

# Consolidated Financial Statements

## Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. The excess of cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the income statement.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The costs of an acquisition are measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-group transactions, balances, and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### 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, associate or jointly controlled entity at the date of acquisition.

Goodwill on acquisition of subsidiaries is included as a non current asset.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Revenue recognition

Service 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.

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

## Consolidated Financial Statements Summary of Significant Accounting Policies continued

### Leasing

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

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

Benefits received and receivable as an incentive to enter an operating lease are also spread on a straight line basis over the lease term.

### Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

### Pensions

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

### Share Based Payments

The Group issues equity-settled share based payments to certain employees and has applied the requirements of IFRS2 "Share-based payments".

Equity settled share-based payments are measured at fair value at the date of the grant. Fair value is measured using a Black-Scholes model. The fair value is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

### Foreign currencies

Transactions in currencies other than sterling, the presentational and functional currency of the Company, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity, where the changes in fair value are recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost less any subsequent accumulated depreciation.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Plant and Machinery	over 3-10 years
Short Leasehold Property Alterations	over the lifetime of the lease
Fixtures, fittings and equipment	over 3-10 years
Motor Vehicles	over 3-5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

### **Internally-generated intangible assets – research and development expenditure**

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

An internally-generated intangible asset arising from the Group's business development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. (10 to 15 years)

### **Other intangible assets**

Computer Software is stated at cost less any accumulated amortisation. The software is amortised over a period of 5 years on a straight line basis.

Other intangible assets have been brought in on the acquisition of businesses and capitalised at a fair value. The intangible assets are amortised over the relevant period, ranging from 2 to 10 years on a straight line basis.

Manufacturing schedules have been brought in on the acquisition of businesses and capitalised at a fair value. The intangible assets are amortised over 10 years on a straight line basis.

### **Impairment of property, plant and equipment and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

## Consolidated Financial Statements Summary of Significant Accounting Policies continued

### Financial instruments

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

### Trade receivables

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

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand less short term bank overdrafts.

### Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

### Bank borrowings

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

### Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

### Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

### Equity instruments

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

### Derivative financial instruments and hedge accounting

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange risks. The Group does not transact derivative financial instruments for speculative purposes. Derivative financial assets are included in the balance sheet at fair value. Changes in fair value are recognised directly in equity where they qualify for hedge accounting because they have been designated as hedges of future cash flows, otherwise they are recognised in the income statement as they arise.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

### Government grants

Government grants towards staff re-training costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to profit and loss over the expected useful lives of the assets concerned.

### Segmental reporting

A business segment is a group of assets and operations that provide a product or service and that is subject to risks and returns that are different from other business segments. A geographic segment is a group of assets and operations that provide a product or service within a particular economic environment and that is subject to risks and returns that are different from segments operating in different economic environments.

### **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **Goodwill**

The recoverable amount of cash generating units has been determined on value in use calculations. These calculations require the use of estimates, including management's expectations of future revenue growth, operating costs and profit margins for each cash generating unit.

#### **Intangible assets**

Amortisation of intangible assets is charged to the income statement on a straight line basis over the useful economic lives of each intangible asset. The Directors have made assumptions with regard to the evidence in the market, at the time of acquisitions, when determining these estimated useful economic lives.

### **Adoption of International accounting standards**

#### **IFRS 8 'Operating Segments' (effective for periods commencing on or after 1 January 2009).**

IFRS 8 introduces new disclosure requirements for segmental information and supersedes IAS 14 "Segmental Reporting". Management do not believe that the impact of the change in disclosure will be significant.

#### **IFRIC 12, 'Service Concession Arrangements' (effective from 1 April 2008).**

IFRIC 12 addresses the accounting by operators of public-private service concession arrangements. The group has assessed the impact of this interpretation and has concluded it will have no effect on the group's financial statements.

#### **IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).**

IFRIC13 addresses accounting by entities that grant loyalty award credits to customers that buy the entities' goods or services. Specifically, the interpretation explains how the entities should account for their obligations to provide free or discounted goods or services ('awards') to customers that redeem award credits. It is not likely to have a significant impact on the group's financial statements.

#### **IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)**

IFRIC 14, its recent interpretation of International Accounting Standard IAS19, will affect employers that sponsor defined benefit schemes. At December 2007 the group had no defined benefit schemes and had no current plans to introduce such schemes.