accounting Standards and International Financial Reporting Standards (collectively IFRS) as adopted by the European Union.

The Group’s first annual report under IFRS will be for the 52 weeks ending 25 February 2006 and these financial statements will include restated figures under IFRS for the year ended 26 February 2005. The Group’s date of transition to IFRS is 29 February 2004, being the start of the previous period that will be presented as comparative information. The first IFRS results to be announced will be for the half-year ended 27 August 2005.

This document sets out the changes in accounting policies arising from the adoption of IFRS and presents restated information for the opening balance sheet at 29 February 2004, the 26 weeks ended 28 August 2004 and the 52 weeks ended 26 February 2005, which were previously published under UK GAAP.

Conversion to IFRS affects the Group’s reporting particularly in the areas of accounting for lease incentives, share based payments, deferred taxation and financial instruments. This said, the adoption of IFRS represents an accounting change only and does not change the cash flows of the Group or its operations. There is also no impact on the Group’s reportable segments from those reported under UK GAAP.

2 BASIS OF PREPARATION

The financial information in this document, which is unaudited, has been prepared in accordance with the accounting policies set out in Section 5 below.

The accounting policies are based on current IFRS, International Financial Reporting Interpretation Committee (“IFRIC”) interpretations and current International Accounting Standards Board (“IASB”) exposure drafts that are expected to be issued as final standards and adopted by the EU such that they are effective for the 52 weeks ending 25 February 2006. These standards are subject to ongoing review and endorsement by the EU and further IFRIC interpretations and may therefore be subject to change. The Group’s first IFRS financial statements may consequently be prepared on the basis of accounting policies or presentations that are different to those set out in this document.

In implementing the transition to IFRS, the Group has followed the requirements of IFRS 1, the general principle being to establish accounting policies under IFRS and then to apply these retrospectively at the transition date to determine the opening balance sheet. Significant accounting policy changes, together with the relevant transitional provisions, are set out in Section 4 below.

In accordance with IFRS 1 *First Time Adoption of International Financial Reporting Standards* there are a number of first time adoption exemptions available, some of which are mandatory and some optional. The Group has only applied the following optional exemptions:

- Business combinations – the Group has not restated any business combinations that occurred before 29 February 2004;

- Fair value as deemed cost – the Group has opted to use the previous revaluations of certain long leasehold land and buildings as the deemed cost of these assets at 29 February 2004;
- Share based payment transactions – The Group has applied IFRS2 from 29 February 2004 to share awards that were issued after 7 November 2002 but that had not vested by 1 January 2005;
- Financial instruments - the Group has elected not to restate comparative information for the impact of IAS 32 and IAS 39 *Financial Instruments*. For the Group's interim results for the 26 weeks ended 27 August 2005, the opening balance sheet at 27 February 2005 will be restated in accordance with the requirements of these standards.

The following mandatory exceptions to full retrospective application of IFRS were applicable to the Group:

- Hedge accounting – the Group will apply hedge accounting from 27 February 2005 where hedge relationships meet the relevant criteria under IAS 39;
- Estimates – estimates under IFRS at 29 February 2004 are consistent with estimates made at the same date under UK GAAP.

The UK GAAP financial information contained in this document does not constitute full financial statements within the meaning of Section 240 of the Companies Act 1985. Full financial statements for the 52 weeks ended 26 February 2005 incorporating an unqualified audit report have been delivered to the Registrar of Companies.

3 SUMMARY OF IMPACT

	52 weeks ended 26 February 2005
	£000s
Reported profit after taxation under UK GAAP	6,843
Adjustments:	
Lease incentives	(192)
Share based payments	(414)
Deferred tax	(59)
Revised profit after taxation	<u>6,178</u>

The key impacts on reported results, which are explained in further detail below, are:

- The recognition of operating lease incentives in the income statement over the full life of the lease
- The recognition of a fair value charge for share based payments

- Related deferred tax adjustments

4 EXPLANATION OF SIGNIFICANT ADJUSTMENTS

Leases (SIC 15)

Under UK GAAP, operating lease incentives (premiums paid and rent free periods) were recognised in the profit and loss account over the period to the first rent review. In accordance with SIC 15 “Operating leases – Incentives”, lease incentives will now be recognised in the income statement over the full term of the lease.

Share based payments (IFRS 2)

Under IFRS 2, the charge recognised in the income statement for share options, long-term incentive plans and other share-based payments will be based on the “fair value” of the awards, calculated using an option-pricing model. This contrasts to UK GAAP, where the charge recognised was based on the “intrinsic value” of awards, being the difference between the market value of the shares at the date of the award and the option exercise price.

In accordance with the transitional provisions of IFRS 2, the Group has applied the fair value model to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005.

For equity-settled share based payments, the fair value determined at the date of grant is expensed through the income statement on a straight line basis over the vesting period, based on the Group’s estimate of the number of shares that will eventually vest. The Group has determined the fair value of relevant awards using the Black-Scholes model.

Deferred taxation (IAS 12)

IAS 12 takes a balance sheet approach to deferred tax whereby deferred tax is recognised in the balance sheet by applying the appropriate rate of tax to the temporary differences arising between the carrying value of assets and liabilities and their tax base. This contrasts to UK GAAP (FRS 19) that considers timing differences arising in the profit and loss account.

Adjustments made to the financial statements on the transition to IFRS result in related adjustments to deferred tax, particularly with regard to share-based payments.

Cash at bank and in hand

Historically, the figure shown for cash at bank and in hand has been, in accordance with the policy of the Group’s ultimate parent company Tradehold Limited, the total of bank statement balances together with any cash balances. Uncredited lodgements relating to cheques and credit card deposits were shown in debtors and unrepresented cheques were shown in creditors.

In line with a change in accounting policy by Tradehold Limited, the figures shown for cash and cash equivalents have been restated such that uncredited lodgements and unrepresented cheques are now included.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on the historical cost basis except for share-based payments, which are measured at fair value. The principal accounting policies are set out below.

Basis of consolidation

The consolidated income statement and balance sheet include the financial statements of the Company and all its subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of during the period are accounted for in the income statement from or up to the date control passes. Inter-company sales and profits are eliminated on consolidation.

Goodwill

Goodwill arising on acquisition is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the acquired entity's identifiable assets and liabilities at the date of acquisition. Goodwill is not amortised but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill previously written off to equity, as permitted under UK GAAP, remains offset against retained earnings, but is no longer transferred to the income statement on the subsequent disposal of the subsidiary.

Revenue

Revenue, which is net of value added tax and returns, represents the value of sales made in the Group's retail outlets and is recognised in the financial statements on a cash basis.

Leased assets

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the useful life of the asset concerned or the lease term. The corresponding liability is recorded as a creditor and the finance charge is charged to the income statement over the period of the lease so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Rent-free periods, capital contributions or any other inducements to enter into operating lease agreements are released to the income statement over the life of the lease.

Rentals paid under operating leases are charged to the income statement as incurred over the life of the lease.

New store expenditure

Pre-trading expenditure on new stores is charged to the income statement as incurred.

Property, plant and equipment

The cost of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition.

Depreciation

Depreciation is provided so as to write down the cost of property, plant and equipment to their estimated residual values over their expected useful economic lives on a straight-line basis.

The principal rates used are:

Short leasehold properties (fewer than 50 years)	- over remaining period of lease
Improvements to freehold and leasehold properties	
-Up to 31 December 1995	15%
-From 1 January 1996	- over the shorter of the remaining period of the lease or 15 years
Plant and machinery	15–25%
Fixtures and fittings	10–15%
Motor vehicles	20–25%

Freehold and long leasehold properties are depreciated so as to write down the cost or revalued amount over the period from 1 July 1997, or acquisition date if later, to a date 50 years after the acquisition date of the asset.

Impairment

To the extent that the carrying amount of property, plant and equipment or goodwill exceeds the recoverable amount, that is the higher of net realisable value and value in use, the property, plant and equipment or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows. In assessing the value in use of impaired assets, a discount rate of 10% has been used which, in the opinion of the Directors, reflects the risk inherent in those cash flows.

Fixed asset investments

Fixed asset investments, including interests in Group undertakings on the balance sheet of the Company, are carried at cost less any provision for impairment. Investment in own shares is taken as a deduction from shareholders' funds.

Closed store provision

Provision is made for the costs of closing a store once the decision to close has become irreversible. Provision is also made for onerous lease commitments and dilapidation payments that have accrued on the closed store. Other holding costs of the store continue to be charged to the income statement as incurred until disposal. The provision is not discounted.

Dilapidation provision

Provision is made for the Group's obligations to maintain properties to a standard as required by the various leases. The provision is not discounted.

Pensions

The Group administers a number of defined contribution pension schemes and in addition makes contributions into the personal pension plans of certain Directors and executives. These costs are charged to the income statement as incurred.

Inventories

Inventories, all of which are held for resale, are valued at the lower of cost and net realisable value less any provision for obsolete, slow-moving or defective inventories. Cost is based on weighted average purchase costs. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation.

The Group estimates its level of inventory provisions using a method that attributes an increasing slow-moving provision on the basis of the age of the items.

Foreign currency

Assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year.

Trading activities are translated into sterling at the rate of exchange ruling at the time of the transaction. Any resultant gain or loss on exchange is included in the income statement for the period.

Deferred taxation

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is calculated at the rates of taxation enacted or substantively enacted at the balance sheet date, and is not discounted.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments with a maturity of less than 90 days that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts repayable on demand are shown within borrowings in current liabilities in the balance sheet.

Derivative financial instruments

The Group uses derivative financial instruments, principally forward foreign exchange contracts, to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost, if any. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement, unless the derivatives qualify for hedge accounting.

The fair value of forward exchange contracts is their market price at the balance sheet date, being the present value of the quoted forward price.

Where a forward exchange contract is designated as a hedge of the variability in cash flows of a recognised asset or liability, or of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity, and the ineffective part is recognised immediately in the income statement.

When the forecasted transaction subsequently results in the recognition of non-financial assets, principally inventories for resale, the associated cumulative gain or loss is removed from equity and included in the initial cost of the assets.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Share based payments

The fair value of employee share options granted on or after 7 November 2002 is calculated using the Black-Scholes model. The resulting cost is charged in the income statement over the vesting period of the option and is adjusted for the expected and actual number of options vesting.

RECONCILIATION OF NET ASSETS AT 29 FEBRUARY 2004

	UK GAAP	Leases SIC 15	Share based payment IFRS 2	Deferred tax IAS 12	Other	Effect of transition to IFRS	Restated under IFRS
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Non current assets							
Property, plant and equipment	26,514	-	-	-	-	-	26,514
Deferred tax	3,587	-	-	59	-	59	3,646
Other receivables	1,436	-	-	-	-	-	1,436
	31,537	-	-	59	-	59	31,596
Current assets							
Inventories	42,371	-	-	-	-	-	42,371
Trade and other receivables	10,976	-	-	-	(980)	(980)	9,996
Cash and cash equivalents	6,204	-	-	-	(3,203)	(3,203)	3,001
	59,551	-	-	-	(4,183)	(4,183)	55,368
Total assets	91,088	-	-	59	(4,183)	(4,124)	86,964
Current liabilities							
Trade and other payables	(46,917)	(1,667)	-	-	4,183	2,516	(44,401)
Short term borrowings	(8,000)	-	-	-	-	-	(8,000)
	(54,917)	(1,667)	-	-	4,183	2,516	(52,401)
<i>Net current assets</i>	4,634	(1,667)	-	-	-	(1,667)	2,967
Non current liabilities							
Provisions	(14,088)	-	-	-	-	-	(14,088)
Other non-current liabilities	(1,081)	-	-	-	-	-	(1,081)
	(15,169)	-	-	-	-	-	(15,169)
Total liabilities	(70,086)	(1,667)	-	-	4,183	2,516	(67,570)
Net assets	21,002	(1,667)	-	59	-	(1,608)	19,394
Equity							
Called up share capital	23,645	-	-	-	-	-	23,645
Share premium account	78,329	-	-	-	-	-	78,329
Other reserves	1,937	-	277	-	(540)	(263)	1,674
Retained earnings	(82,909)	(1,667)	(277)	59	540	(1,345)	(84,254)
Total equity	21,002	(1,667)	-	59	-	(1,608)	19,394

RECONCILIATION OF PROFIT FOR THE 26 WEEKS ENDED 28 AUGUST 2004

	UK GAAP	Leases SIC 15	Share based payments IFRS 2	Effect of transition to IFRS	Restated under IFRS
	£000s	£000s	£000s	£000s	£000s
Revenue	126,894	-	-	-	126,894
Operating loss	(2,092)	(16)	(169)	(185)	(2,277)
Finance income	151	-	-	-	151
Finance costs	(305)	-	-	-	(305)
Loss on ordinary activities before taxation	(2,246)	(16)	(169)	(185)	(2,431)
Tax on loss on ordinary activities	705	-	-	-	705
Retained deficit	(1,541)	(16)	(169)	(185)	(1,726)
Basic loss per share	(0.75)				(0.84)
Diluted loss per share	(0.75)				(0.84)

RECONCILIATION OF NET ASSETS AT 28 AUGUST 2004

	UK GAAP £000s	Leases SIC 15 £000s	Share based payment IFRS 2 £000s	Deferred tax IAS 12 £000s	Other £000s	Effect of transition to IFRS £000s	Restated under IFRS £000s
Non current assets							
Property, plant and equipment	32,055	-	-	-	-	-	32,055
Deferred tax	3,587	-	-	-	-	-	3,587
Other receivables	1,521	-	-	-	-	-	1,521
	37,163	-	-	-	-	-	37,163
Current assets							
Inventories	39,851	-	-	-	-	-	39,851
Trade and other receivables	10,020	-	-	-	(1,092)	(1,092)	8,928
Cash and cash equivalents	20,112	-	-	-	(1,917)	(1,917)	18,195
	69,983	-	-	-	(3,009)	(3,009)	66,974
Total assets	107,146	-	-	-	(3,009)	(3,009)	104,137
Current liabilities							
Trade and other payables	(49,314)	(1,683)	-	-	3,009	1,326	(47,988)
	(49,314)	(1,683)	-	-	3,009	1,326	(47,988)
<i>Net current assets</i>	20,669	(1,683)	-	-	-	(1,683)	18,986
Non current liabilities							
Provisions	(14,034)	-	-	-	-	-	(14,034)
Other non-current liabilities	(442)	-	-	-	-	-	(442)
	(14,476)	-	-	-	-	-	(14,476)
Total liabilities	(63,790)	(1,683)	-	-	3,009	1,326	(62,464)
Net assets	43,356	(1,683)	-	-	-	(1,683)	41,673
Equity							
Called up share capital	28,721	-	-	-	-	-	28,721
Share premium account	97,794	-	-	-	-	-	97,794
Other reserves	1,929	-	446	-	(532)	(86)	1,843
Retained earnings	(85,088)	(1,683)	(446)	-	532	(1,597)	(86,685)
Total equity	43,356	(1,683)	-	-	-	(1,683)	41,673

RECONCILIATION OF PROFIT FOR THE 52 WEEKS ENDED 26 FEBRUARY 2005

	UK GAAP	Leases SIC 15	Share based payment IFRS 2	Deferred tax IAS 12	Effect of transition to IFRS	Restated under IFRS
	£000s	£000s	£000s	£000s	£000s	£000s
Revenue	276,094	-	-	-	-	276,094
Operating profit	8,086	(192)	(414)	-	(606)	7,480
Finance income	307	-	-	-	-	307
Finance costs	(360)	-	-	-	-	(360)
Profit on ordinary activities before taxation	8,033	(192)	(414)	-	(606)	7,427
Tax on profit on ordinary activities	(1,190)	-	-	(59)	(59)	(1,249)
Retained profit	6,843	(192)	(414)	(59)	(665)	6,178
Basic earnings per share	3.12					2.82
Diluted earnings per share	3.05					2.75

RECONCILIATION OF NET ASSETS AT 26 FEBRUARY 2005

	UK GAAP £000s	Leases SIC 15 £000s	Share based payment IFRS 2 £000s	Deferred tax IAS 12 £000s	Other £000s	Effect of transition to IFRS £000s	Restated under IFRS £000s
Non current assets							
Property, plant and equipment	38,192	-	-	-	-	-	38,192
Deferred tax	1,852	-	-	(59)	-	(59)	1,793
Other receivables	1,555	-	-	-	-	-	1,555
	<u>41,599</u>	<u>-</u>	<u>-</u>	<u>(59)</u>	<u>-</u>	<u>(59)</u>	<u>41,540</u>
Current assets							
Inventories	39,734	-	-	-	-	-	39,734
Trade and other receivables	7,401	-	-	-	(926)	(926)	6,475
Cash and cash equivalents	19,140	-	-	-	(3,696)	(3,696)	15,444
	<u>66,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,622)</u>	<u>(4,622)</u>	<u>61,653</u>
Total assets	<u>107,874</u>	<u>-</u>	<u>-</u>	<u>(59)</u>	<u>(4,622)</u>	<u>(4,681)</u>	<u>103,193</u>
Current liabilities							
Trade and other payables	(43,533)	(1,859)	-	-	4,622	2,763	(40,770)
	<u>(43,533)</u>	<u>(1,859)</u>	<u>-</u>	<u>-</u>	<u>4,622</u>	<u>2,763</u>	<u>(40,770)</u>
<i>Net current assets</i>	<i>22,742</i>	<i>(1,859)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(1,859)</i>	<i>20,883</i>
Non current liabilities							
Provisions	(11,992)	-	-	-	-	-	(11,992)
Other non-current liabilities	(967)	-	-	-	-	-	(967)
	<u>(12,959)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,959)</u>
Total liabilities	<u>(56,492)</u>	<u>(1,859)</u>	<u>-</u>	<u>-</u>	<u>4,622</u>	<u>2,763</u>	<u>(53,729)</u>
Net assets	<u>51,382</u>	<u>(1,859)</u>	<u>-</u>	<u>(59)</u>	<u>-</u>	<u>(1,918)</u>	<u>49,464</u>
Equity							
Called up share capital	28,721	-	-	-	-	-	28,721
Share premium account	97,794	-	-	-	-	-	97,794
Other reserves	1,921	-	691	-	(524)	167	2,088
Retained earnings	(77,054)	(1,859)	(691)	(59)	524	(2,085)	(79,139)
Total equity	<u>51,382</u>	<u>(1,859)</u>	<u>-</u>	<u>(59)</u>	<u>-</u>	<u>(1,918)</u>	<u>49,464</u>