

## **Axis Intermodal plc – Adoption of IFRS**

Axis Intermodal plc today announces that it has completed its preparations to adopt International Financial Reporting Standards (IFRS).

Axis Intermodal plc will prepare consolidated financial statements in line with IFRS from 2007.

The first results produced under IFRS will be for the 6 months to 30 June 2007 and the first set of financial statements will be for the year to 31 December 2007.

This announcement provides reconciliations for the year to 31 December 2006 and highlights the impact of IFRS on the presentation of the group's consolidated financial statements.

The figures detailed in this announcement are based on the IFRS expected to be applicable as at 31 December 2007 and the interpretation of those standards.

IFRS are subject to possible amendment by and interpretative guidance from the International Accounting Standards Board as well as ongoing review and endorsement by the EU and are, therefore, still subject to change.

It is therefore possible that these figures may require amendment before their inclusion in the IFRS financial statements for the 12 months to 31 December 2007.

### ***Impact of IFRS***

The main impacts of implementing IFRS with respect to the group's consolidated accounts are:

#### **Goodwill amortisation:**

Goodwill amortisation from 2006 onwards is reversed and goodwill on earlier acquisitions, is fixed at the 1 January 2006 value. All goodwill balances are subject to annual impairment tests from this date.

#### **Balance sheet classification:**

IFRS requires a number of assets and liabilities to be presented differently.

## **EPS:**

The calculation methodology for EPS is the same as in UK GAAP, however a number of the above items impact on the value of EPS computed under IFRS compared to that under UK GAAP.

## **IFRS 1 Exemptions**

IFRS1, First Time Adoption of International Financial Reporting Standards, allows companies adopting IFRS for the first time to elect to utilise some exemptions from the full requirements of IFRS in the transition period.

Axis Intermodal plc has taken the following key exemptions:

- Business combinations – Business combinations that took place prior to 1 January 2006 have not been restated.
- Fair value or revaluation as deemed cost – At the date of transition, fair value has been used as deemed cost for property, plant and equipment assets previously measured at fair value.
- Cumulative translation differences – Cumulative translation differences for all foreign operations have been set to zero at 1 January 2006.
- Share-based payment – the Group has applied the requirements of IFRS 2 Share-based payments to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005

## ***Explanation of transition to IFRS***

This is the first year that the company will present its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the period ended 31 December 2006 and the date of transition to IFRS was 1 January 2006.

### **Reconciliation of equity at 1 January 2006 (date of transition to IFRS)**

|                                | Note | UK<br>GAAP<br>£'000  | Effect of<br>transition<br>to IFRS<br>£'000 | IFRS<br>£'000        |
|--------------------------------|------|----------------------|---|----------------------|
| <b>Non-current assets</b>      |      |                      |   |                      |
| Goodwill                       | 1    | 3,121                | -   | 3,121                |
| Property, plant and equipment  |      | 6,515                | -   | 6,515                |
| Deferred tax assets            |      | -                    | -   | -                    |
|                                |      | <u>9,636</u>         | <u>-</u>                                    | <u>9,636</u>         |
| <b>Current assets</b>          |      |                      |   |                      |
| Trade and other receivables    |      | 1,386                | -   | 1,386                |
| Cash and cash equivalents      |      | 4                    | -   | 4                    |
|                                |      | <u>1,390</u>         | <u>-</u>                                    | <u>1,390</u>         |
| <b>Total assets</b>            |      | <u><u>11,026</u></u> | <u><u>-</u></u>                             | <u><u>11,026</u></u> |
| <b>Current liabilities</b>     |      |                      |   |                      |
| Trade and other payables       |      | <u>(3,813)</u>       | <u>-</u>                                    | <u>(3,813)</u>       |
|                                |      | <u>(3,813)</u>       | <u>-</u>                                    | <u>(3,813)</u>       |
| <b>Net current liabilities</b> |      | <u>(2,423)</u>       | <u>-</u>                                    | <u>(2,423)</u>       |
| <b>Non-current liabilities</b> |      |                      |   |                      |
| Other non-current payables     |      | (2,534)              | -   | (2,534)              |
| Deferred tax liabilities       |      | (162)                | -   | (162)                |
|                                |      | <u>(2,696)</u>       | <u>-</u>                                    | <u>(2,696)</u>       |
| <b>Total Liabilities</b>       |      | <u>(6,509)</u>       | <u>-</u>                                    | <u>(6,509)</u>       |
| <b>Net assets</b>              |      | <u><u>4,517</u></u>  | <u><u>-</u></u>                             | <u><u>4,517</u></u>  |
| <b>Equity</b>                  |      |                      |   |                      |
| Share capital                  |      | 2,943                | -   | 2,943                |
| Share premium                  |      | 1,070                | -   | 1,070                |
| Share based payments reserve   |      | 59                   | -   | 59                   |
| Other reserves                 |      | 180                  | -   | 180                  |
| Translation reserve            | 2    | -                    | -   | -                    |
| Equity minority interests      |      | (1)                  | -   | (1)                  |
| Retained earnings              | 3    | 266                  | -   | 266                  |
| <b>Total equity</b>            |      | <u><u>4,517</u></u>  | <u><u>-</u></u>                             | <u><u>4,517</u></u>  |

### **Notes to the reconciliation of equity at 1 January 2006**

- 1 Goodwill is no longer amortised (but is subject to annual impairment testing) under IFRS. No impairment has been recognised at transition so the balance of goodwill is unchanged.
- 2 The Group has utilised the IFRS1 first-time exemption whereby the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS  
These have been included in retained earnings under UK GAAP, and therefore no further adjustment is required at the date of transition.  
Subsequently, such translation differences will be recognised in a separate translation reserve.
- 3 There is therefore no net adjustment to retained earnings at the transition date.

Reconciliation of equity at 30 June 2006 (date of last UK GAAP interim statements)

|                                | Note | UK<br>GAAP<br>£'000 | Effect of<br>transition<br>to IFRS<br>£'000 | IFRS<br>£'000  |
|--------------------------------|------|---------------------|---|----------------|
| <b>Non-current assets</b>      |      |                     |   |                |
| Goodwill                       | 1    | 3,064               | 82  | 3,146          |
| Property, plant and equipment  |      | 5,812               | -   | 5,812          |
| Deferred tax assets            |      | -                   | -   | -              |
|                                |      | <u>8,876</u>        | <u>82</u>                                   | <u>8,958</u>   |
| <b>Current assets</b>          |      |                     |   |                |
| Trade and other receivables    |      | 1,645               | -   | 1,645          |
| Cash and cash equivalents      |      | 6                   | -   | 6              |
|                                |      | <u>1,651</u>        | <u>-</u>                                    | <u>1,651</u>   |
| <b>Total assets</b>            |      | <u>10,527</u>       | <u>82</u>                                   | <u>10,609</u>  |
| <b>Current liabilities</b>     |      |                     |   |                |
| Trade and other payables       |      | (3,551)             | -   | (3,551)        |
|                                |      | <u>(3,551)</u>      | <u>-</u>                                    | <u>(3,551)</u> |
| <b>Net current liabilities</b> |      | <u>(1,900)</u>      | <u>-</u>                                    | <u>(1,900)</u> |
| <b>Non-current liabilities</b> |      |                     |   |                |
| Other non-current payables     |      | (2,330)             | -   | (2,330)        |
| Deferred tax liabilities       |      | (162)               | -   | (162)          |
|                                |      | <u>(2,492)</u>      | <u>-</u>                                    | <u>(2,492)</u> |
| <b>Total Liabilities</b>       |      | <u>(6,043)</u>      | <u>-</u>                                    | <u>(6,043)</u> |
| <b>Net assets</b>              |      | <u>4,484</u>        | <u>82</u>                                   | <u>4,566</u>   |
| <b>Equity</b>                  |      |                     |   |                |
| Share capital                  |      | 2,943               | -   | 2,943          |
| Share premium                  |      | 1,070               | -   | 1,070          |
| Share based payments reserve   |      | 97                  | -   | 97             |
| Other reserves                 |      | 180                 | -   | 180            |
| Translation reserve            | 2    | -                   | (10)  | (10)           |
| Retained earnings              | 3    | 194                 | 92  | 286            |
| <b>Total equity</b>            |      | <u>4,484</u>        | <u>82</u>                                   | <u>4,566</u>   |

### Notes to the reconciliation of equity at 30 June 2006

- 1 Goodwill is no longer amortised (but is subject to annual impairment testing), so UK GAAP amortisation in the period has been reversed.
- 2 The Group has utilised the IFRS1 first-time exemption whereby the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS  
These have been included in retained earnings under UK GAAP, and therefore no further adjustment is required at the date of transition.  
Subsequently, such translation differences are recognised in a separate translation reserve.
- 3 The net adjustment to retained earnings comprises the following:

|                                  | <b>£'000</b> |
|----------------------------------|--------------|
| Goodwill (note 1)                | 82           |
| Translation differences (note 2) | 10           |
|                                  | <hr/>        |
| Total net adjustment             | <u>92</u>    |

**Reconciliation of equity at 31 December 2006 (date of last UK GAAP financial statements)**

|                                | Note | UK<br>GAAP<br>£'000 | Effect of<br>transition<br>to IFRS<br>£'000 | IFRS<br>£'000  |
|--------------------------------|------|---------------------|---|----------------|
| <b>Non-current assets</b>      |      |                     |   |                |
| Goodwill                       | 1    | 3,331               | 188   | 3,519          |
| Property, plant and equipment  |      | 2,564               | -   | 2,564          |
| Deferred tax assets            |      | -                   | -   | -              |
|                                |      | <u>5,895</u>        | <u>188</u>                                  | <u>6,083</u>   |
| <b>Current assets</b>          |      |                     |   |                |
| Trade and other receivables    |      | 2,422               | -   | 2,422          |
| Cash and cash equivalents      |      | 1,417               | -   | 1,417          |
|                                |      | <u>3,839</u>        | <u>-</u>                                    | <u>3,839</u>   |
| <b>Total assets</b>            |      | <u>9,734</u>        | <u>188</u>                                  | <u>9,922</u>   |
| <b>Current liabilities</b>     |      |                     |   |                |
| Trade and other payables       |      | (3,371)             | -   | (3,371)        |
|                                |      | <u>(3,371)</u>      | <u>-</u>                                    | <u>(3,371)</u> |
| <b>Net current assets</b>      |      | <u>468</u>          | <u>-</u>                                    | <u>468</u>     |
| <b>Non-current liabilities</b> |      |                     |   |                |
| Other non-current payables     |      | (1,539)             | -   | (1,539)        |
| Deferred tax liabilities       |      | (46)                | -   | (46)           |
|                                |      | <u>(1,585)</u>      | <u>-</u>                                    | <u>(1,585)</u> |
| <b>Total Liabilities</b>       |      | <u>(4,956)</u>      | <u>-</u>                                    | <u>(4,956)</u> |
| <b>Net assets</b>              |      | <u>4,778</u>        | <u>188</u>                                  | <u>4,966</u>   |
| <b>Equity</b>                  |      |                     |   |                |
| Share capital                  |      | 2,943               | -   | 2,943          |
| Share premium                  |      | 1,070               | -   | 1,070          |
| Share based payments reserve   |      | 131                 | -   | 131            |
| Other reserves                 |      | 180                 | -   | 180            |
| Translation reserve            | 2    | -                   | (49)  | (49)           |
| Retained earnings              | 3    | 454                 | 237   | 691            |
| <b>Total equity</b>            |      | <u>4,778</u>        | <u>188</u>                                  | <u>4,966</u>   |

### Notes to the reconciliation of equity at 31 December 2006

- 1 Goodwill is no longer amortised (but is subject to annual impairment testing), so UK GAAP amortisation in the period has been reversed.
- 2 The Group has utilised the IFRS1 first-time exemption whereby the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS  
These have been included in retained earnings under UK GAAP, and therefore no further adjustment is required at the date of transition.  
Subsequently, such translation differences are recognised in a separate translation reserve.
- 3 The net adjustment to retained earnings comprises the following:

|                                  | <b>£'000</b> |
|----------------------------------|--------------|
| Goodwill (note 1)                | 188          |
| Translation differences (note 2) | 49           |
|                                  | <hr/>        |
| Total net adjustment             | <u>237</u>   |

## Reconciliation of profit or loss for six months ended 30 June 2006

|   | Note | UK<br>GAAP<br>£'000 | Effect of<br>transition<br>to IFRS<br>£'000 | IFRS<br>£'000 |
|---|------|---------------------|---|---------------|
| Revenue   |      | 4,240               | -   | 4,240         |
| Cost of sales   |      | (2,777)             | -   | (2,777)       |
| Gross profit  |      | <u>1,463</u>        | <u>-</u>                                    | <u>1,463</u>  |
| Administrative expenses   | 1    | (1,359)             | 82  | (1,277)       |
| Operating profit  |      | <u>104</u>          | <u>82</u>                                   | <u>186</u>    |
| Interest income   |      | 1                   | -   | 1             |
| Finance costs   |      | (96)                | -   | (96)          |
| Finance lease interest  |      | (71)                | -   | (71)          |
| Profit on ordinary activities before tax                            |      | <u>(62)</u>         | <u>82</u>                                   | <u>20</u>     |
| Tax on profit on ordinary activities                                |      | -                   | -   | -             |
| Profit on ordinary activities after tax                             |      | <u>(62)</u>         | <u>82</u>                                   | <u>20</u>     |
| Equity minority interests   |      | -                   | -   | -             |
| Retained profit for the period                                      |      | <u>(62)</u>         | <u>82</u>                                   | <u>20</u>     |
| Items recognised directly in equity (P&L reserve) during the period | 2    | (10)                | 10  | -             |
| Equity (P&L) reserve movement in the period                         |      | <u>(72)</u>         | <u>92</u>                                   | <u>20</u>     |

### Notes to the reconciliation of profit or loss for six months ended 30 June 2006

- 1 Goodwill is no longer amortised, so UK GAAP amortisation in the period has been reversed.
- 2 Translation differences for foreign operations are no longer included in retained earnings, but recognised in a separate translation reserve.

## Reconciliation of profit or loss for year ended 31 December 2006

|   | Note | UK<br>GAAP<br>£'000 | Effect of<br>transition<br>to IFRS<br>£'000 | IFRS<br>£'000 |
|---|------|---------------------|---|---------------|
| Revenue   |      | 9,148               | -   | 9,148         |
| Cost of sales   |      | (5,757)             | -   | (5,757)       |
| Gross profit  |      | <u>3,391</u>        | <u>-</u>                                    | <u>3,391</u>  |
| Administrative expenses   | 1    | (2,732)             | 188   | (2,544)       |
| Operating profit  |      | <u>659</u>          | <u>188</u>                                  | <u>847</u>    |
| Interest income   |      | 4                   | -   | 4             |
| Finance costs   |      | (172)               | -   | (172)         |
| Finance lease interest  |      | (150)               | -   | (150)         |
| Profit on ordinary activities before tax                            |      | <u>341</u>          | <u>188</u>                                  | <u>529</u>    |
| Tax on profit on ordinary activities                                |      | (26)                | -   | (26)          |
| Profit on ordinary activities after tax                             |      | <u>315</u>          | <u>188</u>                                  | <u>503</u>    |
| Equity minority interests   |      | (1)                 | -   | (1)           |
| Dividends paid  |      | (77)                | -   | (77)          |
| Retained profit for the period                                      |      | <u>237</u>          | <u>188</u>                                  | <u>425</u>    |
| Items recognised directly in equity (P&L reserve) during the period | 2    | (49)                | 49  | -             |
| Equity (P&L) reserve movement in the period                         |      | <u>188</u>          | <u>237</u>                                  | <u>425</u>    |

### Notes to the reconciliation of profit or loss for year ended 31 December 2006

- 1 Goodwill is no longer amortised, so UK GAAP amortisation in the period has been reversed.
- 2 Translation differences for foreign operations are no longer included in retained earnings, but recognised in a separate translation reserve.

## **Notes:**

1. The figures detailed above are based on the IFRS expected to be applicable as at 31 December 2007 and the interpretation of those standards.

IFRS are subject to possible amendment by and interpretative guidance from the International Accounting Standards Board as well as ongoing review and endorsement by the EU and are, therefore, still subject to change.

It is therefore possible that these figures may require amendment before their inclusion in the IFRS financial statements for the 12 months to 31 December 2007.

2. Under IFRS, new accounting policies have been drafted on which basis the figures detailed above have been computed. These policies are:

### **Basis of accounting:**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are provided in the notes to the financial statements.

The principal accounting policies are set out below.

### **Basis of preparation**

The financial statements have been prepared on the going concern basis, under the historical cost convention.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out below.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Intra-Group transactions, balances, income and expenses are eliminated fully on consolidation.

Control is achieved where Axis Intermodal plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit or loss in the period of acquisition.

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 the Group.

### **Revenue recognition**

Revenue (excluding value added taxes) comprises contract hire income receivable from third parties relating to swapbodies, trailers, chassis and trucks calculated on a daily rate basis, the supply of maintenance and repair management services, and fees chargeable to the transport and logistics industries. Revenue is recognised once the Group has fulfilled its obligations in connection therewith, net of discounts and other sales related taxes.

Where agreements involve multiple elements, the fee from such arrangements is allocated to each of the individual elements based on each element's fair value. Vendor-specific objective evidence of fair value is determined by reference to list price of sales to other customers where elements are sold separately.

When the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Revenues for the supply of maintenance and repair management services are recognised on a straight-line basis over the period for which services are contractually agreed by the Group.

Any excess of income invoiced over revenue recognised in the income statement for the period in respect of such services is recognised as deferred income.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on the cost of assets less any residual value over their estimated useful lives, using the straight-line method, as follows:

|                                  |               |
|----------------------------------|---------------|
| Office furniture and equipment   | 4 to 6 years  |
| Trucks, trailers and swap bodies | 5 to 12 years |

The residual value and the useful life of each asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

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 income.

## **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable asset and liabilities of a subsidiary at the date of acquisition. 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 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 and at least annually thereafter.

On disposal of a subsidiary, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

## **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its 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 (if any).

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 not been adjusted.

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.

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.

## **Leases**

### ***a) The Group as the lessor***

All contracts to lease assets to customers are classified as operating leases, as the Group never transfers risks and rewards of ownership to customers.

Operating lease assets are included within property, plant and equipment and depreciated over their useful lives, in accordance with the accounting policy for property, plant and equipment.

All rental income (net of any lease incentives) is recognised in the income statement on a straight-line basis over the lease term.

### ***b) The Group as the lessee***

Leases are classified as finance leases whenever the terms of the lease transfers 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 included in the balance sheet at fair value, or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease less depreciation and impairment losses.

These assets are depreciated over the shorter of the asset's useful life and the lease term.

The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Leases where the third party lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

## **Foreign currencies**

Transactions denominated in foreign currencies are translated into sterling (the functional currency of the Group) at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date.

Gains and losses arising on retranslation are included in the net profit or loss for the period.

Non-monetary assets and liabilities that are measured in terms of the historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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 unless exchange rates fluctuate significantly. 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. The Group has elected to treat goodwill and fair value adjustment arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

### **Retirement benefit costs**

The Group contributes to various personal pension plans schemes. The Group operates a stakeholder scheme for its employees, but no members have joined. The Group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is appropriate.

### **Short-term employee benefit costs**

The undiscounted amount of short-term benefits attributable to services that have been rendered in the period are recognised as an expense. Any difference between the amount of cost recognised and cash payments made is treated as a liability or prepayment as appropriate.

### **Share-based Payments**

The Group issues share options to its employees. The group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, updated at each balance sheet date.

Fair value of the equity-settled share-based payments is measured by use of a Black Scholes model and obtained from professionally qualified valuation specialists.

## **Financial Instruments**

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the income statement in the financial period to which it relates.

### 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.

### 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

Bank loans are raised for support of long term funding of the Group's operations. They are recognised at proceeds received, net of direct issue costs.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method 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.

### 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.

## **Taxation**

The charge for current tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated 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 amounts 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 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 any discount on acquisition) or from the initial recognition (other than in a

business combination) of other assets and liabilities in a transaction that 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## **Dividends**

Dividends are recognised as a liability in the period in which they are declared.

## **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

## **Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, provisions are determined by discounting the future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## **Non-current assets held for sale**

On initial classification as held for sale, non current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation.

Gains and losses on subsequent re-measurement are also included in profit or loss for the relevant period.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.