# *Illustrative IFRS consolidated financial statements* for 2012 year ends

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# Illustrative IFRS consolidated financial statements for 2012 year ends

Global Accounting Consulting Services
PricewaterhouseCoopers LLP

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# IFRS GAAP plc – year ended 31 December 2012

# Introduction

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for a fictional manufacturing, wholesale and retail group (IFRS GAAP plc).

IFRS GAAP plc is an existing preparer of IFRS consolidated financial statements; IFRS 1, 'First-time adoption of International Financial Reporting Standards', is not applicable. Guidance on financial statements for first-time adopters of IFRS is available at www.pwc.com/ifrs

This publication is based on the requirements of IFRS standards and interpretations for financial years beginning on or after 1 January 2012.

PwC commentary has been provided, in grey boxes, to explain the detail behind the presentation of a number of challenging areas. We draw your attention in particular to our commentary on the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows, statement of significant accounting policies and financial risk management.

Areas in which we have made significant changes to presentation since 2011 have been highlighted in pink.

We have attempted to create a realistic set of financial statements for a corporate entity. However, by necessity we illustrate disclosures that for many entities may be immaterial. Determining the level of disclosure is a matter of judgement, and naturally disclosure of immaterial items is not required. Certain types of transaction have been excluded, as they are not relevant to the group's operations. The example disclosures, if material, for some of these additional items have been included in appendix III. The forthcoming IFRS requirements are outlined in a table in appendix IV.

The example disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management. Alternative presentations to those proposed in this publication may be equally acceptable if they comply with the specific disclosure requirements prescribed in IFRS.

These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures that IFRS requires. Further specific information may be required in order to ensure fair presentation under IFRS. We recommend that readers refer to our publication *IFRS disclosure checklist 2012*.

# Abbreviations

| | | |
|---|---|---|
| IFRS1p37 | = | International Financial Reporting Standard [number], paragraph number. |
| 7p22 | = | International Accounting Standards [number], paragraph number. |
| SIC-15p5 | = | Standing Interpretations Committee [number], paragraph number. |
| DV | = | Disclosure Voluntary. Disclosure is encouraged but not required and therefore represents best practice. |

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*(All amounts in C thousands unless otherwise stated)*

## Consolidated income statement[1]

| Reference | | Note | Year ended 31 December 2012 | 2011 |
|---|---|---|---|---|
| 1p10(b), 81(b) 1p113, 1p38 | | | | |
| | **Continuing operations** | | | |
| 1p82(a) | Revenue | 5 | **211,034** | 112,360 |
| 1p99, 1p103 | Cost of sales | 6 | **(77,366)** | (46,682) |
| 1p103 | **Gross profit[2]** | | **133,668** | 65,678 |
| 1p99, 1p103 | Distribution costs | | **(52,529)** | (21,213) |
| 1p99, 1p103 | Administrative expenses | | **(29,895)** | (10,426) |
| 1p99, 1p103 | Other income | 7 | **2,750** | 1,259 |
| 1p85 | Other (losses)/gains – net | 8 | **(90)** | 63 |
| 1p85 | **Operating profit[2]** | | **53,904** | 35,361 |
| 1p85 | Finance income | 11 | **1,730** | 1,609 |
| 1p82(b) | Finance costs | 11 | **(8,173)** | (12,197) |
| 1p85 | Finance costs – net | 11 | **(6,443)** | (10,588) |
| 1p82(c) | Share of profit of associates | 12 | **215** | 145 |
| 1p85 | **Profit before income tax** | | **47,676** | 24,918 |
| 1p82(d),12p77 | Income tax expense | 13 | **(14,611)** | (8,670) |
| 1p85 | **Profit for the year from continuing operations** | | **33,065** | 16,248 |
| IFRS5p33(a) | **Discontinued operations** | | | |
| | Profit for the year from discontinued operations (attributable to owners of the parent) | 25 | **100** | 120 |
| 1p82(f) | **Profit for the year** | | **33,165** | 16,368 |
| | **Profit attributable to:** | | | |
| 1p83(a)(ii) | – Owners of the parent | | **30,617** | 15,512 |
| 1p83(a)(i), 27p27 | – Non-controlling interests | | **2,548** | 856 |
| | | | **33,165** | 16,368 |
| | **Earnings per share from continuing and discontinued operations attributable to owners of the parent during the year (expressed in C per share)** | | | |
| | **Basic earnings per share** | | | |
| 33p66 | From continuing operations | 14 | **1.31** | 0.76 |
| 33p68 | From discontinued operations[3] | | **0.01** | 0.01 |
| 33p66 | From profit for the year | | **1.32** | 0.77 |
| | **Diluted earnings per share** | | | |
| 33p66 | From continuing operations | 14 | **1.18** | 0.71 |
| 33p68 | From discontinued operations | | **0.01** | 0.01 |
| 33p66 | From profit for the year | | **1.19** | 0.72 |

The notes on pages 19 to 109 are an integral part of these consolidated financial statements.

[1] This income statement presents expenses by function. See Commentary, paras 12 and 13.

[2] IAS 1 does not prescribe the disclosure of operating profit and gross profit on the face of the income statement. However, entities are not prohibited from disclosing this or a similar line item.

[3] EPS for discontinued operations may be given in the notes to the financial statements instead of the income statement.

*(All amounts in C thousands unless otherwise stated)*

## Consolidated statement of comprehensive income

| | | | Year ended 31 December | |
|---|---|---|---|---|
| | | **Note** | **2012** | 2011 |
| | **Profit for the year** | | **33,165** | 16,368 |
| | **Other comprehensive income:** | | | |
| 1p82(g) | Gains on revaluation of land and buildings | 29 | **755** | 759 |
| IFRS7p20(a)(ii) | Change in value of available-for-sale financial assets | 29 | **362** | 912 |
| IFRS3p59, 1p82(g) | Reclassification of revaluation of previously held interest in ABC Group | 7, 29, 39 | **(850)** | – |
| 1p82(h) | Share of other comprehensive income of associates | 29 | **(86)** | 91 |
| 19p93B, 1p82(g) | Actuarial loss on post employment benefit obligations | 28, 33 | **–** | (494) |
| 1p82(g) | Impact of change in Euravian tax rate on deferred tax[1] | 28, 32 | **(10)** | – |
| IFRS7p23(c) | Cash flow hedges | 29 | **64** | (3) |
| 1p82(g) | Net investment hedge | 29 | **(45)** | 40 |
| 1p82(g), 21p52(b) | Currency translation differences | 29 | **2,413** | (1,111) |
| | **Other comprehensive income for the year, net of tax** | | **2,603** | 194 |
| 1p82(i) | **Total comprehensive income for the year** | | **35,768** | 16,562 |
| | **Attributable to:** | | | |
| 1p83(b)(ii) | – Owners of the parent | | **32,968** | 15,746 |
| 1p83(b)(i) | – Non-controlling interests | | **2,800** | 816 |
| | **Total comprehensive income for the year** | | **35,768** | 16,562 |
| | Total comprehensive income attributable to owners of the parent arises from: | | | |
| | – Continuing operations | | **32,868** | 15,626 |
| IFRS5p33(d) | – Discontinued operations | 25 | **100** | 120 |
| | | | **32,968** | 15,746 |

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 13.

The notes on pages 19 to 109 are an integral part of these consolidated financial statements.

## Commentary — income statement and statement of comprehensive income

The commentary that follows explains some of the key requirements in IAS 1, 'Presentation of financial statements', and other requirements that impact the income statement/statement of comprehensive income.

1p81

1. Entities have a choice of presenting all items of income and expense recognised in a period either:
   (a) in a single statement of comprehensive income; or
   (b) in two statements (as adopted by IFRS GAAP plc) comprising:
      (i) a separate income statement, which displays components of profit or loss; and

[1] The impact of change in Euravian tax rate is shown for illustrative purposes.

*(All amounts in C thousands unless otherwise stated)*

(ii) a statement of comprehensive income, which begins with profit or loss and displays components of other comprehensive income.

The main difference between these two options is that in option (a), profit for the year is shown as a sub-total rather than the 'bottom line', and the statement continues down to total comprehensive income for the year.

**1p82**

2. A single statement of comprehensive income includes, as a minimum, the following line items:
(a) revenue;
(b) finance costs;
(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
(d) tax expense;
(e) a single amount comprising the total of:
  (i) the post-tax profit or loss of discontinued operations; and
  (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;
(f) profit or loss;
(g) each component of other comprehensive income classified by nature;
(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method;
(i) total comprehensive income.

**1p83**

3. The following items are disclosed as allocations for the period:
(a) profit or loss attributable to:
  (i) non-controlling interests; and
  (ii) owners of the parent
(b) total comprehensive income for the period attributable to:
  (i) non-controlling interests; and
  (ii) owners of the parent

**IFRS5p33(d)**

(c) the amount of income attributable to owners of the parent from:
  (i) continuing operations; and
  (ii) discontinued operations.

**1p84**

4. If the entity prepares a separate income statement, this includes:
(a) items (a)–(f) in paragraph 2 above; and
(b) item (a) in paragraph 3 above.

**1p12**

5. If the two-statement presentation is used, the statement of comprehensive income follows immediately after the income statement.

**1p85**

6. Additional line items, headings and subtotals are presented in the statement of comprehensive income and the income statement (where presented) when such presentation is relevant to an understanding of the entity's financial performance.

7. Additional sub-headings should be used with care. The apparent flexibility in IAS 1 can only be used to enhance users' understanding of the GAAP-compliant numbers. It cannot be used to detract from the GAAP numbers. Set out below are overall principles that entities should apply when presenting additional line items, headings, sub-totals and alternative performance measures:
(a) GAAP numbers should be given at least equal prominence to non-GAAP numbers.

*(All amounts in C thousands unless otherwise stated)*

(b) Additional line items, sub-totals and columns may be used, but only if they do not detract from the GAAP numbers by introducing bias or by overcrowding the income statement.
(c) Each additional line item or column should contain all the revenue or expenses that relate to the particular line item or column inserted.
(d) Each additional line item or column should contain only revenue or expense that is revenue or expense of the entity itself.
(e) Items may be segregated (for example, by use of columns or sub-totals) where they are different in nature or function from other items in the income statement.
(f) It is generally not permissible to mix natural and functional classifications of expenses where these categories of expenses overlap.
(g) Terms used for additional line items and sub-totals should be defined if they are not terms recognised in IFRS.
(h) Additional line items, columns and sub-totals should only be presented when they are used internally to manage the business.
(i) Various presentations will be acceptable individually, but consideration should be given to the aggregate effect of these presentations, so that the overall message of the income statement is not distorted or confused.
(j) The presentation method should generally be consistent from year to year.
(k) The presentation method should comply with any local regulatory rules.

8. Earnings before interest and tax (EBIT) may be an appropriate sub-heading to show in the income statement. This line item usually distinguishes between the pre-tax profits arising from operating activities and those arising from financing activities.

9. In contrast, a sub-total for earnings before interest, tax, depreciation and amortisation (EBITDA) can only be included as a sub-total where the entity presents its expenses by nature and provided the sub-total does not detract from the GAAP numbers either by implying that EBITDA is the 'real' profit or by overcrowding the income statement so that the reader cannot determine easily the entity's GAAP performance. Where an entity presents its expenses by function, it will not be possible to show depreciation and amortisation as separate line items in arriving at operating profit, because depreciation and amortisation are types of expense, not functions of the business. In this case, EBITDA can only be disclosed by way of supplemental information in a box, in a footnote, in the notes or in the review of operations.

**Material items of income and expense**

1p97

10. When items of income and expense are material, their nature and amount is disclosed separately either in the income statement or in the notes. In the case of IFRS GAAP plc, these disclosures are made in note 6. Some entities provide this information in the income statement in the form of additional analysis boxes or columns. Further discussion is available in PwC's 'IFRS manual of accounting'.

1p85, 97

11. IAS 1 does not provide a specific name for the types of items that should be separately disclosed. Where an entity discloses a separate category of 'exceptional', 'significant' or 'unusual' items either in the income statement or in the notes, the accounting policy note should include a definition of the chosen term. The presentation and definition of these items should be applied consistently from year to year.

*(All amounts in C thousands unless otherwise stated)*

**Analysis of expenses by nature or function**

12. Where an entity classifies its expenses by nature, it must ensure that each class of expense includes all items related to that class. Material restructuring cost may, for example, include redundancy payments (employee benefit cost), inventory write-downs (changes in inventory) and impairments in property, plant and equipment. It is not normally acceptable to show restructuring costs as a separate line item in an analysis of expenses by nature where there is an overlap with other line items.

13. Entities that classify their expenses by function include the material items within the function to which they relate. In this case, material items can be disclosed as footnotes or in the notes to the financial statements.

**Operating profit**

1BC56

14. An entity may elect to include a sub-total for its result from operating activities. This is permitted, but management should ensure that the amount disclosed is representative of activities that would normally be considered to be 'operating'. Items that are clearly of an operating nature (for example, inventory write-downs, restructuring and relocation expenses) are not excluded simply because they occur infrequently or are unusual in amount. Nor can expenses be excluded on the grounds that they do not involve cash flows (for example, depreciation or amortisation). As a general rule, operating profit is the subtotal after 'other expenses' – that is, excluding finance costs and the share of profits of equity-accounted investments – although in some circumstances it may be appropriate for the share of profits of equity-accounted investments to be included in operating profit (see paragraph 16 below).

**Re-ordering of line items**

1p86

15. The line items and descriptions of those items are re-ordered where this is necessary to explain the elements of performance. However, entities are required to make a 'fair presentation' and should not make any changes unless there is a good reason to do so.

16. The share of profit of associates is normally shown after finance costs; this recognises that the share of profits from associates arises from what is essentially an investing activity, rather than part of the group's operating activities. However, where associates (and joint ventures) are an integral vehicle for the conduct of the group's operations and its strategy, it may be more appropriate to show finance costs after the share of profit of associates and joint ventures. In such cases, it may be appropriate either to insert a sub-total 'profit before finance costs' or to include the share of profits from associates and joint ventures in arriving at operating profit (if disclosed). It would not be appropriate to include the share of associates and joint ventures within 'revenue' (and, therefore, within 'gross profit').

17. Finance income cannot be netted against finance costs; it is included in 'other revenue/other income' or shown separately in the income statement. Where finance income is an incidental benefit, it is acceptable to present finance income immediately before finance costs and include a sub-total of 'net finance costs' in the income statement. Where earning interest income is one of the entity's main line of business, it is presented as 'revenue'.

*(All amounts in C thousands unless otherwise stated)*

**Discontinued operations**

1p82(e), IFRS5p33(a)(b) — 18. As stated in paragraph 2(e) above, entities disclose a single amount in the statement of comprehensive income (or separate income statement), comprising the total of (i) the post-tax profit or loss of discontinued operations, and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation. Paragraph 33 of IFRS 5, 'Non-current assets held for sale and discontinued operations', also requires an analysis of this single amount. This analysis may be presented in the notes or in the statement of comprehensive income (separate income statement). If it is presented in the income statement, it should be presented in a section identified as relating to discontinued operations – that is, separate from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.

**Earnings per share**

33p66 — 19. IAS 33, 'Earnings per share', requires an entity to present in the statement of comprehensive income basic and diluted earnings per share (EPS) for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for total profit or loss attributable to the ordinary equity holders of the parent entity for each class of ordinary shares. Basic and diluted EPS are disclosed with equal prominence for all periods presented.

33p67A — 20. If an entity presents a separate income statement, basic and diluted earnings per share are presented at the end of that statement.

33p73 — 21. Earnings per share based on alternative measures of earnings may also be given if considered necessary but should be presented in the notes to the financial statements only.

33p67 — 22. If diluted EPS is reported for at least one period, it should be reported for all periods presented, even if it equals basic EPS. If basic and diluted EPS are equal, dual presentation can be accomplished in one line in the statement of comprehensive income.

33p68 — 23. An entity that reports a discontinued operation discloses the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes to the financial statements.

33p69, 41, 43 — 24. Basic and diluted EPS are disclosed even if the amounts are negative (that is, a loss per share). However, potential ordinary shares are only dilutive if their conversion would increase the loss per share. If the loss decreases, the shares are anti-dilutive.

33p4 — 25. When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with IAS 27, 'Consolidated and separate financial statements', the disclosures required by IAS 33 need to be presented only on the basis of the consolidated information. An entity that chooses to disclose EPS based on its separate financial statements presents such EPS information only in its separate statement of comprehensive income.

*(All amounts in C thousands unless otherwise stated)*

**Components of other comprehensive income**

1p7

26. Components of other comprehensive income (OCI) are items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs. They include: changes in the revaluation surplus relating to property, plant and equipment or intangible assets; actuarial gains and losses on defined benefit plans; gains and losses arising from translating the financial statements of a foreign operation; gains and losses on re-measuring available-for-sale financial assets; and the effective portion of gains and losses on hedging instruments in a cash flow hedge.

1p91, 90

27. Entities may present components of other comprehensive income either net of related tax effect or before related tax effects. If an entity choses to present the items net of tax, the amount of income tax relating to each component of OCI, including reclassification adjustments, is disclosed in the notes.

1p92, 94

28. An entity discloses separately any reclassification adjustments relating to components of other comprehensive income either in the statement of comprehensive income or in the notes.

1p7, 95

29. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. They arise, for example, on disposal of a foreign operation, on derecognition of an available-for-sale financial asset and when a hedged forecast transaction affects profit or loss.

1p82A

30. IAS 1 has been amended, effective for annual periods beginning on or after 1 July 2012. The amendment requires items of OCI, classified by nature, to be grouped into those that will be reclassified subsequently to profit or loss when specific conditions are met and those that will not be reclassified to profit or loss. The amendment also requires entities that present items of OCI before related tax effects with the aggregate tax shown separately to allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified.

1p107

31. The amount of dividends recognised as distributions to owners during the period and the related amount per share are presented either in the statement of changes in equity or in the notes. Dividends cannot be displayed in the statement of comprehensive income or income statement.

**Consistency**

1p45

32. The presentation and classification of items in the financial statements is retained from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements that another presentation or classification would be more appropriate, addressing the criteria for the selection and application of accounting policies in IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or

(b) IFRS requires a change in presentation.

*(All amounts in C thousands unless otherwise stated)*

**Materiality and aggregation**

1p29

33. Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

**Offsetting**

1p32

34. Assets and liabilities, and income and expenses, are not offset unless required or permitted by an IFRS. Examples of income and expenses that are required or permitted to be offset are as follows:

1p34(a)

(a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.

1p34(b)

(b) Expenditure related to a provision that is recognised in accordance with IAS 37, 'Provisions, contingent liabilities and contingent assets', and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.

1p35

(c) Gains and losses arising from a group of similar transactions are reported on a net basis (for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading). However, such gains and losses are reported separately if they are material.

**Summary**

35. The disclosure requirements surrounding components of OCI can be summarised as follows:

| Item | Reference | Requirement in standard | Presentation in IFRS GAAP plc |
|---|---|---|---|
| Each component of other comprehensive income recognised during the period, classified by nature | IAS 1p82(g) | Statement of comprehensive income | Statement of comprehensive income |
| Reclassification adjustments during the period relating to components of other comprehensive income | IAS 1p92 | Statement of comprehensive income or notes | Note 29 |
| Tax relating to each component of other comprehensive income, including reclassification adjustments | IAS 1p90 | Statement of comprehensive income or notes | Note 13 |
| Reconciliation for each component of equity, showing separately:<br>– Profit/loss<br>– Other comprehensive income<br>– Transactions with owners | IAS 1p106(d) | Statement of changes in equity | Statement of changes in equity |
| For each component of equity, an analysis of other comprehensive income by item | IAS 1p106A | Statement of changes in equity or notes | Note 29 |

*(All amounts in C thousands unless otherwise stated)*

## Consolidated balance sheet

| | | Note | As at 31 December 2012 | 2011 |
|---|---|---|---|---|
| 1p10(a), 1p38, 1p113 | **Assets** | | | |
| 1p60, 1p66 | **Non-current assets** | | | |
| 1p54(a) | Property, plant and equipment | 16 | **155,341** | 100,233 |
| 1p54(c) | Intangible assets | 17 | **26,272** | 20,700 |
| 1p54(e), 28p38 | Investments in associates | 12 | **13,373** | 13,244 |
| 1p54(o), 1p56 | Deferred income tax assets | 32 | **3,520** | 3,321 |
| 1p54(d), IFRS7p8(d) | Available-for-sale financial assets | 19 | **17,420** | 14,910 |
| 1p54(d), IFRS7p8(a) | Derivative financial instruments | 20 | **395** | 245 |
| 1p54(h), IFRS7p8(c) | Trade and other receivables | 21 | **2,322** | 1,352 |
| | | | **218,643** | 154,005 |
| 1p60, 1p66 | **Current assets** | | | |
| 1p54(g) | Inventories | 22 | **24,700** | 18,182 |
| 1p54(h), IFRS7p8(c) | Trade and other receivables | 21 | **19,765** | 18,330 |
| 1p54(d), IFRS7p8(d) | Available-for-sale financial assets | 19 | **1,950** | – |
| 1p54(d), IFRS7p8(a) | Derivative financial instruments | 20 | **1,069** | 951 |
| 1p54(d), IFRS7p8(a) | Financial assets at fair value through profit or loss | 23 | **11,820** | 7,972 |
| 1p54(i), IFRS7p8 | Cash and cash equivalents (excluding bank overdrafts) | 24 | **17,928** | 34,062 |
| | | | **77,232** | 79,497 |
| IFRS5p38, 1p54(j) | Assets of disposal group classified as held for sale | 25 | **3,333** | – |
| | | | **80,565** | 79,497 |
| | **Total assets** | | **299,208** | **233,502** |
| | **Equity and liabilities** | | | |
| 1p54(r) | **Equity attributable to owners of the parent** | | | |
| 1p78(e), 1p54(r) | Ordinary shares | 26 | **25,300** | 21,000 |
| 1p78(e), 1p55 | Share premium | 26 | **17,144** | 10,494 |
| 1p78(e), 1p55 | Other reserves | 29 | **11,435** | 7,005 |
| 1p78(e), 1p55 | Retained earnings | 28 | **70,006** | 48,681 |
| | | | **123,885** | 87,180 |
| 1p54(q) | **Non-controlling interests** | | **7,888** | 1,766 |
| | **Total equity** | | **131,773** | **88,946** |

## Consolidated balance sheet

*(All amounts in C thousands unless otherwise stated)*

| | | Note | As at 31 December 2012 | 2011 |
|---|---|---|---|---|
| | **Liabilities** | | | |
| **1p60, 1p69** | **Non-current liabilities** | | | |
| **1p54(m), IFRS7p8(f–g)** | Borrowings | 31 | **115,121** | 96,346 |
| **1p54(m), IFRS7p8(e)** | Derivative financial instruments | 20 | **135** | 129 |
| **1p54(o), 1p56** | Deferred income tax liabilities | 32 | **12,370** | 9,053 |
| **1p78(d)** | Post-employment benefits | 33 | **4,635** | 2,233 |
| **1p54(l), 1p78(d)** | Provisions for other liabilities and charges | 35 | **316** | 274 |
| | | | **132,577** | 108,035 |
| **1p60, 1p69** | **Current liabilities** | | | |
| **1p54(k), IFRS7p8(f)** | Trade and other payables | 30 | **16,670** | 12,478 |
| **1p54(n)** | Current income tax liabilities | | **2,566** | 2,771 |
| **1p54(m), IFRS7p8(f)** | Borrowings | 31 | **11,716** | 18,258 |
| **1p54(m), IFRS7p8(e)** | Derivative financial instruments | 20 | **460** | 618 |
| **1p54(l)** | Provisions for other liabilities and charges | 35 | **3,226** | 2,396 |
| | | | **34,638** | 36,521 |
| **IFRS5p38, 1p54(p)** | Liabilities of disposal group classified as held for sale | 25 | **220** | – |
| | | | **34,858** | 36,521 |
| | **Total liabilities** | | **167,435** | **144,556** |
| | **Total equity and liabilities** | | **299,208** | **233,502** |

The notes on pages 19 to 109 are an integral part of these consolidated financial statements.

**10p17** The financial statements on pages 1 to 109 were authorised for issue by the board of directors on 24 February 2013 and were signed on its behalf.

CD Suede
**Chief Executive**

G Wallace
**Finance Director**

*(All amounts in C thousands unless otherwise stated)*

## Commentary – balance sheet

The commentary that follows explains some of the key requirements in IAS 1, 'Presentation of financial statements', that impact the balance sheet/statement of financial position.

**1p10** 1. IAS 1 refers to the balance sheet as the 'statement of financial position'. This title is not mandatory, so IFRS GAAP plc has elected to retain the better-known title of 'balance sheet'.

**1p54, 55** 2. Paragraph 54 of IAS 1 sets out the line items that are, as a minimum, required to be presented in the balance sheet. Additional line items, headings and subtotals are presented in the balance sheet when this presentation is relevant to an understanding of the entity's financial position.

**1p77, 78** 3. An entity discloses, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. The detail provided in sub-classifications depends on the IFRS requirements and on the size, nature and function of the amounts involved.

**Current/non-current distinction**

**1p60** 4. An entity presents current and non-current assets and current and non-current liabilities as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities are presented broadly in order of liquidity.

**1p61** 5. Whichever method of presentation is adopted, an entity discloses the amount expected to be recovered or settled after more than 12 months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than 12 months after the reporting period, and (b) more than 12 months after the reporting period.

**1p66-70** 6. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the reporting period. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than 12 months after the reporting period.

**1p68** 7. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in the form of cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be 12 months.

*(All amounts in C thousands unless otherwise stated)*

**Consistency**

1p45

8. The presentation and classification of items in the financial statements is retained from one period to the next unless:
(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate according to the criteria for selecting and applying accounting policies in IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or
(b) an IFRS requires a change in presentation.

**Materiality and aggregation**

1p29

9. Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

**Current and deferred tax assets and liabilities**

1p54, 56

10. Current and deferred tax assets and liabilities are presented separately from each other and from other assets and liabilities. When a distinction is made between current and non-current assets and liabilities in the balance sheet, deferred tax assets and liabilities are presented as non-current.

**Offsetting**

1p32

11. Management should not offset assets and liabilities unless required or permitted to by an IFRS. Measuring assets net of valuation allowances – for example, obsolescence allowances on inventories and doubtful debt allowances on receivables – is not offsetting.

**Three balance sheets required in certain circumstances**

1p39

12. If an entity has applied an accounting policy retrospectively, restated items retrospectively or reclassified items in its financial statements, it provides a third balance sheet as at the beginning of the earliest comparative period presented. However, where the retrospective change in policy or the restatement has no effect on this earliest statement of financial position, we believe that it would be sufficient for the entity merely to disclose that fact.

*(All amounts in C thousands unless otherwise stated)*

# Consolidated statement of changes in equity

| | | | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1p109(c), 108, 109, 113 | | **Note** | **Share capital** | **Share premium** | **Other reserves[1]** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| | Balance as at 1 January 2011 | | 20,000 | 10,424 | 6,364 | 48,470 | 85,258 | 1,500 | 86,758 |
| 1p106(d)(i) | Profit for the year | | – | – | – | 15,512 | 15,512 | 856 | 16,368 |
| 1p106(d)(ii) | Other comprehensive income for the year[2] | | – | – | 641 | (407) | 234 | (40) | 194 |
| 1p106(a) | **Total comprehensive income for the year** | | – | – | 641 | 15,105 | 15,746 | 816 | 16,562 |
| IFRS2p50 | Value of employee services | 28 | – | – | – | 822 | 822 | – | 822 |
| | Tax credit relating to share option scheme | 28 | – | – | – | 20 | 20 | – | 20 |
| | Proceeds from shares issued | 26 | 1,000 | 70 | – | – | 1,070 | – | 1,070 |
| 1p106(d)(iii) | Dividends | 34 | – | – | – | (15,736) | (15,736) | (550) | (16,286) |
| 1p106(d)(iii) | **Total contributions by and distributions to owners of the parent, recognised directly in equity** | | 1,000 | 70 | – | (14,894) | (13,824) | (550) | (14,374) |
| | **Balance as at 31 December 2011** | | **21,000** | **10,494** | **7,005** | **48,681** | **87,180** | **1,766** | **88,946** |
| | Balance at 1 January 2012 | | 21,000 | 10,494 | 7,005 | 48,681 | 87,180 | 1,766 | 88,946 |
| 1p106(d)(i) | Profit for the year | | – | – | – | 30,617 | 30,617 | 2,548 | 33,165 |
| 1p106(d)(ii) | Other comprehensive income for the year[2] | | – | – | 2,261 | 90 | 2,351 | 252 | 2,603 |
| 1p106(a) | **Total comprehensive income for the year** | | – | – | 2,261 | 30,707 | 32,968 | 2,800 | 35,768 |

[1] Individual reserves can be grouped into 'other reserves' in the statement of changes in equity if these are similar in nature and can be regarded as a component of equity. If the individual reserves are not shown in the statement of changes in equity, an analysis should be given in the notes.
[2] Companies can implement this by either (a) showing each line item of other comprehensive income separately in the above statement; or (b) by having a single-line presentation of other comprehensive income (as shown above) plus a separate note showing an analysis of each item of other comprehensive income for each component of equity. IFRS GAAP plc has provided this disclosure in note 29.

## Consolidated statement of changes in equity

*(All amounts in C thousands unless otherwise stated)*

| | | | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Note** | **Share capital** | **Share premium** | **Other reserves** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| IFRS2p50 | Value of employee services | 28 | – | – | – | 690 | 690 | – | 690 |
| | Tax credit relating to share option scheme | 28 | – | – | – | 30 | 30 | – | 30 |
| | Proceeds from shares issued | 26 | 750 | 200 | – | – | 950 | – | 950 |
| | Purchase of treasury shares | 29 | – | – | (2,564) | – | (2,564) | – | (2,564) |
| | Issue of ordinary shares related to business combination | 26 | 3,550 | 6,450 | – | – | 10,000 | – | 10,000 |
| | Convertible bond – equity component | 29 | – | – | 5,433 | – | 5,433 | – | 5,433 |
| 1p106(d)(iii) | Dividends | 34 | – | – | – | (10,102) | (10,102) | (1,920) | (12,022) |
| 1p106(d)(iii) | **Total contributions by and distributions to owners of the parent, recognised directly in equity** | | 4,300 | 6,650 | 2,869 | (9,382) | 4,437 | (1,920) | 2,517 |
| 1p106(d)(iii) | Non-controlling interest arising on business combination | 39 | – | – | – | – | – | 4,542 | 4,542 |
| 1p106(d)(iii) | Acquisition of non-controlling interest in XYZ Group | 40 | – | – | (800) | – | (800) | (300) | (1,100) |
| 1p106(d)(iii) | Sale of interest to non-controlling interest in Red Limited | 40 | – | – | 100 | – | 100 | 1,000 | 1,100 |
| 1p106(d)(iii) | **Total transactions with owners of the parent, recognised directly in equity** | | 4,300 | 6,650 | 2,869 | (9,382) | 4,437 | 2,622 | 7,059 |
| | **Balance as at 31 December 2012** | | **25,300** | **17,144** | **11,435** | **70,006** | **123,885** | **7,888** | **131,773** |

The notes to pages 19 to 109 are an integral part of these consolidated financial statements.

*(All amounts in C thousands unless otherwise stated)*

## Commentary – statement of changes in equity

The commentary that follows explains some of the key requirements in IAS 1, 'Presentation of financial statements', and other aspects that impact the statement of changes in equity.

**Non-controlling interest**

1p106

1. Information to be included in the statement of changes in equity includes:

(a) Total comprehensive income for the period, showing separately the total amounts attributable to equity holders of the company and to non-controlling interest.

(b) For each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8.

(c) For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
   (i) profit or loss;
   (ii) other comprehensive income; and
   (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in loss of control.

2. For each component of equity, the analysis of other comprehensive income by item may be presented either in the statement of changes in equity or disclosed within the notes.

*(All amounts in C thousands unless otherwise stated)*

# Consolidated statement of cash flows

| 1p10(d), 7p10, 18(b), 1p38, p113 | | | Year ended 31 December | |
|---|---|---|---|---|
| | | **Note** | **2012** | 2011 |
| | **Cash flows from operating activities** | | | |
| | Cash generated from operations | 36 | **71,751** | 41,703 |
| **7p31** | Interest paid | | **(7,835)** | (14,773) |
| **7p35** | Income tax paid | | **(16,909)** | (10,526) |
| | **Net cash generated from operating activities** | | **47,007** | 16,404 |
| **7p21, 7p10** | **Cash flows from investing activities** | | | |
| **7p39** | Acquisition of subsidiary, net of cash acquired | 39 | **(3,750)** | – |
| **7p16(a)** | Purchases of property, plant and equipment | 16 | **(9,505)** | (6,042) |
| **7p16(b)** | Proceeds from sale of property, plant and equipment | 36 | **6,354** | 2,979 |
| **7p16(a)** | Purchases of intangible assets | 17 | **(3,050)** | (700) |
| **7p16(c)** | Purchases of available-for-sale financial assets | 19 | **(4,887)** | (1,150) |
| | Proceeds from disposal of available-for-sale financial assets | | **151** | – |
| **7p16(e)** | Loans granted to related parties | 41 | **(1,343)** | (112) |
| **7p16(f)** | Loan repayments received from related parties | 41 | **63** | 98 |
| **7p31** | Interest received | | **1,054** | 1,193 |
| **7p31** | Dividends received | | **1,130** | 1,120 |
| | **Net cash used in investing activities** | | **(13,783)** | (2,614) |
| **7p21, 7p10** | **Cash flows from financing activities** | | | |
| **7p17(a)** | Proceeds from issuance of ordinary shares | 26 | **950** | 1,070 |
| **7p17(b)** | Purchase of treasury shares | 26 | **(2,564)** | – |
| **7p17(c)** | Proceeds from issuance of convertible bonds | 31 | **50,000** | – |
| **7p17(c)** | Proceeds from issuance of redeemable preference shares | 31 | **–** | 30,000 |
| **7p17(c)** | Proceeds from other borrowings | | **8,500** | 18,000 |
| **7p17(d)** | Repayments of other borrowings | | **(88,993)** | (34,674) |
| **7p31** | Dividends paid to owners of the parent | 34 | **(10,102)** | (15,736) |
| **7p31** | Dividends paid to holders of redeemable preference shares | | **(1,950)** | (1,950) |
| **7p42A** | Acquisition of interest in a subsidiary from non-controlling interest | 40 | **(1,100)** | – |
| **7p42A** | Sale of interest in a subsidiary to non-controlling interest | 40 | **1,100** | – |
| **7p31** | Dividends paid to non-controlling interests | | **(1,920)** | (550) |
| | **Net cash used in financing activities** | | **(46,079)** | (3,840) |
| | **Net (decrease)/increase in cash and cash equivalents** | | **(12,855)** | 9,950 |
| **7p28** | **Cash, cash equivalents and bank overdrafts at beginning of year** | **24** | **27,598** | 17,587 |
| | **Exchange gains/(losses) on cash and cash equivalents** | | **535** | 61 |
| **7p28** | **Cash and cash equivalents at end of year** | **24** | **15,278** | 27,598 |

The notes on pages 19 to 109 are an integral part of these consolidated financial statements.

*(All amounts in C thousands unless otherwise stated)*

## Commentary – statement of cash flows

The commentary that follows explains some of the key requirements in IAS 7, 'Statement of cash flows'.

**Reporting cash flows**

*Cash flows from operating activities*

7p18

1. Cash flows from operating activities are reported using either:
(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
(b) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

7p20

2. For an illustration of a statement of cash flows presented using the direct method, refer to appendix II.

*Cash flows from investing and financing activities*

7p21

3. Major classes of gross cash receipts and gross cash payments arising from investing and financing activities are reported separately, except to the extent that cash flows described in paragraphs 22 and 24 of IAS 7 are reported on a net basis.

*Sale of property, plant and equipment held for rental to others*

7p14

4. Cash flows from the sale of property, plant and equipment are normally presented as cash flows from investing activities. However, cash payments to manufacture or acquire assets that will be held for rental to others and subsequently for sale are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also therefore cash flows from operating activities.

*Reporting on a net basis*

7p22, 23

5. Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:
(a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity (for example, rents collected on behalf of, and paid over to, the owners of properties); and
(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short (for example, advances made for, and repayment of, principal amounts relating to credit card customers).

7p24

6. Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:
(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
(b) the placement of deposits with, and withdrawal of deposits from, other financial institutions; and

*(All amounts in C thousands unless otherwise stated)*

(c) cash advances and loans made to customers and the repayment of those advances and loans.

*Interest and dividends*

7p31 — 7. Cash flows from interest and dividends received and paid are each disclosed separately. Each is classified in a consistent manner from period to period as either operating, investing or financing activities.

7p33 — 8. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of net profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

7p34 — 9. Dividends paid may be classified as financing cash flows because they are a cost of obtaining financial resources. Alternatively, they may be classified as operating cash flows to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

*Income taxes*

7p35 — 10. Cash flows arising from income taxes are separately disclosed and classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

*Effects of exchange rate changes*

7p28 — 11. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency are reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities. It also includes the differences, if any, had those cash flows been reported at period-end exchange rates.

**Additional recommended disclosures**

7p50 — 12. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

7p50(a) — (a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

7p50(c) — (b) The aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity.

7p50(d) — (c) The amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see IFRS 8, ‘Operating segments’).

*(All amounts in C thousands unless otherwise stated)*

# Notes to the consolidated financial statements

## 1 General information

1p138(b)(c), 1p51(a)(b)

IFRS GAAP plc ('the company') and its subsidiaries (together, 'the group') manufacture, distribute and sell shoes through a network of independent retailers. The group has manufacturing plants around the world and sells mainly in countries within the UK, the US, Europe and Russia. During the year, the group acquired control of 'ABC Group', a shoe and leather goods retailer operating in the US and most western European countries.

1p138(a)

The company is a public limited company, which is listed on the EuroMoney Stock Exchange and incorporated and domiciled in One-Land. The address of its registered office is Nice Walk Way, One-Land.

## 2 Summary of significant accounting policies

### Commentary – accounting policies notes

The following note is a complete reiteration of a large number of possible accounting policies. Management should only present information that relates directly to the business and should avoid boilerplate disclosure.

1p112(a), 1p117(b), 1p119

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

1p116, 1p117(a)

The consolidated financial statements of IFRS GAAP plc have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

#### 2.1.2 Changes in accounting policy and disclosures[1]

8p28

*(a) New and amended standards adopted by the group*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the group.

[1] A detailed list of IFRSs and IFRIC interpretations effective on or after 1 January 2012 is included as appendix IV.

*(All amounts in C thousands unless otherwise stated)*

*(b) New standards and interpretations not yet adopted*

8p28

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

IAS 19, 'Employee benefits', was amended in June 2011. The impact on the group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The group is yet to assess the full impact of the amendments.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 10, Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full

*(All amounts in C thousands unless otherwise stated)*

impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

**1p119**

## 2.2 Consolidation

**27p12**

*(a) Subsidiaries*

**27p14, 27p30** Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

**IFRS3p5, p37, p39, p18, p19** The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

**IFRS3p53** Acquisition-related costs are expensed as incurred.

**IFRS3p42** If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

**IFRS3p58** Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance

*(All amounts in C thousands unless otherwise stated)*

with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

**IFRS3p32, IFRS3B63(a), 36p80** Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

**27p20, p24** Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

*(b) Changes in ownership interests in subsidiaries without change of control*

**27p30, 31** Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Disposal of subsidiaries*

**27p34, p35, 28p18** When the group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**1p119** *(d) Associates*

**28p13, 28p11** Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

**28p19A** If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

**28p29-30** The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive

*(All amounts in C thousands unless otherwise stated)*

income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

**28p31, p33** The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the income statement.

**28p22, p26** Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

**1p119**

## 2.3 Segment reporting

**IFRS8p5(b)** Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

## 2.4 Foreign currency translation

**1p119** *(a) Functional and presentation currency*

**21p17, p9, p18, 1p51(d)** Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'currency' (C), which is the group's presentation currency.

**1p119** *(b) Transactions and balances*

**21p21, p28, p32, 39p95(a), p102(a)** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'.

*(All amounts in C thousands unless otherwise stated)*

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| **39AG83** | Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. |
| **21p30** | Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income. |
| **1p119** | *(c) Group companies* |
| **21p39** | The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows: |
| **21p39(a)** | (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; |
| **21p39(b)** | (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and |
| **1p79(b), 21p39(c)** | (c) all resulting exchange differences are recognised in other comprehensive income. |
| **21p47** | 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. Exchange differences arising are recognised in other comprehensive income. |
| **1p119** | **2.5 Property, plant and equipment** |
| **16p73(a), p35(b), p15, p17, 39p98(b)** | Land and buildings comprise mainly factories, retail outlets and offices. Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. |
| **16p12** | Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. |

*(All amounts in C thousands unless otherwise stated)*

**16p39, 1p79(b), 16p40-41** Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

**16p73(b), p50, p73(c)** Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings 25-40 years
- Machinery 10-15 years
- Vehicles 3-5 years
- Furniture, fittings and equipment 3-8 years

**16p51** The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**36p59** An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

**16p68, 71** Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

**16p41, 1p79(b)** When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

## 2.6 Intangible assets

**1p119** *(a) Goodwill*

**IFRS3p51, 38p108(a), IFRS3p54, 36p124** Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over IFRS GAAP plc's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(All amounts in C thousands unless otherwise stated)

1p119 — *(b) Trademarks and licences*

38p74, p97, p118(a),(b) — Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 15 to 20 years.

38p4, p118(a)-(b) — Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

1p119 — *(c) Computer software*

38p57 — Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

38p66 — Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

38p68, p71 — Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

38p97, p118(a),(b) — Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

1p119

## 2.7 Impairment of non-financial assets

36p9, p10 — Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

*(All amounts in C thousands unless otherwise stated)*

1p119

## 2.8 Non-current assets (or disposal groups) held for sale

IFRS5p6, 15

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

1p119

## 2.9 Financial assets

### 2.9.1 Classification

IFRS7p21, 39p9

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

39p9

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

*(b) Loans and receivables*

39p9, 1p66, p68

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.14 and 2.15).

*(c) Available-for-sale financial assets*

39p9, 1p66, p68, IFRS7 AppxB5(b)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

### 2.9.2 Recognition and measurement

39p38, IFRS7 AppxB5, 39p43, 39p16, p46

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

*(All amounts in C thousands unless otherwise stated)*

**39p55(a), IFRS7Appx B5(e)**

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

**39p55(b), IFRS7 AppxB5(e), 39AG83, 1p79(b)**

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

**39p67**

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

### 2.10 Offsetting financial instruments

**32p42**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 2.11 Impairment of financial assets

*(a) Assets carried at amortised cost*

**39p58-59**

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**IFRS7B5(f)**

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**IFRS7p16, 39AG84**

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure

*(All amounts in C thousands unless otherwise stated)*

impairment on the basis of an instrument's fair value using an observable market price.

**IFRS7Appx B5(d), 39p65** If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

*(b) Assets classified as available for sale*

**39p67-70** The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

**1p119**

## 2.12 Derivative financial instruments and hedging activities

**IFRS7p21, p22** Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(c) hedges of a net investment in a foreign operation (net investment hedge).

**39p88** The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

**IFRS7p23, p24** The fair values of various derivative instruments used for hedging purposes are disclosed in note 20. Movements on the hedging reserve in other comprehensive income are shown in note 29. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

*(All amounts in C thousands unless otherwise stated)*

39p89 *(a) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) – net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

39p92 If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

39p95 *(b) Cash flow hedge*

1p79(b) The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'.

39p99, p100, p98(b) Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance income/cost'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

39p101 When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/(losses) – net'.

39p102(a)(b) *(c) Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

1p79(b) Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

*(All amounts in C thousands unless otherwise stated)*

1p119

### 2.13 Inventories

2p36(a), p9, 2p10, 25, 23p6, p7, 2p28,30, 39p98(b)

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges for purchases of raw materials[1].

1p119

### 2.14 Trade receivables

IFRS7p21

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

39p43, p46(a), p59, IFRS7 AppxBp5(f), AppxBp5(d)

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

1p119

### 2.15 Cash and cash equivalents

IFRS7p21, p45

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

1p119

### 2.16 Share capital

IFRS7p21, 32p18(a)

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (note 2.18).

32p37

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

32p33

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

1p119

### 2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

[1] Management may choose to keep these gains in equity until the acquired asset affects profit or loss. At this time, management should re-classify the gains to profit or loss.

*(All amounts in C thousands unless otherwise stated)*

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| IFRS7p21, 39p43 | Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. |
| 1p119 | **2.18 Borrowings** |
| IFRS7p21 | Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. |
| 39p43, p47 | Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. |
| 32p18(a), p35 | Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense. |
| 1p119 | **2.19 Borrowing costs** |
| 23p8 | General and specific 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. |
| 23p12 | 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 profit or loss in the period in which they are incurred. |
| 1p119 | **2.20 Compound financial instruments** |
| 32p28 | Compound financial instruments issued by the group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. |
| 32AG31 | The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. |
| 32p36 | Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry. |

*(All amounts in C thousands unless otherwise stated)*

1p69, p71 Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

1p119

## 2.21 Current and deferred income tax

12p58, p61A The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

12p12, p46 The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

12p24, p15, p47 Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

12p24, p34 Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

12p39, p44 Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

12p74 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1p119

## 2.22 Employee benefits

*(a) Pension obligations*

19p27, p25, p7, p120A(b) Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the

current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

**19p79, p80, p64** The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

**19p93-93D, p120A(a)** Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

**19p96** Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

**19p44** For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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 available.

*(b) Other post-employment obligations*

**19p120A(a)(b)** Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

*(c) Termination benefits*

**19p133, p134, p139, p140** Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary

*(All amounts in C thousands unless otherwise stated)*

redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

*(d) Profit-sharing and bonus plans*

**19p17** The group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**1p119**

### 2.23 Share-based payments

**IFRS2p15(b), IFRS2p19** The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- **IFRS2p21** including any market performance conditions (for example, an entity's share price);
- **IFRS2p20** excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- **IFRS2p21A** including the impact of any non-vesting conditions (for example, the requirement for employees to save).

**IFRS2p15, IFRS2p20** Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

1p119

### 2.24 Provisions

37p14, p72, p63

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

37p24

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

37p45

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1p119

### 2.25 Revenue recognition

18p35(a)

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below. The group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

18p14

*(a) Sales of goods – wholesale*

The group manufactures and sells a range of footwear products in the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the group has objective evidence that all criteria for acceptance have been satisfied.

The footwear products are often sold with volume discounts, customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 60 days, which is consistent with the market practice.

*(All amounts in C thousands unless otherwise stated)*

18p14

*(b) Sales of goods – retail*

The group operates a chain of retail outlets for selling shoes and other leather products. Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

It is the group's policy to sell its products to the retail customer with a right to return within 28 days. Accumulated experience is used to estimate and provide for such returns at the time of sale. The group does not operate any loyalty programmes.

18p14

*(c) Internet revenue*

Revenue from the provision of the sale of goods on the internet is recognised at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by credit or payment card.

Provisions are made for internet credit notes based on the expected level of returns, which in turn is based upon the historical rate of returns.

18p20

*(d) Sales of services*

The group sells design services and transportation services to other shoe manufacturers. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

18p30(b)

*(e) Royalty income*

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

18p30(a)

## 2.26 Interest income

39p63

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

1p119

## 2.27 Dividend income

Dividend income is recognised when the right to receive payment is established.

1p119

## 2.28 Leases

17p33, SIC-15p5

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

17p27

The group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the

*(All amounts in C thousands unless otherwise stated)*

lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

**17p20, p27** Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

**1p119**

### 2.29 Dividend distribution

**10p12** Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

**1p119**

### 2.30 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

## Commentary – Summary of significant accounting policies

**Statement of compliance with IFRS**

**1p16** 1. An entity whose financial statements and notes comply with IFRS makes an explicit and unreserved statement of such compliance in the notes. The financial statements and notes are not described as complying with IFRS unless they comply with all the requirements of IFRS.

2. Where an entity can make the explicit and unreserved statement of compliance in respect of only:
(a) the parent financial statements and notes, or
(b) the consolidated financial statements and notes,
it clearly identifies to which financial statements and notes the statement of compliance relates.

**Summary of accounting policies**

3. A summary of significant accounting policies includes:

**1p117(a)** (a) the measurement basis (or bases) used in preparing the financial statements; and

**1p117(b)** (b) the other accounting policies used that are relevant to an understanding of the financial statements.

**1p116** 4. The summary may be presented as a separate component of the financial statements.

**1p119** 5. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial

*(All amounts in C thousands unless otherwise stated)*

performance and financial position. Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16, 'Property, plant and equipment', requires disclosure of the measurement bases used for classes of property, plant and equipment.

**Changes in accounting policies**

*Initial application of IFRS*

8p28

6. When initial application of an IFRS:
(a) has an effect on the current period or any prior period;
(b) would have such an effect except that it is impracticable to determine the amount of the adjustment; or
(c) might have an effect on future periods, an entity discloses:
   (i) the title of the IFRS;
   (ii) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
   (iii) the nature of the change in accounting policy;
   (iv) when applicable, a description of the transitional provisions;
   (v) when applicable, the transitional provisions that might have an effect on future periods;
   (vi) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
      - for each financial statement line item affected;
      - if IAS 33, 'Earnings per share', applies to the entity, for basic and diluted earnings per share;
   (vii) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
   (viii) if retrospective application required by paragraph 19(a) or (b) of IAS 8, 'Accounting policies, changes in accounting estimates and errors', is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

*Voluntary change in accounting policy*

8p29

7. When a voluntary change in accounting policy:
(a) has an effect on the current period or any prior period,
(b) would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or
(c) might have an effect on future periods,
an entity discloses:
   (i) the nature of the change in accounting policy;
   (ii) the reasons why applying the new accounting policy provides reliable and more relevant information;
   (iii) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
      - for each financial statement line item affected, and
      - if IAS 33 applies to the entity, for basic and diluted earnings per share;

(iv) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
(v) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

*Change during interim periods*

1p112(c) 8. There is no longer an explicit requirement to disclose the financial effect of a change in accounting policy that was made during the final interim period on prior interim financial reports of the current annual reporting period. However, where the impact on prior interim reporting periods is significant, an entity should consider explaining this fact and the financial effect.

**IFRSs issued but not yet effective**

8p30 9. When an entity has not applied a new IFRS that has been issued but is not yet effective, it discloses:
(a) this fact; and
(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

8p31 10. An entity considers disclosing:
(a) the title of the new IFRS;
(b) the nature of the impending change or changes in accounting policy;
(c) the date by which application of the IFRS is required;
(d) the date as at which it plans to apply it initially; and
(e) either:
(i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements, or
(ii) if that impact is not known or reasonably estimable, a statement to that effect.

11. Our view is that disclosures in the paragraph above are not necessary in respect of standards and interpretations that are clearly not applicable to the entity (for example industry-specific standards) or that are not expected to have a material effect on the entity. Instead, disclosure should be given in respect of the developments that are, or could be, significant to the entity. Management will need to apply judgement in determining whether a standard is expected to have a material effect. The assessment of materiality should consider the impact both on previous transactions and financial position and on reasonably foreseeable future transactions. For pronouncements where there is an option that could have an impact on the entity, the management expectation on whether the entity will use the option should be disclosed.

**Disclosures not illustrated in IFRS GAAP plc financial statements**

For disclosures relating to IAS 29, 'Financial reporting in hyperinflationary economies', and IFRS 6, 'Exploration for and evaluation of mineral resources', please refer to PricewaterhouseCoopers' *IFRS disclosure checklist 2012.*

*(All amounts in C thousands unless otherwise stated)*

## 3 Financial risk management

### 3.1 Financial risk factors

**IFRS7p31** The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

*(a) Market risk*

(i) Foreign exchange risk

**IFRS7p33(a)** The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

**IFRS7p33(b), p22(c)** Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the group use forward contracts, transacted with group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

**IFRS7p22(c)** The group treasury's risk management policy is to hedge between 75% and 100% of anticipated cash flows (mainly export sales and purchase of inventory) in each major foreign currency for the subsequent 12 months. Approximately 90% (2011: 95%) of projected sales in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

**IFRS7 p33(a)(b), p22(c)** The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

**IFRS7p40, IFRS7IG36** At 31 December 2012, if the currency had weakened/strengthened by 11% against the US dollar with all other variables held constant, post-tax profit for the year would have been C362 (2011: C51) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables, financial assets at fair value through profit or loss, debt securities classified as available-for-

sale and foreign exchange losses/gains on translation of US dollar-denominated borrowings. Similarly, the impact on equity would have been C6,850 (2011: C6,650) higher/ lower due to an increase in the volume of cash flow hedging in US dollars.

At 31 December 2012, if the currency had weakened/strengthened by 4% against the UK pound with all other variables held constant, post-tax profit for the year would have been C135 (2011: C172) lower/higher, mainly as a result of foreign exchange gains/losses on translation of UK pound-denominated trade receivables, financial assets at fair value through profit or loss, debt securities classified as available-for-sale and foreign exchange losses/gains on translation of UK pound-denominated borrowings.

(ii) Price risk

IFRS7p33(a-b) The group is exposed to equity securities price risk because of investments held by the group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The group's investments in equity of other entities that are publicly traded are included in one of the following three equity indexes: DAX equity index, Dow Jones equity index and FTSE 100 UK equity index.

IFRS7p40, IFRS7IG36 The table below summarises the impact of increases/decreases of the three equity indexes on the group's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 5% with all other variables held constant and all the group's equity instruments moved according to the historical correlation with the index:

| | **Impact on post-tax profit in C** | | **Impact on other components of equity in C** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Index** | | | | |
| Dax | **200** | 120 | **290** | 290 |
| Dow Jones | **150** | 120 | **200** | 70 |
| FTSE 100 UK | **60** | 30 | **160** | 150 |

Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/ decrease as a result of gains/losses on equity securities classified as available for sale.

(iii) Cash flow and fair value interest rate risk

IFRS7 p33(a)(b), p22(c) The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the group to fair value interest rate risk. Group policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2012 and 2011, the group's borrowings at variable rate were denominated in the Currency and the UK pound.

*(All amounts in C thousands unless otherwise stated)*

**IFRS7p22(b)(c)** The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post tax profit of a 0.1% shift would be a maximum increase of C41 (2011: C37) or decrease of C34 (2011: C29), respectively. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the management.

**IFRS7p22(b)(c)** Based on the various scenarios, the group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the group borrowed at fixed rates directly. Under the interest rate swaps, the group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

**IFRS7p22(b)(c)** Occasionally the group also enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

**IFRS7p40, IFRS7IG36** At 31 December 2012, if interest rates on Currency-denominated borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been C22 (2011: C21) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been C5 (2011: C3) lower/ higher mainly as a result of a decrease/ increase in the fair value of fixed rate financial assets classified as available for sale. At 31 December 2012, if interest rates on UK pound-denominated borrowings at that date had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been C57 (2011: C38) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been C6 (2011: C4) lower/higher mainly as a result of a decrease/ increase in the fair value of fixed rate financial assets classified as available for sale.

*(b) Credit risk*

**IFRS7 p33(a)(b), p34(a)** Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers

*(All amounts in C thousands unless otherwise stated)*

are settled in cash or using major credit cards. See note 9(b) for further disclosure on credit risk.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

*(c) Liquidity risk*

**IFRS7p33(a-b), p34(a)**

Cash flow forecasting is performed in the operating entities of the group in and aggregated by group finance. Group finance monitors rolling forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 31) at all times so that the group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

**IFRS7p33(a-b), p39(c), IFRS7B11E**

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the group held money market funds of C6, 312 (2011: C934) and other liquid assets of C321 (2011: C1, 400) that are expected to readily generate cash inflows for managing liquidity risk.

**IFRS7p39(a-b)**

The table below analyses the group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.[1]

[1] IFRS7p39(a)(b). The amounts included in the table are the contractual undiscounted cash flows, except for trading derivatives, which are included at their fair value (see below). As a result, these amounts will not reconcile to the amounts disclosed on the balance sheet except for short-term payables where discounting is not applied. Entities can choose to add a reconciling column and a final total that ties into the balance sheet, if they wish.

*(All amounts in C thousands unless otherwise stated)*

| At 31 December 2012 | Less than 3 month | Between 3 month and 1 year[1] | Between 1 and 2 years[1] | Between 2 and 5 years[1] | Over 5 years[1] |
|---|---|---|---|---|---|
| Borrowings (ex finance lease liabilities) | 5,112 | 15,384 | 22,002 | 67,457 | 38,050 |
| Finance lease liabilities | 639 | 2,110 | 1,573 | 4,719 | 2,063 |
| Trading and net settled derivative financial instruments (interest rate swaps) | 280 | – | 10 | 116 | 41 |
| Trade and other payables[2] | 12,543 | 3,125 | – | – | – |
| Financial guarantee contracts | 21 | – | – | – | – |
| **At 31 December 2011** | | | | | |
| Borrowings (ex finance lease liabilities) | 4,061 | 12,197 | 11,575 | 58,679 | 38,103 |
| Finance lease liabilities | 697 | 2,506 | 1,790 | 5,370 | 2,891 |
| Trading and net settled derivative financial instruments (interest rate swaps) | 317 | – | 15 | 81 | 50 |
| Trade and other payables[2] | 9,214 | 2,304 | – | – | – |
| Financial guarantee contracts | 10 | – | – | – | – |

**IFRS7B10A(a)** Of the C67,457 disclosed in the 2012 borrowings time band 'Between 2 and 5 years' the company intends to repay C40,000 in the first quarter of 2013 (2012: nil).

**IFRS7p39(b)** The group's trading portfolio derivative instruments with a negative fair value have been included at their fair value of C 268 (2011: C298) within the less than three month time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the group to manage the group's interest rate profile.

**IFRS7p39(b)** All of the non-trading group's gross settled derivative financial instruments are in hedge relationships and are due to settle within 12 months of the balance sheet date. These contracts require undiscounted contractual cash inflows of C78,756 (2011: C83,077) and undiscounted contractual cash outflows of C78,241 (2011: C83,366).

[1] The specific time-buckets presented are not mandated by the standard but are based on a choice by management based on how the business is managed. Sufficient time buckets should be provided to give sufficient granularity to provide the reader with an understanding of the entity's liquidity.
[2] The maturity analysis applies to financial instruments only and therefore non-financial liabilities are are not included.

*(All amounts in C thousands unless otherwise stated)*

1p134, 135, IG10

### 3.2 Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During 2012, the group's strategy, which was unchanged from 2011, was to maintain the gearing ratio within 45% to 50% and a BB credit rating. The BB credit rating has been maintained throughout the period. The gearing ratios at 31 December 2012 and 2011 were as follows:

| | **2012** | 2011 |
|---|---|---|
| Total borrowings (note 31) | **126,837** | 114,604 |
| Less: cash and cash equivalents (note 24) | **(17,928)** | (34,062) |
| Net debt | **108,909** | 80,542 |
| Total equity | **131,773** | 88,946 |
| **Total capital** | **240,682** | 169,488 |
| **Gearing ratio** | **45%** | 48% |

The decrease in the gearing ratio during 2012 resulted primarily from the issue of share capital as part of the consideration for the acquisition of a subsidiary (notes 26 and 39).

### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

IFRS7p27B(a) The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2012.

*(All amounts in C thousands unless otherwise stated)*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Trading derivatives | – | 250 | 111 | 361 |
| – Trading securities | 11,820 | – | – | 11,820 |
| Derivatives used for hedging | – | 1,103 | – | 1,103 |
| Available-for-sale financial assets | | | | |
| – Equity securities | 18,735 | – | – | 18,735 |
| – Debt investments | 288 | 347 | – | 635 |
| **Total assets** | **30,843** | **1,700** | **111** | **32,654** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| – Trading derivatives | – | 268 | – | 268 |
| Derivatives used for hedging | – | 327 | – | 327 |
| **Total liabilities** | **–** | **595** | **–** | **595** |

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2011.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Trading derivatives | – | 321 | – | 321 |
| – Trading securities | 7,972 | – | – | 7,972 |
| Derivatives used for hedging | – | 875 | – | 875 |
| Available-for-sale financial assets | | | | |
| – Equity securities | 14,646 | – | – | 14,646 |
| – Debt investments | – | 264 | – | 264 |
| **Total assets** | **22,618** | **1,460** | **–** | **24,078** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| – Trading derivatives | – | 298 | – | 298 |
| Derivatives used for hedging | – | 449 | – | 449 |
| **Total liabilities** | **–** | **747** | **–** | **747** |

**IFRS7p27**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones equity investments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant

inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in Level 2 except for certain forward foreign exchange contracts explained below.

**IFRS7p27B(c)** The following table presents the changes in Level 3 instruments for the year ended 31 December 2012.

| | Trading derivatives at fair value through profit or loss | Total |
|---|---|---|
| Opening balance | – | – |
| Transfers into Level 3 | 115 | 115 |
| Gains and losses recognised in profit or loss | (4) | (4) |
| Closing balance | 111 | 111 |
| **Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period** | **(4)** | **(4)** |

The following table presents the changes in Level 3 instruments for the year ended 31 December 2011.

| | Trading derivatives at fair value through profit or loss | Total |
|---|---|---|
| Opening balance | 62 | 62 |
| Settlements | (51) | (51) |
| Gains and losses recognised in profit or loss | (11) | (11) |
| Closing balance | – | – |
| **Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period** | – | – |

In 2012, the group transferred a held-for-trading forward foreign exchange contract from Level 2 into Level 3. This is because the counterparty for the derivative encountered significant financial difficulties, which resulted in a significant increase to the discount rate due to increased counterparty credit risk, which is not based on observable inputs.

*(All amounts in C thousands unless otherwise stated)*

**IFRS7p27B(e)** If the change in the credit default rate would be shifted by +/– 5% the impact on profit or loss would be C20.

## Commentary – financial risk management

**Accounting standard for presentation and disclosure of financial instruments**

**IFRS7p3** 1. IFRS 7, 'Financial instruments: Disclosures', applies to all reporting entities and to all types of financial instruments except:

- Those interests in subsidiaries, associates and joint ventures that are accounted for under IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', or IAS 31, 'Interests in joint ventures'. However, entities should apply IFRS 7 to an interest in a subsidiary, associate or joint venture that according to IAS 27, IAS 28 or IAS 31 is accounted for under IAS 39, 'Financial instruments: Recognition and measurement'. Entities should also apply IFRS 7 to all derivatives on interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.
- Employers' rights and obligations under employee benefit plans, to which IAS 19, 'Employee benefits', applies.
- Insurance contracts as defined in IFRS 4, 'Insurance contracts'. However, IFRS 7 applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. It also applies to financial guarantee contracts if the issuer applies IAS 39 in recognising and measuring the contracts.
- Financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2, 'Share-based payment', applies, except for contracts within the scope of paragraphs 5-7 of IAS 39, which are disclosed under IFRS 7.
- From 1 January 2009 puttable financial instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or 16C and 16D of IAS 32 (revised).

**Parent entity disclosures**

**IFRS7** 2. Where applicable, all disclosure requirements outlined in IFRS 7 should be made for both the parent and consolidated entity. The relief from making parent entity disclosures, which was previously available under IAS 30, 'Disclosures in the financial statements of banks and similar financial institutions', and IAS 32, has not been retained in IFRS 7.

**Classes of financial instrument**

**IFRS7p6, B1-B3** 3. Where IFRS 7 requires disclosures by class of financial instrument, the entity groups its financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The entity should provide sufficient information to permit reconciliation to the line items presented in the balance sheet. Guidance on classes of financial instruments and the level of required disclosures is provided in appendix B of IFRS 7.

**Level of detail and selection of assumptions – information through the eyes of management**

**IFRS7 p34(a)** 4. The disclosures in relation to an entity's financial risk management should reflect the information provided internally to key management personnel. As such, the

disclosures that will be provided by an entity, their level of detail and the underlying assumptions used will vary greatly from entity to entity. The disclosures in this illustrative financial statement are only one example of the kind of information that may be disclosed; the entity should consider carefully what may be appropriate in its individual circumstances.

**Nature and extent of risks arising from financial instruments**

IFRS7 p31, 32

5. The financial statement should include qualitative and quantitative disclosures that enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

*Qualitative disclosures*

IFRS7p33

6. An entity should disclose for each type of risk:
(a) the exposures to the risk and how they arise;
(b) the entity's objectives, policies and processes for managing the risk and the methods used to measure the risk; and
(c) any changes in (a) or (b) from the previous period.

*Quantitative disclosures*

IFRS7 p34(a)(c)

7. An entity should provide for each type of risk, summary quantitative data on risk exposure at the end of the reporting period, based on information provided internally to key management personnel and any concentrations of risk. This information can be presented in narrative form as is done on pages x to x of this publication. Alternatively, entities could provide the data in a table that sets out the impact of each major risk on each type of financial instruments. This table could also be a useful tool for compiling the information that should be disclosed under paragraph 34 of IFRS 7.

IFRS7 p34(b)

8. If not already provided as part of the summary quantitative data, the entity should also provide the information in paragraphs 9-15 below, unless the risk is not material.

*Credit risk*

IFRS7p36, 37

9. For each class of financial instrument, the entity should disclose:
(a) the maximum exposure to credit risk and any related collateral held;
(b) information about the credit quality of financial assets that are neither past due nor impaired;
(c) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated;
(d) an analysis of the age of financial assets that are past due but not impaired; and
(e) an analysis of financial assets that are individually determined to be impaired including the factors in determining that they are impaired.

*Liquidity risk*

IFRS7 p34(a), p39

10 Information about liquidity risk shall be provided by way of:
(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities;
(b) a maturity analysis for derivative financial liabilities (see paragraph 12 below for details); and
(c) a description of how the entity manages the liquidity risk inherent in (a) and (b).

*(All amounts in C thousands unless otherwise stated)*

**IFRS7B11F**

11. In describing how liquidity risk is being managed, an entity should consider discussing whether it:
(a) has committed borrowing facilities or other lines of credit that it can access to meet liquidity needs;
(b) holds deposits at central banks to meet liquidity needs;
(c) has very diverse funding sources;
(d) has significant concentrations of liquidity risk in either its assets or its funding sources;
(e) has internal control processes and contingency plans for managing liquidity risk;
(f) has instruments that include accelerated repayment terms (for example, on the downgrade of the entity's credit rating);
(g) has instruments that could require the posting of collateral (for example, margin calls for derivatives);
(h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; and
(i) has instruments that are subject to master netting agreements.

*Maturity analysis*

**IFRS7B11B**

12. The maturity analysis for derivative financial liabilities should disclose the remaining contractual maturities if these maturities are essential for an understanding of the timing of the cash flows. For example, this will be the case for interest rate swaps in a cash flow hedge of a variable rate financial asset or liability and for all loan commitments. Where the remaining contractual maturities are not essential for an understanding of the timing of the cash flows, the expected maturities may be disclosed instead.

**IFRS7p39, B11D**

13. For derivative financial instruments where gross cash flows are exchanged and contractual maturities are essential to understanding, the maturity analysis should disclose the contractual amounts that are to be exchanged on a gross basis. The amount disclosed should be the amount expected to be paid in future periods, determined by reference to the conditions existing at the end of the reporting period. However, IFRS 7 does not specify whether current or forward rates should be used. We therefore recommend that entities explain which approach has been chosen. This approach should be applied consistently.

**IFRS7B11**

14. The specific time buckets presented are not mandated by the standard but are based on what is reported internally to the key management personnel. The entity uses judgement to determine the appropriate number of time bands.

**IFRS7B11D**

15. If the amounts included in the maturity tables are the contractual undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and trade and other payables. Entities can choose to add a column with the carrying amounts that ties into the balance sheet and a reconciling column if they so wish, but this is not mandatory.

**IFRS7B10A**

16. If an outflow of cash could occur either significantly earlier than indicated or be for significantly different amounts from those indicated in the entity's disclosures about its exposure to liquidity risk, the entity should state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this

risk. This disclosure is not necessary if that information is included in the contractual maturity analysis.

*Financing arrangements*

**IFRS7 p39(c)**

17. Committed borrowing facilities are a major element of liquidity management. Entities should therefore consider providing information about their undrawn facilities. IAS 7, 'Statements of cash flows', also recommends disclosure of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

*Market risk*

**IFRS7 p40(a)(b)**

18. Entities should disclose a sensitivity analysis for each type of market risk (currency, interest rate and other price risk) to which an entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by 'reasonably possible' changes in the relevant risk variable, as well as the methods and assumptions used in preparing such an analysis.

**IFRS7 p40(c)**

19. If there have been any changes in methods and assumptions from the previous period, this should be disclosed, together with the reasons for the change.

*Foreign currency risk*

**IFRS7B23**

20. Foreign currency risk can only arise on financial instruments that are denominated in a currency other than the functional currency in which they are measured. Translation related risks are therefore not included in the assessment of the entity's exposure to currency risks. Translation exposures arise from financial and non-financial items held by an entity (for example, a subsidiary) with a functional currency different from the group's presentation currency. However, foreign currency denominated inter– company receivables and payables that do not form part of a net investment in a foreign operation are included in the sensitivity analysis for foreign currency risks, because even though the balances eliminate in the consolidated balance sheet, the effect on profit or loss of their revaluation under IAS 21 is not fully eliminated.

*Interest rate risk*

21. Sensitivity to changes in interest rates is relevant to financial assets or financial liabilities bearing floating interest rates due to the risk that future cash flows will fluctuate. However, sensitivity will also be relevant to fixed rate financial assets and financial liabilities that are re-measured to fair value.

**Fair value disclosures**

*Financial instruments carried at other than fair value*

**IFRS7p25, 29**

22. An entity should disclose the fair value for each class of financial assets and financial liabilities (see paragraph 3 above) in a way that permits it to be compared with its carrying amount. Fair values do not need to be disclosed for the following:
(a) when the carrying amount is a reasonable approximation of fair value;
(b) investments in equity instruments (and derivatives linked to such equity instruments) that do not have a quoted market price in an active market and that are measured at cost in accordance with IAS 39 because their fair value cannot be measured reliably; and

*(All amounts in C thousands unless otherwise stated)*

(c) A contract containing a discretionary participation feature (as described in IFRS 4, 'Insurance contracts') where the fair value of that feature cannot be measured reliably.

23. The information about the fair values can be provided either in a combined financial instruments note or in the individual notes. However, fair values should be separately disclosed for each class of financial instrument (see paragraph 3 above), which means that each line item in the table would have to be broken down into individual classes. For that reason, IFRS GAAP plc has chosen to provide the information in the relevant notes.

*Methods and assumptions in determining fair value*

**IFRS7p27**

24. An entity should disclose for each class of financial instruments (see paragraph 3 above) the methods and, when a valuation technique is used, the assumptions applied in determining fair values. Examples of assumptions that should be disclosed are assumptions relating to prepayment rates, rates of estimated credit losses, interest rates or discount rates. If the entity has changed a valuation technique, that fact and the reason for the change should also be disclosed.

*Financial instruments measured at cost where fair value cannot be determined reliably*

**IFRS7p30**

25. If the fair value of investments in unquoted equity instruments, derivatives linked to such equity instruments or a contract containing a discretionary participation feature (as described in IFRS 4, 'Insurance contracts') cannot be measured reliably, the entity should disclose:
(a) the fact that fair value information has not been disclosed because it cannot be measured reliably;
(b) a description of the financial instruments, their carrying amount and an explanation of why fair value cannot be measured reliably;
(c) information about the market for the instruments;
(d) information about whether and how the entity intends to dispose of the financial instruments; and
(e) if the instruments are subsequently derecognised, that fact, their carrying amount at the time of derecognition and the amount of gain or loss recognised.

*Fair value measurements recognised in the balance sheet*

**IFRS7 p27B**

26. For fair value measurements recognised in the balance sheet, the entity should also disclose for each class of financial instruments:
(a) the level in the fair value hierarchy into which the fair value measurements are categorised;
(b) any significant transfers between level 1 and level 2 of the fair value hierarchy and the reasons for those transfers;
(c) for fair value measurements in level 3 of the hierarchy, a reconciliation from the beginning balances to the ending balances, showing separately changes during the period attributable to the following:
    (i) total gains or losses for the period recognised in profit or loss, together with a description of where they are presented in the statement of comprehensive income or the income statement (as applicable);
    (ii) total gains or losses recognised in other comprehensive income;
    (iii) purchases, sales issues and settlements (each type disclosed separately); and
    (iv) transfers into or out of level 3 and the reasons for those transfers;

(d) the amount of total gains or losses for the period included in profit or loss that are attributable to gains or losses relating to assets and liabilities held at the end of the reporting period, together with a description of where the gains and losses are presented in the statement of comprehensive income or the income statement (as applicable); and
(e) for fair value measurements in level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, that fact, the effect of those changes and how the effect was calculated.

**IFRS7 p27A**

27. Entities should classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy should have the following levels:
(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
(b) Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
(c) Level 3: inputs for the asset or liability that are not based on observable market data.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

**Additional information where quantitative data about risk exposure is unrepresentative**

**IFRS7p35, p42**

28. If the quantitative data disclosed under paragraphs 7, 9, 10 and 14 above is unrepresentative of the entity's exposure to risk during the period, the entity should provide further information that is representative. If the sensitivity analyses are unrepresentative of a risk inherent in a financial instrument (for example, where the year end exposure does not reflect the exposure during the year), the entity should disclose that fact and the reason why the sensitivity analyses are unrepresentative.

## 4 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.

**1p125**

### 4.1 Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates 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 addressed below.

*(a) Estimated impairment of goodwill*

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 17).

*(All amounts in C thousands unless otherwise stated)*

**1p129, 36p134(f)(i-iii)**

An impairment charge of C4,650 arose in the wholesale CGU in Step-land (included in the Russian operating segment) during the course of the 2012 year, resulting in the carrying amount of the CGU being written down to its recoverable amount. If the budgeted gross margin used in the value-in-use calculation for the wholesale CGU in Step-land had been 10% lower than management's estimates at 31 December 2012 (for example, 45.5% instead of 55.5%), the group would have recognised a further impairment of goodwill by C100 and would need to reduce the carrying value of property, plant and equipment by C300.

If the estimated cost of capital used in determining the pre-tax discount rate for the wholesale CGU in Step-land had been 1% higher than management's estimates (for example, 14.8% instead of 13.8%), the group would have recognised a further impairment against goodwill of C300.

*(b) Income taxes*

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) of expected cash flows to differ by 10% from management's estimates, the group would need to:

- increase the income tax liability by C120 and the deferred tax liability by C230, if unfavourable; or
- decrease the income tax liability by C110 and the deferred tax liability by C215, if favourable.

*(c) Fair value of derivatives and other financial instruments*

**IFRS7p27**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The group has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

The carrying amount of available-for-sale financial assets would be an estimated C12 lower or C15 higher were the discount rate used in the discount cash flow analysis to differ by 10% from management's estimates.

*(d) Revenue recognition*

The group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver design services. Use of the percentage-of-completion method requires the group to estimate the services performed to date as a proportion of the total services to be performed. Were the proportion of services performed to total services to be performed to differ by 10% from management's estimates, the amount of revenue recognised in the year would be increased by

*(All amounts in C thousands unless otherwise stated)*

C1,175 if the proportion performed were increased, or would be decreased by C1,160 if the proportion performed were decreased.

*(e) Pension benefits*

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 33.

Were the discount rate used to differ by 10% from management's estimates, the carrying amount of pension obligations would be an estimated C425 lower or C450 higher.

**1p122**

## 4.2 Critical judgements in applying the entity's accounting policies

*(a) Revenue recognition*

The group has recognised revenue amounting to C950 for sales of goods to L&Co in the UK during 2012. The buyer has the right to return the goods if their customers are dissatisfied. The group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 3%. The group has, therefore, recognised revenue on this transaction with a corresponding provision against revenue for estimated returns. If the estimate changes by 1%, revenue will be reduced/increased by C10.

*(b) Impairment of available-for-sale equity investments*

The group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the group would suffer an additional loss of C1,300 in its 2012 financial statements, being the transfer of the accumulated fair value adjustments recognised in equity on the impaired available-for-sale financial assets to the income statement.

*(c) Investment in Alpha Limited*

Management has assessed the level of influence that the group has on Alpha Limited and determined that it has significant influence even though the share

*(All amounts in C thousands unless otherwise stated)*

holding is below 20% because of the board representation and contractual terms. Consequently, this investment has been classified as an associate.

## 5 Segment information

IFRS8p22(a) The strategic steering committee is the group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the strategic steering committee for the purposes of allocating resources and assessing performance.

IFRS8p22(a-b) The strategic steering committee considers the business from both a geographic and product perspective. Geographically, management considers the performance in the UK, US, China, Russia and Europe. From a product perspective, management separately considers the wholesale and retail activities in these geographies. The group's retail activities are only in the UK and US. The wholesale segments derive their revenue primarily from the manufacture and wholesale sale of the group's own brand of shoes, Footsy Tootsy. The UK and US retail segments derive their revenue from retail sales of shoe and leather goods including the group's own brand and other major retail shoe brands.

IFRS8p22(a) Although the China segment does not meet the quantitative thresholds required by IFRS 8 for reportable segments, management has concluded that this segment should be reported, as it is closely monitored by the strategic steering committee as a potential growth region and is expected to materially contribute to group revenue in the future.

IFRS8p18 During 2011, US retail did not qualify as a reportable operating segment. However, with the acquisition in 2012 of ABC Group (see note 39), retail qualifies as a reportable operating segment, the comparatives have been restated.

IFRS8p16 All other segments primarily relate to the sale of design services and goods transportation services to other shoe manufacturers in the UK and Europe and wholesale shoe revenue from the Central American region. These activities are excluded from the reportable operating segments, as these activities are not reviewed by the strategic steering committee.

IFRS8p28 The strategic steering committee assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes discontinued operations and the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. The measure also excludes the effects of equity-settled share-based payments and unrealised gains/losses on financial instruments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group.

### Revenue

IFRS8p27(a) Sales between segments are carried out at arm's length. The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in the income statement.

*(All amounts in C thousands unless otherwise stated)*

| | Year ended 31 December 2012 | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Total segment revenue** | **Inter-segment revenue** | **Revenue from external customers** | **Total segment revenue** | **Inter-segment revenue** | **Revenue from external customers** |
| UK wholesale | 46,638 | (11,403) | **35,235** | 42,284 | (11,457) | **30,827** |
| UK retail | 43,257 | – | **43,257** | 31,682 | – | **31,682** |
| US wholesale | 28,820 | (7,364) | **21,456** | 18,990 | (6,798) | **12,192** |
| US retail | 42,672 | – | **42,672** | 2,390 | – | **2,390** |
| Russia wholesale | 26,273 | (5,255) | **21,018** | 8,778 | (1,756) | **7,022** |
| China wholesale | 5,818 | (1,164) | **4,654** | 3,209 | (642) | **2,567** |
| Europe wholesale | 40,273 | (8,055) | **32,218** | 26,223 | (5,245) | **20,978** |
| All other segments | 13,155 | (2,631) | **10,524** | 5,724 | (1,022) | **4,702** |
| **Total** | 246,906 | (35,872) | **211,034** | 139,280 | (26,920) | **112,360** |

IFRS8p28(b)

## EBITDA

| | **Year ended 31 December 2012** | **Year ended 31 December 2011** |
|---|---|---|
| | **Adjusted EBITDA** | **Adjusted EBITDA** |
| UK wholesale | **17,298** | 17,183 |
| UK retail | **9,550** | 800 |
| US wholesale | **9,146** | 10,369 |
| US retail | **9,686** | 1,298 |
| Russia wholesale | **12,322** | 3,471 |
| China wholesale | **2,323** | 1,506 |
| Europe wholesale | **16,003** | 10,755 |
| All other segments | **3,504** | 1,682 |
| **Total** | **79,832** | 47,064 |
| Depreciation | **(17,754)** | (9,662) |
| Amortisation | **(800)** | (565) |
| Restructuring costs | **(1,986)** | – |
| Legal expenses | **(737)** | (855) |
| Goodwill impairment | **(4,650)** | – |
| Unrealised financial instrument gains | **102** | 101 |
| Share options granted to directors and employees | **(690)** | (822) |
| Finance costs – net | **(6,443)** | (10,588) |
| Other | **802** | 245 |
| **Profit before tax and discontinued operations** | **47,676** | 24,918 |

*(All amounts in C thousands unless otherwise stated)*

IFRS8p23

## Other profit and loss disclosures[1]

| Year ended 31 December 2012 | Depreciation and amortisation | Goodwill impairment | Restructuring costs | Income tax expense | Share of profit from associates |
|---|---|---|---|---|---|
| UK wholesale | (3,226) | – | – | (2,550) | **200** |
| UK retail | (3,830) | – | – | (2,780) | – |
| US wholesale | (1,894) | – | – | (1,395) | – |
| US retail | (3,789) | – | – | (3,040) | – |
| Russia wholesale | (2,454) | (4,650) | (1,986) | (1,591) | – |
| China wholesale | (386) | – | – | (365) | – |
| Europe wholesale | (2,706) | – | – | (2,490) | – |
| All other segments | (269) | – | – | (400) | **15** |
| **Total** | **(18,554)** | **(4,650)** | **(1,986)** | **(14,611)** | **215** |

| Year ended 31 December 2011 | Depreciation and amortisation | Goodwill impairment | Restructuring costs | Income tax expense | Share of profit from associates |
|---|---|---|---|---|---|
| UK wholesale | (3,801) | – | – | (2,772) | 155 |
| UK retail | (201) | – | – | (650) | – |
| US wholesale | (2,448) | – | – | (1,407) | – |
| US retail | (199) | – | – | (489) | – |
| Russia wholesale | (453) | – | – | (509) | – |
| China wholesale | (286) | – | – | (150) | – |
| Europe wholesale | (2,701) | – | – | (2,201) | – |
| All other segments | (138) | – | – | (492) | (10) |
| **Total** | **(10,227)** | **–** | **–** | **(8,670)** | **145** |

See note 17 for details of the impairment of goodwill of C4,650 in the Russian operating segment in 2012 relating to the decision to reduce manufacturing output. There has been no further impact on the measurement of the group's assets and liabilities. There was no impairment charge or restructuring costs recognised in 2011.

IFRS8p27(f)

Due to the European operations utilising excess capacity in certain Russian assets that are geographically close to the European region, a portion of the depreciation charge of C197 (2011: C50) relating to the Russian assets has been allocated to the European segment to take account of this.

[1] IFRS8p23 requires disclosures of interest revenue and expense even if not included in the measure of segment profit and loss. This disclosure has not been included in the illustrative because these balances are not allocated to the segments.

*(All amounts in C thousands unless otherwise stated)*

IFRS8p23, p24, p28(c)

## Assets[1]

| | Year ended 31 December 2012 | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Total assets** | **Invest-ments in associates** | **Additions to non-current assets[2]** | **Total assets** | **Invest-ments in associates** | **Additions to non-current assets[2]** |
| UK wholesale | 46,957 | 7,297 | – | 43,320 | 7,050 | – |
| UK retail | 46,197 | – | 35,543 | 9,580 | – | 47 |
| US wholesale | 27,313 | – | – | 32,967 | – | – |
| US retail | 45,529 | – | 39,817 | 8,550 | – | 46 |
| Russia wholesale | 22,659 | – | – | 5,067 | – | – |
| China wholesale | 6,226 | – | 11,380 | 20,899 | – | 2,971 |
| Europe wholesale | 42,636 | – | – | 36,450 | – | – |
| All other segments | 22,184 | 6,076 | 1,500 | 49,270 | 6,194 | 3,678 |
| **Total** | **259,701** | **13,373** | **88,240** | **206,103** | **13,244** | **6,742** |
| **Unallocated** | | | | | | |
| Deferred income tax assets | 3,520 | – | – | 3,321 | – | – |
| Available-for-sale financial assets | 19,370 | – | – | 14,910 | – | – |
| Financial assets at fair value through profit and loss | 11,820 | – | – | 7,972 | – | – |
| Derivative financial instruments | 1,464 | – | – | 1,196 | – | – |
| Assets of disposal group classified as held for sale | 3,333 | – | – | – | – | – |
| **Total assets per the balance sheet** | **299,208** | – | – | **233,502** | – | – |

IFRS8p27(c)

The amounts provided to the strategic steering committee with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Investment in shares (classified as available-for-sale financial assets or financial assets at fair value through profit or loss) held by the group are not considered to be segment assets but rather are managed by the treasury function. The measure of assets reviewed by the CODM does not include assets held for sale. The group's interest-bearing liabilities are not considered to be segment liabilities but rather are managed by the treasury function.

[1] The measure of assets has been disclosed for each reportable segment as is regularly provided to the chief operating decision-maker. If the chief operating decision-maker reviews a measure of liabilities, this should also be disclosed.

[2] Additions to non-current assets excludes other than financial instruments and deferred tax assets.

*(All amounts in C thousands unless otherwise stated)*

### Entity-wide information

IFRS8p32 Breakdown of the revenue from all services is as follows:

| | 2012 | 2011 |
|---|---|---|
| **Analysis of revenue by category:** | | |
| – Sales of goods | **202,884** | 104,495 |
| – Revenue from services | **8,000** | 7,800 |
| – Royalty income | **150** | 65 |
| **Total** | **211,034** | 112,360 |

IFRS8p33(a) The group is domiciled in the UK. The result of its revenue from external customers in the UK is C50,697 (2011: C48,951), and the total of revenue from external customers from other countries is C160,337 (2011: C63,409). The breakdown of the major component of the total of revenue from external customers from other countries is disclosed above.

IFRS8p33(b) The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in the UK is C49,696 (2011: C39,567), and the total of such non-current assets located in other countries is C146,762 (2011: C93,299).

IFRS8p34 Revenues of approximately C32,023 (2011: C28,034) are derived from a single external customer. These revenues are attributable to the US retail and UK wholesale segments.

## 6 Exceptional items

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. During the year, the exceptional items as detailed below have been included in cost of sales in the income statement.

An analysis of the amount presented as exceptional item in these financial statements is given below.

| | 2012 | 2011 |
|---|---|---|
| **Operating items:** | | |
| – Inventory write-down | **3,117** | – |

The inventory write-down of C3,117 relates to leather accessories that have been destroyed by fire in an accident. This amount is included within cost of sales in the income statement.

*(All amounts in C thousands unless otherwise stated)*

## 7 Other income

| | | 2012 | 2011 |
|---|---|---|---|
| | Gain on re-measuring to fair value the existing interest in ABC Group on acquisition of control (note 39) | **850** | – |
| 18p35(b)(v) | Dividend income on available-for-sale financial assets | **1,100** | 883 |
| 18p35(b)(v) | Dividend income on financial assets at fair value through profit or loss | **800** | 310 |
| | Investment income | **2,750** | 1,193 |
| | Insurance reimbursement | – | 66 |
| | **Total** | **2,750** | 1,259 |

The insurance reimbursement relates to the excess of insurance proceeds over the carrying values of goods damaged.

## 8 Other (losses)/gains – net

| IFRS7p20(a)(i) | | 2012 | 2011 |
|---|---|---|---|
| | Financial assets at fair value through profit or loss (note 23): | | |
| | – Fair value losses | **(508)** | (238) |
| | – Fair value gains | **593** | – |
| IFRS7p20(a)(i) | Foreign exchange forward contracts: | | |
| | – Held for trading | **86** | 88 |
| 21p52(a) | – Net foreign exchange (losses)/gains (note15) | **(277)** | 200 |
| IFRS7p24(a) | Ineffectiveness on fair value hedges (note 20) | **(1)** | (1) |
| IFRS7p24(b) | Ineffectiveness on cash flow hedges (note 20) | **17** | 14 |
| | **Total** | **(90)** | 63 |

## 9 Expenses by nature

| | | 2012 | 2011 |
|---|---|---|---|
| 1p104 | Changes in inventories of finished goods and work in progress | **6,950** | (2,300) |
| 1p104 | Raw material and consumables used | **53,302** | 31,845 |
| 1p104 | Employee benefit expense (note 10) | **40,082** | 15,492 |
| 1p104 | Depreciation, amortisation and impairment charges (notes 16 and 17) | **23,204** | 10,227 |
| 1p104 | Transportation expenses | **8,584** | 6,236 |
| 1p104 | Advertising costs | **14,265** | 6,662 |
| 1p104 | Operating lease payments (note 16) | **10,604** | 8,500 |
| 1p104 | Other expenses | **2,799** | 1,659 |
| | **Total cost of sales, distribution costs and administrative expenses** | **159,790** | 78,321 |

*(All amounts in C thousands unless otherwise stated)*

## 10 Employee benefit expense

| | | 2012 | 2011 |
|---|---|---|---|
| 19p142 | Wages and salaries, including restructuring costs C799 (2011: nil) and other termination benefits C1,600 (2011: nil) (note 35 and note 41) | **28,363** | 10,041 |
| | Social security costs | **9,369** | 3,802 |
| IFRS2p51(a) | Share options granted to directors and employees (notes 27 and 28) | **690** | 822 |
| 19p46 | Pension costs – defined contribution plans | **756** | 232 |
| 19p120A(g) | Pension costs – defined benefit plans (note 33) | **755** | 488 |
| 19p120A(g) | Other post-employment benefits (note 33) | **149** | 107 |
| | | **40,082** | **15,492** |

## 11 Finance income and costs

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS7p20(b) | Interest expense: | | |
| | – Bank borrowings | **(5,317)** | (10,646) |
| | – Dividend on redeemable preference shares (note 31) | **(1,950)** | (1,950) |
| | – Convertible bond (note 31) | **(3,083)** | – |
| | – Finance lease liabilities | **(547)** | (646) |
| 37p84(e) | – Provisions: unwinding of discount (note 21 and 35) | **(47)** | (39) |
| 21p52(a) | Net foreign exchange gains on financing activities (note 15) | **2,594** | 996 |
| | Fair value gains on financial instruments: | | |
| IFRS7p23(d) | – Interest rate swaps: cash flow hedges, transfer from equity | **102** | 88 |
| IFRS7p24(a)(i) | – Interest rate swaps: fair value hedges | **16** | 31 |
| IFRS7p24(a)(ii) | Fair value adjustment of bank borrowings attributable to interest rate risk | **(16)** | (31) |
| | **Finance costs** | **(8,248)** | (12,197) |
| | Less: amounts capitalised on qualifying assets | **75** | – |
| | Total finance cost | **(8,173)** | (12,197) |
| | Finance income: | | |
| | – Interest income on short-term bank deposits | **550** | 489 |
| IFRS7p20(b) | – Interest income on available-for-sale financial assets | **963** | 984 |
| IFRS7p20(b) | – Interest income on loans to related parties (note 41) | **217** | 136 |
| | **Finance income** | **1,730** | 1,609 |
| | **Net finance costs** | **(6,443)** | (10,588) |

## 12 Investment in associates

| | | 2012 | 2011 |
|---|---|---|---|
| | **At 1 January** | **13,244** | 13,008 |
| 28p38 | Share of profit | **215** | 145 |
| | Exchange differences (note 29) | **(74)** | 105 |
| | Other equity movements: available-for-sale investments reserve (note 29) | **(12)** | (14) |
| 28p38 | **At 31 December** | **13,373** | 13,244 |

*(All amounts in C thousands unless otherwise stated)*

28p37(b) The group's share of the results of its principal associates, and its aggregated assets (including goodwill) and liabilities, are as follows[1]:

| Name | Country of incorporation | Assets | Liabilities | Revenues | Profit | % interest held |
|---|---|---|---|---|---|---|
| **31 December 2012:** | | | | | | |
| – Alfa Limited | Cyprus | 32,381 | 25,174 | 31,123 | 200 | 18 |
| – Beta SA | Greece | 12,115 | 5,949 | 9,001 | 15 | 30 |
| | | **44,496** | **31,123** | **40,124** | **215** | |
| 31 December 2011: | | | | | | |
| – Alfa Limited | Cyprus | 27,345 | 20,295 | 35,012 | 155 | 18 |
| – Beta SA | Greece | 9,573 | 3,379 | 10,001 | (10) | 30 |
| | | **36,918** | **23,674** | **45,013** | **145** | |

28p37(a) As at 31 December 2012, the fair value of the groups interest in Beta SA, which is listed on the Euro Money Stock Exchange, was C5,500 (2011: C5,000) and the carrying amount of the group's interest was C5,000 (2011: C4,500).

28p37(c) Although the group holds less than 20% of the equity shares of Alfa Limited, the group exercises significant influence by virtue of its contractual right to appoint two directors to the board of directors of that company and has the power to participate in the financial and operating policy decisions of Alfa Limited.

## 13 Income tax expense

| | | 2012 | 2011 |
|---|---|---|---|
| | Current tax: | | |
| 12p80(a) | Current tax on profits for the year | **14,082** | 6,035 |
| 12p80(b) | Adjustments in respect of prior years | **150** | – |
| | **Total current tax** | **14,232** | 6,035 |
| | Deferred tax (note 32): | | |
| 12p80(c) | Origination and reversal of temporary differences | **476** | 2,635 |
| 12p80(d) | Impact of change in the Euravian tax rate[2] | **(97)** | – |
| | **Total deferred tax** | **379** | 2,635 |
| | **Income tax expense** | **14,611** | 8,670 |

12p81(c) The tax on the group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

[1] An alternative method of presentation is to give the gross amounts of assets and liabilities (excluding goodwill) of associates and not of the group's share.
[2] The impact of change in Euravian tax rate is shown for illustrative purposes.

*(All amounts in C thousands unless otherwise stated)*

| | 2012 | 2011 |
|---|---|---|
| **Profit before tax** | **47,676** | 24,918 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | **15,453** | **7,475** |
| Tax effects of: | | |
| – Associates results reported net of tax | **57** | (44) |
| – Income not subject to tax | **(1,072)** | (212) |
| – Expenses not deductible for tax purposes | **1,540** | 1,104 |
| – Utilisation of previously unrecognised tax losses | **(1,450)** | – |
| – Tax losses for which no deferred income tax asset was recognised | **30** | 347 |
| Re-measurement of deferred tax – change in Euravian tax rate | **(97)** | – |
| Adjustment in respect of prior years | **150** | – |
| **Tax charge** | **14,611** | **8,670** |

12p81(d) The weighted average applicable tax rate was 32% (2011: 30%). The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries partially offset by the impact of the reduction in the Euravian tax rate (see below).

12p81(d) During the year, as a result of the change in the Euravian corporation tax rate from 30% to 28% that was substantively enacted on 26 June 2012 and that will be effective from 1 April 2013, the relevant deferred tax balances have been re-measured. Deferred tax expected to reverse in the year to 31 December 2013 has been measured using the effective rate that will apply in Euravia for the period (28.5%).[1]

12p81(ae) The tax (charge)/credit relating to components of other comprehensive income is as follows:

| | | 2012 | | |
|---|---|---|---|---|
| | | **Before tax** | **Tax (charge) /credit** | **After tax** |
| | Fair value gains: | | | |
| 1p90 | – Land and buildings | **1,005** | **(250)** | **755** |
| 1p90 | – Available-for-sale financial assets | **560** | **(198)** | **362** |
| 1p90 | Share of other comprehensive income of associates | **(86)** | **–** | **(86)** |
| 1p90 | Actuarial loss on retirement benefit obligations | **–** | **–** | **–** |
| 1p90 | Impact of change in the Euravian tax rate on deferred tax[2] | **–** | **(10)** | **(10)** |
| 1p90 | Cash flow hedges | **97** | **(33)** | **64** |
| 1p90 | Net investment hedge | **(45)** | **–** | **(45)** |
| 1p90 | Currency translation differences | **2,413** | **–** | **2,413** |
| IFRS3p59 | Reclassification of revaluation of previously held interest in ABC Group | **(850)** | **–** | **(850)** |
| | **Other comprehensive income** | **3,094** | **(491)** | **2,603** |
| | Current tax[3] | | **–** | |
| | Deferred tax (note 32) | | **(491)** | |
| | | | **(491)** | |

[1] If the effect of the proposed changes is material, disclosure should be given of the effect of the changes, either as disclosure of events after the reporting period or as future material adjustment to the carrying amounts of assets and liabilities. This disclosure does not need to be tailored or reconciled to the income statement.

[2] The impact of change in Euravian tax rate is shown for illustrative purposes.

[3] There are no current tax items relating to other comprehensive income in these financial statements, but the line item is shown for illustrative purposes.

*(All amounts in C thousands unless otherwise stated)*

| | | 2011 | | |
|---|---|---|---|---|
| | | Before tax | Tax (charge) /credit | After tax |
| | Fair value gains: | | | |
| 1p90 | – Land and buildings | 1,133 | (374) | 759 |
| 1p90 | – Available-for-sale financial assets | 973 | (61) | 912 |
| 1p90 | Share of other comprehensive income of associates | 91 | – | 91 |
| 1p90 | Actuarial loss on retirement benefit obligations | (705) | 211 | (494) |
| 1p90 | Impact of change in the Euravian tax rate on deferred tax[1] | – | – | – |
| 1p90 | Cash flow hedges | (3) | – | (3) |
| 1p90 | Net investment hedge | 40 | – | 40 |
| 1p90 | Currency translation differences | (1,111) | – | (1,111) |
| | **Other comprehensive income** | 418 | (224) | 194 |
| | Current tax[2] | | – | |
| | Deferred tax (note 32) | | (224) | |
| | | | (224) | |

12p81(a) The income tax (charged)/credited directly to equity during the year is as follows:

| | 2012 | 2011 |
|---|---|---|
| **Current tax**[3] | | |
| Share option sheme | **–** | – |
| **Deferred tax** | | |
| Share option sheme | **30** | 20 |
| Convertible bond – equity component[4] (note 29) | **(2,328)** | – |
| | **(2,298)** | 20 |

In addition, deferred income tax of C49 (2011: C43) was transferred from other reserves (note 29) to retained earnings (note 28). This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

[1] The impact of change in Euravian tax rate is shown for illustrative purposes.
[2] There are no current tax items relating to other comprehensive income in these financial statements, but the line item is shown for illustrative purposes.
[3] IAS 12 requires disclosure of current tax charged/credited directly to equity, in addition to deferred tax. There are no current tax items shown directly in equity in these financial statements, but the line item is shown for illustrative purposes.
[4] It is assumed that the tax base on the convertible bond is not split between the debt and equity elements. If the tax base were split, this would impact the deferred tax position.

*(All amounts in C thousands unless otherwise stated)*

## 14 Earnings per share

*(a) Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company and held as treasury shares (note 26).

| | | 2012 | 2011 |
|---|---|---|---|
| 33p70(a) | Profit from continuing operations attributable to owners of the parent | **30,517** | 15,392 |
| | Profit from discontinued operations attributable to owners of the parent | **100** | 120 |
| | **Total** | **30,617** | **15,512** |
| 33p70(b) | Weighted average number of ordinary shares in issue (thousands) | **23,454** | 20,500 |

*(b) Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | | 2012 | 2011 |
|---|---|---|---|
| | **Earnings** | | |
| | Profit from continuing operations attributable to owners of the parent | **30,517** | 15,392 |
| | Interest expense on convertible debt (net of tax) | **2,158** | – |
| 33p70(a) | Profit used to determine diluted earnings per share | **32,675** | 15,392 |
| | Profit from discontinued operations attributable to owners of the parent | **100** | 120 |
| | | **32,775** | 15,512 |
| | Weighted average number of ordinary shares in issue (thousands) | **23,454** | 20,500 |
| | Adjustment for: | | |
| | – Assumed conversion of convertible debt (thousands) | **3,030** | – |
| | – Share options (thousands) | **1,213** | 1,329 |
| 33p70(b) | Weighted average number of ordinary shares for diluted earnings per share (thousands) | **27,697** | 21,829 |

*(All amounts in C thousands unless otherwise stated)*

## 15 Net foreign exchange gains/(losses)

21p52(a) The exchange differences charged/credited to the income statement are included as follows:

| | 2012 | 2011 |
|---|---|---|
| Other (losses)/gains – net (note 8) | **(277)** | 200 |
| Net finance costs (note 11) | **2,594** | 996 |
| **Total** | **2,317** | 1,196 |

## 16 Property, plant and equipment

| 1p78(a) | | Land and buildings | Vehicles and machinery | Furniture, fittings and equipment | Construc-tion in progress | Total |
|---|---|---|---|---|---|---|
| 16p73(d) | **At 1 January 2011** | | | | | |
| | Cost or valuation | 39,664 | 71,072 | 20,025 | – | 130,761 |
| | Accumulated depreciation | (2,333) | (17,524) | (3,690) | – | (23,547) |
| | **Net book amount** | **37,331** | **53,548** | **16,335** | **–** | **107,214** |
| 16p73(e) | **Year ended 31 December 2011** | | | | | |
| | Opening net book amount | 37,331 | 53,548 | 16,335 | – | 107,214 |
| 16p73(e)(viii) | Exchange differences | (381) | (703) | (423) | – | (1,507) |
| 16p73(e)(iv) | Revaluation surplus (note 29) | 1,133 | – | – | – | 1,133 |
| 16p73(e)(i) | Additions | 1,588 | 2,970 | 1,484 | – | 6,042 |
| 16p73(e)(ix) | Disposals (note 36) | – | (2,607) | (380) | – | (2,987) |
| 16p73(e)(vii) | Depreciation charge (note 9) | (636) | (4,186) | (4,840) | – | (9,662) |
| | **Closing net book amount** | **39,035** | **49,022** | **12,176** | **–** | **100,233** |
| 16p73(d) | **At 31 December 2011** | | | | | |
| | Cost or valuation | 42,004 | 70,732 | 20,706 | – | 133,442 |
| | Accumulated depreciation | (2,969) | (21,710) | (8,530) | – | (33,209) |
| | **Net book amount** | **39,035** | **49,022** | **12,176** | **–** | **100,233** |
| | **Year ended 31 December 2012** | | | | | |
| 16p73(e) | Opening net book amount | 39,035 | 49,022 | 12,176 | – | 100,233 |
| 16p73(e)(viii) | Exchange differences | 846 | 1,280 | 342 | – | 2,468 |
| 16p73(e)(iv) | Revaluation surplus (note 29) | 1,005 | – | – | – | 1,005 |
| 16p73(e)(iii) | Acquisition of subsidiary (note 39) | 49,072 | 5,513 | 13,199 | – | 67,784 |
| 16p73(e)(i) | Additions | 4,421 | 427 | 2,202 | 2,455 | 9,505 |
| 16p73(e)(ix) | Disposals (note 36) | (2,000) | (3,729) | (608) | – | (6,337) |
| | Transfers | 1,245 | – | – | (1,245) | – |
| 16p73(e)(vii) | Depreciation charge (note 9) | (3,545) | (4,768) | (9,441) | – | (17,754) |
| IFRS5p38 | Transferred to disposal group classified as held for sale | (341) | (1,222) | – | – | (1,563) |
| | **Closing net book amount** | **89,738** | **46,523** | **17,870** | **1,210** | **155,341** |
| 16p73(d) | **At 31 December 2012** | | | | | |
| | Cost or valuation | 96,593 | 74,223 | 35,841 | 1,210 | 207,867 |
| | Accumulated depreciation | (6,855) | (27,700) | (17,971) | – | (52,526) |
| | **Net book amount** | **89,738** | **46,523** | **17,870** | **1,210** | **155,341** |

DV Property, plant and equipment transferred to the disposal group classified as held-for-sale amounts to C1,563 and relates to assets that are used by Shoes Limited (part

*(All amounts in C thousands unless otherwise stated)*

of the UK wholesale segment). See note 25 for further details regarding the disposal group held for sale.

**16p77(a)-(d), 1p79(b)** An independent valuation of the group's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2012 and 2011. The valuation, which conforms to International Valuation Standards, was determined by reference to recent market transactions on arm's length terms. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'other reserves' in shareholders equity (note 29).

**DV, 1p104** Depreciation expense of C8,054 (2011: C5,252) has been charged in 'cost of sales', C5,568 (2011: C2,410) in 'distribution costs' and C4,132 (2011: C2,000) in 'administrative expenses'.

**17p35(c)** Lease rentals amounting to C1,172 (2011: C895) and C9,432 (2011: C7,605) relating to the lease of machinery and property, respectively, are included in the income statement (note 9).

Construction work in progress as at 31 December 2012 mainly comprises new shoe manufacturing equipment being constructed in the UK.

**23p26** During the year, the group has capitalised borrowing costs amounting to C75 (2011: nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 7.5%.

**16p77(e)** If land and buildings were stated on the historical cost basis, the amounts would be as follows:

| | **2012** | 2011 |
|---|---|---|
| Cost | **93,079** | 37,684 |
| Accumulated depreciation | **(6,131)** | (2,197) |
| **Net book amount** | **86,948** | 35,487 |

**16p74(a)** Bank borrowings are secured on land and buildings for the value of C37,680 (2011: C51,306) (note 31).

**17p31(a)** Vehicles and machinery includes the following amounts where the group is a lessee under a finance lease:

| | **2012** | 2011 |
|---|---|---|
| Cost-capitalised finance lease | **13,996** | 14,074 |
| Accumulated depreciation | **(5,150)** | (3,926) |
| **Net book amount** | **8,846** | 10,148 |

**17p35(d)** The group leases various vehicles and machinery under non-cancellable finance lease agreements. The lease terms are between 3 and 15 years, and ownership of the assets lies within the group.

*(All amounts in C thousands unless otherwise stated)*

## 17 Intangible assets

| Reference | Cost | Goodwill | Trademarks and licences | Internally generated software development costs | Total |
|---|---|---|---|---|---|
| IFRS3B67(d)(i) | | | | | |
| 38p118(c) | At 1 January 2011 | 12,546 | 8,301 | 1,455 | 22,302 |
| IFRS3B 67(d)(viii) | Exchange differences | (546) | (306) | (45) | (897) |
| 38p118(e)(i) | Additions | – | 700 | – | 700 |
| | **As at 31 December 2011** | **12,000** | **8,695** | **1,410** | **22,105** |
| IFRS3B 67(d)(viii) | Exchange differences | 341 | 96 | 134 | 571 |
| 38p118(e)(i) | Additions | – | 684 | 2,366 | 3,050 |
| IFRS3B67(d)(ii) | Acquisition of subsidiary (note 39) | 4,501 | 4,000 | – | 8,501 |
| IFRS5p38 | Transferred to disposal group classified as held for sale | (100) | (1,000) | – | (1,100) |
| | **As at 31 December 2012** | **16,742** | **12,475** | **3,910** | **33,127** |
| | **Accumulated amortisation and impairment** | | | | |
| 38p118(c) | At 1 January 2011 | – | (330) | (510) | (840) |
| 38p118(e)(vi) | Amortisation charge (note 9) | – | (365) | (200) | (565) |
| | **As at 31 December 2011** | – | (695) | (710) | (1,405) |
| IFRS3B67(d)(v) | Impairment charge (note 9) | (4,650) | – | – | (4,650) |
| 38p118(e)(vi) | Amortisation charge (note 9) | – | (680) | (120) | (800) |
| | **As at 31 December 2012** | **(4,650)** | **(1,375)** | **(830)** | **(6,855)** |
| | **Net book value** | | | | |
| | Cost | 12,000 | 8,695 | 1,410 | 22,105 |
| IFRS3B67(d)(i) | Accumulated amortisation and impairment | – | (695) | (710) | (1,405) |
| | **As at 31 December 2011** | **12,000** | **8,000** | **700** | **20,700** |
| | Cost | 16,742 | 12,475 | 3,910 | 33,127 |
| IFRS3B67(d)(i) | Accumulated amortisation and impairment | (4,650) | (1,375) | (830) | (6,855) |
| | **As at 31 December 2012** | **12,092** | **11,100** | **3,080** | **26,272** |

**36p126(a)** The carrying amount of the Russia wholesale segment has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in 'cost of sales' in the income statement.

**38p118(d)** Amortisation of C40 (2011: C100) is included in 'cost of sales' in the income statement; C680 (2011: C365) in 'distribution costs'; and C80 (2011: C100) in 'administrative expenses'.

**DV** The trademark transferred to the disposal group classified as held for sale relates to the Shoes Limited trademark (part of the wholesale segment), which was previously recognised by the group on the acquisition of the entity in 2007. A further net book amount of C100 transferred to the disposal group relates to goodwill. See note 25 for further details regarding the disposal group held for sale.

*(All amounts in C thousands unless otherwise stated)*

## Impairment tests for goodwill

36p130(d)

Management reviews the business performance based on geography and type of business. It has identified UK, US, China, Russia and Europe as the main geographies. There are both retail and wholesale segments in the UK and the US. In all other geographies, the group has only wholesale business. Goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill allocation for each operating segment:

36p134(a)

| 2012 | Opening | Addition | Disposal | Impair-ment | Other adjust-ments | Closing |
|---|---|---|---|---|---|---|
| UK wholesale | 6,075 | – | (100) | – | 215 | 6,190 |
| UK retail | 15 | – | – | – | 5 | 20 |
| US wholesale | 115 | – | – | – | 15 | 130 |
| US retail | 30 | 3,597 | – | – | (55) | 3,572 |
| Europe wholesale | 770 | 904 | – | – | 100 | 1,774 |
| Russia wholesale | 4,695 | – | – | (4,650) | 5 | 50 |
| China wholesale | 100 | – | – | – | 46 | 146 |
| All other segments | 200 | – | – | – | 10 | 210 |
| **Total** | **12,000** | **4,501** | **(100)** | **(4,650)** | **341** | **12,092** |
| **2011** | | | | | | |
| UK wholesale | 6,370 | – | – | – | (295) | 6,075 |
| UK retail | 20 | – | – | – | (5) | 15 |
| US wholesale | 125 | – | – | – | (10) | 115 |
| US retail | 131 | – | – | – | (101) | 30 |
| Europe wholesale | 705 | – | – | – | 65 | 770 |
| Russia wholesale | 4,750 | – | – | – | (55) | 4,695 |
| China wholesale | 175 | – | – | – | (75) | 100 |
| All other segments | 270 | – | – | – | (70) | 200 |
| **Total** | **12,546** | **–** | **–** | **–** | **(546)** | **12,000** |

During 2011, US retail did not qualify as a reportable operating segment. However, with the acquisition in 2012 of ABC Group (note 39), US retail qualifies as a separate reportable segment, the comparatives have therefore been restated to be consistent.

36p130(e), 36p134(c), 36p134(d)(iii)

The recoverable amount of all CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the shoe business in which the CGU operates.

*(All amounts in C thousands unless otherwise stated)*

36p134(d)(i) The key assumptions used for value-in-use calculations in 2012 are as follows:[1]

| | | UK whole-sale | US whole-sale | Europe whole-sale | Russia whole-sale | China whole-sale | UK retail | US retail | All other segments |
|---|---|---|---|---|---|---|---|---|---|
| 36p134(d) | Gross margin[2] | 60.0% | 59.0% | 60.0% | 55.5% | 47.0% | 48.0% | 46.0% | 46.0% |
| 36p134(d)(iv) | Growth rate[3] | 1.8% | 1.8% | 1.8% | 2.0% | 3.0% | 2.1% | 2.3% | 3.9% |
| 36p134(d)(v), p130(g) | Discount rate[4] | 12.5% | 12.0% | 12.7% | 13.8% | 14.0% | 13.0% | 12.5% | 14.8% |

36p134(d)(i) The key assumptions used for value-in-use calculations in 2011 are as follows:[1]

| | | UK whole-sale | US whole-sale | Europe whole-sale | Russia whole-sale | China whole-sale | UK retail | US retail | All other segments |
|---|---|---|---|---|---|---|---|---|---|
| 36p134(d) | Gross margin[2] | 62.5% | 61.0% | 62.5% | 58.0% | 49.0% | 50.0% | 50.8% | 48.0% |
| 36p134(d)(iv) | Growth rate[3] | 2.0% | 2.0% | 2.0% | 2.5% | 3.5% | 2.3% | 2.5% | 3.3% |
| 36p134(d)(v), p130(g) | Discount rate[4] | 12.0% | 11.5% | 12.1% | 13.5% | 14.5% | 12.3% | 12.5% | 13.0% |

36p134(d)(ii) These assumptions have been used for the analysis of each CGU within the operating segment.

36p134(d)(ii) Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

36p130(a) The impairment charge arose in a wholesale CGU in Step-land (included in the Russian operating segment) following a decision in early 2012 to reduce the manufacturing output allocated to these operations (note 35). This was a result of a redefinition of the group's allocation of manufacturing volumes across all CGUs in order to benefit from advantageous market conditions. Following this decision, the group reassessed the depreciation policies of its property, plant and equipment in this country and estimated that their useful lives would not be affected. No class of asset other than goodwill was impaired. The pre-tax discount rate used in the previous years for the wholesale CGU in Step-land was 13.5%.

36p134(f) In European wholesale, the recoverable amount calculated based on value in use exceeded carrying value by C205. A reduction in gross margin of 1.5%, a fall in growth rate to 1.6% or a rise in discount rate to 10.9% would remove the remaining headroom.

[1] Disclosure of long-term growth rates and discount rates is required. Other key assumptions are required to be disclosed and quantified where a reasonably possible change in the key assumption would remove any remaining headroom in the impairment calculation. Otherwise the additional disclosures are encouraged but not required.
[2] Budgeted gross margin.
[3] Weighted average growth rate used to extrapolate cash flows beyond the budget period.
[4] Pre-tax discount rate applied to the cash flow projections.

*(All amounts in C thousands unless otherwise stated)*

## 18(a) Financial instruments by category

IFRS7p6

| | 31 December 2012 | | | | |
|---|---|---|---|---|---|
| | Loans and receivables | Assets at fair value through profit and loss | Derivatives used for hedging | Available for sale | Total |
| **Assets as per balance sheet** | | | | | |
| Available-for-sale financial assets | – | – | – | 19,370 | 19,370 |
| Derivative financial instruments | – | 361 | 1,103 | – | 1,464 |
| Trade and other receivables excluding pre-payments[1] | 20,837 | – | – | – | 20,837 |
| Financial assets at fair value through profit or loss | – | 11,820 | – | – | 11,820 |
| Cash and cash equivalents | 17,928 | – | – | – | 17,928 |
| **Total** | **38,765** | **12,181** | **1,103** | **19,370** | **71,419** |

| | Liabilities at fair value through profit and loss | Derivatives used for hedging | Other financial liabilities at amortised cost | Total |
|---|---|---|---|---|
| **Liabilities as per balance sheet** | | | | |
| Borrowings (excluding finance lease liabilities) | – | – | 117,839 | 117,839 |
| Finance lease liabilities[2] | – | – | 8,998 | 8,998 |
| Derivative financial instruments | 268 | 327 | – | 595 |
| Trade and other payables excluding non-financial liabilities[3] | – | – | 15,668 | 15,668 |
| **Total** | **268** | **327** | **142,505** | **143,100** |

| | 31 December 2011 | | | | |
|---|---|---|---|---|---|
| | Loans and receivables | Assets at fair value through profit and loss | Derivatives used for hedging | Available for sale | Total |
| **Assets as per balance sheet** | | | | | |
| Available-for-sale financial assets | – | – | – | 14,910 | 14,910 |
| Derivative financial instruments | – | 321 | 875 | – | 1,196 |
| Trade and other receivables excluding pre-payments[1] | 18,576 | – | – | – | 18,576 |
| Financial assets at fair value through profit or loss | – | 7,972 | – | – | 7,972 |
| Cash and cash equivalents | 34,062 | – | – | – | 34,062 |
| **Total** | **52,638** | **8,293** | **875** | **14,910** | **76,716** |

[1] Pre-payments are excluded from the trade and other receivables balance, as this analysis is required only for financial instruments.
[2] The categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.
[3] Non-financial liabilities are excluded from the trade payables balance, as this analysis is required only for financial instruments.

*(All amounts in C thousands unless otherwise stated)*

| | Liabilities at fair value through profit and loss | Derivatives used for hedging | Other financial liabilities at amortised cost | Total |
|---|---|---|---|---|
| **Liabilities as per balance sheet** | | | | |
| Borrowings (excluding finance lease liabilities) | – | – | 104,006 | 104,006 |
| Finance lease liabilities[1] | – | – | 10,598 | 10,598 |
| Derivative financial instruments | 298 | 449 | – | 747 |
| Trade and other payables excluding non-financial liabilities | – | – | 11,518 | 11,518 |
| **Total** | **298** | **449** | **126,122** | **126,869** |

## 18(b) Credit quality of financial assets

IFRS7p36(c)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

| | 2012 | 2011 |
|---|---|---|
| **Trade receivables** | | |
| Counterparties with external credit rating (Moody's) | | |
| A | **5,895** | 5,757 |
| BB | **3,200** | 3,980 |
| BBB | **1,500** | 1,830 |
| | **10,595** | 11,567 |
| Counterparties without external credit rating**:** | | |
| Group 1 | **750** | 555 |
| Group 2 | **4,832** | 3,596 |
| Group 3 | **1,770** | 1,312 |
| | **7,352** | 5,463 |
| **Total unimpaired trade receivables** | **17,947** | 17,030 |
| **Cash at bank and short-term bank deposits[2]** | | |
| AAA | **8,790** | 15,890 |
| AA | **5,300** | 7,840 |
| A | **3,038** | 9,832 |
| | **17,128** | 33,562 |
| DV **Available-for-sale debt securities** | | |
| AA | **347** | 264 |
| | **347** | 264 |
| DV **Derivative financial assets** | | |
| AAA | **1,046** | 826 |
| AA | **418** | 370 |
| | **1,464** | 1,196 |

[1] The categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.
[2] The rest of the balance sheet item 'cash and cash equivalents' is cash in hand.

*(All amounts in C thousands unless otherwise stated)*

| | | |
|---|---|---|
| **Loans to related parties** | | |
| Group 2 | **2,501** | 1,301 |
| Group 3 | **167** | 87 |
| | **2,668** | 1,388 |

Group 1 – new customers/related parties (less than 6 months).
Group 2 – existing customers/related parties (more than 6 months) with no defaults in the past.
Group 3 – existing customers/related parties (more than 6 months) with some defaults in the past. All defaults were fully recovered.

None of the loans to related parties is past due but not impaired.

## 19 Available-for-sale financial assets

| | | 2012 | 2011 |
|---|---|---|---|
| | **At 1 January** | **14,910** | 13,222 |
| | Exchange differences | **646** | (435) |
| | Acquisition of subsidiary (note 39) | **473** | – |
| | Additions | **4,887** | 1,150 |
| | Disposals | **(106)** | – |
| | Transfer on account of acquisition of control | **(1,150)** | – |
| | Net gains/(losses) transfer from equity (note 29) | **(980)** | (152) |
| 1p79(b) | Net gains/(losses) transfer to equity (note 29) | **690** | 1,125 |
| | **At 31 December** | **19,370** | 14,910 |
| 1p66,1p69 | Less non-current portion | **(17,420)** | (14,910) |
| 1p66,1p69 | **Current portion** | **1,950** | – |

IFRS7p20(a)(ii) The group removed profits of C1,067 (2011: C187) and losses C87 (2011: C35) from equity into the income statement. Losses in the amount of C55 (2011: C20) were due to impairments.

Available-for-sale financial assets include the following:

IFRS7p31, 34

| | 2012 | 2011 |
|---|---|---|
| Listed securities: | | |
| Equity securities – UK | **8,335** | 8,300 |
| Equity securities – Europe | **5,850** | 2,086 |
| Equity securities – US | **4,550** | 4,260 |
| Debentures with fixed interest of 6.5% and maturity date of 27 August 2014 | **210** | – |
| Non cumulative 9%non-redeemable preference shares | **78** | – |
| Unlisted securities: | | |
| Debt securities with fixed interest ranging from 6.3% to 6.5% and maturity dates between July 2013 and May 2015 | **347** | 264 |
| **Total** | **19,370** | 14,910 |

*(All amounts in C thousands unless otherwise stated)*

IFRS7p34(c) Available-for-sale financial assets are denominated in the following currencies:

| | **2012** | 2011 |
|---|---|---|
| UK pound | **8,335** | 8,300 |
| Euro | **5,850** | 2,086 |
| US dollar | **4,550** | 4,260 |
| Other currencies | **635** | 264 |
| **Total** | **19,370** | 14,910 |

IFRS7p27 The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2012: 6%; 2011: 5.8%).

IFRS7p36(a) The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available for sale.

IFRS7p36(c) None of these financial assets is either past due or impaired.

## 20 Derivative financial instruments

| | | **2012** | | 2011 | |
|---|---|---|---|---|---|
| | | **Assets** | **Liabilities** | Assets | Liabilities |
| IFRS7p22(a)(b) | Interest rate swaps – cash flow hedge | **351** | **110** | 220 | 121 |
| IFRS7p22(a)(b) | Interest rate swaps – fair value hedges | **57** | **37** | 49 | 11 |
| IFRS7p22(a)(b) | Forward foreign exchange contracts – cash flow hedges | **695** | **180** | 606 | 317 |
| | Forward foreign exchange contracts – held-for-trading | **361** | **268** | 321 | 298 |
| | **Total** | **1,464** | **595** | 1,196 | 747 |
| 1p66, p69 | Less non-current portion: | | | | |
| | Interest rate swaps – cash flow hedges | **345** | **100** | 200 | 120 |
| | Interest rate swaps– fair value hedges | **50** | **35** | 45 | 9 |
| | | **395** | **135** | 245 | 129 |
| 1p66, p69 | **Current portion** | **1,069** | **460** | 951 | 618 |

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

IFRS7p24 The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to a loss of C1 (2011: loss of C1) (note 8). The ineffective portion recognised in the profit or loss that arises from cash flow hedges amounts to a gain of C17 (2011: a gain of C14) (note 8). There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

*(a) Forward foreign exchange contracts*

IFRS7p31 The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2012 were C92,370 (2011: C89,689).

*(All amounts in C thousands unless otherwise stated)*

**IFRS7p23(a), 39p100, 1p79(b)** The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity (note 29) on forward foreign exchange contracts as of 31 December 2012 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months of the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (5 to 10 years).

*(b) Interest rate swaps*

**IFRS7p31** The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2012 were C4,314 (2011: C3,839).

**IFRS7p23(a), 1p79(b)** At 31 December 2012, the fixed interest rates vary from 6.9% to 7.4% (2011: 6.7% to 7.2%), and the main floating rates are EURIBOR and LIBOR. Gains and losses recognised in the hedging reserve in equity (note 29) on interest rate swap contracts as of 31 December 2012 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings (note 31).

*(c) Hedge of net investment in foreign entity*

**IFRS7p22, 1p79(b)** A proportion of the group's US dollar-denominated borrowing amounting to C321 (2011: C321) is designated as a hedge of the net investment in the group's US subsidiary. The fair value of the borrowing at 31 December 2012 was C370 (2011: C279). The foreign exchange loss of C45 (2011: gain of C40) on translation of the borrowing to currency at the end of the reporting period is recognised in other comprehensive income.

**IFRS7p36(a)** The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

## 21 Trade and other receivables

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS7p36, 1p77 | Trade receivables | **18,174** | 17,172 |
| | Less: provision for impairment of trade receivables | **(109)** | (70) |
| 1p78(b) | Trade receivables – net | **18,065** | 17,102 |
| 1p78(b) | Prepayments | **1,250** | 1,106 |
| 24p18(b), 1p78(b) | Receivables from related parties (note 41) | **104** | 86 |
| 24p18(b), | Loans to related parties (note 41) | **2,668** | 1,388 |
| | | **22,087** | 19,682 |
| 1p78(b),1p66 | Less non-current portion: loans to related parties | **(2,322)** | (1,352) |
| 1p66 | **Current portion** | **19,765** | 18,330 |

All non-current receivables are due within five years from the end of the reporting period.

*(All amounts in C thousands unless otherwise stated)*

The fair values of trade and other receivables are as follows:

IFRS7p25

| | **2012** | 2011 |
|---|---|---|
| Trade receivables | **18,065** | 17,102 |
| Receivables from related parties | **104** | 86 |
| Loans to related parties | **2,722** | 1,398 |
| | **20,891** | 18,586 |

IFRS7p27 The fair values of loans to related parties are based on cash flows discounted using a rate based on the borrowings rate of 7.5% (2011: 7.2%). The discount rate equals to LIBOR plus appropriate credit rating.

24p18(b)(i) The effective interest rates on non-current receivables were as follows:

| | **2012** | 2011 |
|---|---|---|
| Loans to related parties (note 41) | **6.5-7%** | 6.5-7% |

IFRS7p14 Certain European subsidiaries of the group transferred receivable balances amounting to C1,014 to a bank in exchange for cash during the year ended 31 December 2012. The transaction has been accounted for as a collateralised borrowing (note 31). In case the entities default under the loan agreement, the bank has the right to receive the cash flows from the receivables transferred. Without default, the entities will collect the receivables and allocate new receivables as collateral.

DV As of 31 December 2012, trade receivables of C17,670 (2011: C16,823) were fully performing.

IFRS7p37(a) As of 31 December 2012, trade receivables of C277 (2011: C207) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | **2012** | 2011 |
|---|---|---|
| Up to 3 months | **177** | 108 |
| 3 to 6 months | **100** | 99 |
| | **277** | 207 |

IFRS7p37(b) As of 31 December 2012, trade receivables of C227 (2011: C142) were impaired. The amount of the provision was C109 as of 31 December 2012 (2011: C70). The individually impaired receivables mainly relate to wholesalers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

| | **2012** | 2011 |
|---|---|---|
| 3 to 6 months | **177** | 108 |
| Over 6 months | **50** | 34 |
| | **227** | 142 |

*(All amounts in C thousands unless otherwise stated)*

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

| | **2012** | 2011 |
|---|---|---|
| UK pound | **9,846** | 8,669 |
| Euros | **5,987** | 6,365 |
| US dollar | **6,098** | 4,500 |
| Other currencies | **156** | 148 |
| | **22,087** | 19,682 |

IFRS7p16

Movements on the group provision for impairment of trade receivables are as follows:

| | **2012** | 2011 |
|---|---|---|
| At 1 January | **70** | 38 |
| Provision for receivables impairment (IFRS7p20(e)) | **74** | 61 |
| Receivables written off during the year as uncollectible | **(28)** | (23) |
| Unused amounts reversed | **(10)** | (8) |
| Unwind of discount | **3** | 2 |
| **At 31 December** | **109** | 70 |

The creation and release of provision for impaired receivables have been included in 'other expenses' in the income statement (note 9). Unwind of discount is included in 'finance costs' in the income statement (note 11). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

IFRS7p16

The other classes within trade and other receivables do not contain impaired assets.

IFRS7p36(a)

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The group does not hold any collateral as security.

## 22 Inventories

| | **2012** | 2011 |
|---|---|---|
| Raw materials (2p36(b), 1p78(c)) | **7,622** | 7,612 |
| Work in progress | **1,810** | 1,796 |
| Finished goods[1] | **15,268** | 8,774 |
| | **24,700** | 18,182 |

2p36(d), p38

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to C60,252 (2011:C29,545).

2p36(f-g)

The group reversed C603 of a previous inventory write-down in July 2012. The group has sold all the goods that were written down to an independent retailer in Australia at original cost. The amount reversed has been included in 'cost of sales' in the income statement.

[1] Separate disclosure of finished goods at fair value less cost to sell is required, where applicable.

*(All amounts in C thousands unless otherwise stated)*

## 23 Financial assets at fair value through profit or loss

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS7p8(a), p31, p34(c) | Listed securities – held for trading | | |
| | – Equity securities – UK | **5,850** | 3,560 |
| | – Equity securities – Europe | **4,250** | 3,540 |
| | – Equity securities – US | **1,720** | 872 |
| | | **11,820** | 7,972 |

**7p15** Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows (note 36).

**IFRS7p20** Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other (losses)/gains – net' in the income statement (note 8).

**IFRS7p27** The fair value of all equity securities is based on their current bid prices in an active market.

## 24 Cash and cash equivalents

| | 2012 | 2011 |
|---|---|---|
| Cash at bank and in hand | **8,398** | 28,648 |
| Short-term bank deposits | **9,530** | 5,414 |
| Cash and cash equivalents (excluding bank overdrafts) | **17,928** | 34,062 |

**7p45** Cash and cash equivalents include the following for the purposes of the statement of cash flows:

| | | 2012 | 2011 |
|---|---|---|---|
| | Cash and cash equivalents | **17,928** | 34,062 |
| 7p8 | Bank overdrafts (note 31) | **(2,650)** | (6,464) |
| | Cash and cash equivalents | **15,278** | 27,598 |

## 25 Non-current assets held for sale and discontinued operations

**IFRS5p41 (a)(b)(d)** The assets and liabilities related to Shoes Limited (part of the UK wholesale segment) have been presented as held for sale following the approval of the group's management and shareholders on 23 September 2012 to sell Shoes Limited in the UK. The completion date for the transaction is expected by May 2013.

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS5p33(c) | Operating cash flows[1] | **300** | 190 |
| IFRS5p33(c) | Investing cash flows[1] | **(103)** | (20) |
| IFRS5p33(c) | Financing cash flows[1] | **(295)** | (66) |
| | **Total cash flows** | **(98)** | 104 |

[1] Under this approach, the entity presents the statement of cash flows as if no discontinued operation has occurred and makes the required IFRS5p33 disclosures in the notes. It would also be acceptable to present the three categories separately on the face of the statement of cash flows and present the line-by-line breakdown of the categories, either in the notes or on the face of the statement of cash flows. It would not be acceptable to present all cash flows from discontinued operations in one line either as investing or operating activity.

*(All amounts in C thousands unless otherwise stated)*

IFRS5p38

*(a) Assets of disposal group classified as held for sale*

| | 2012 | 2011 |
|---|---|---|
| Property, plant and equipment | **1,563** | – |
| Goodwill | **100** | – |
| Other intangible assets | **1,000** | – |
| Inventory | **442** | – |
| Other current assets | **228** | – |
| **Total** | **3,333** | – |

IFRS5p38

*(b) Liabilities of disposal group classified as held for sale*

| | 2012 | 2011 |
|---|---|---|
| Trade and other payables | **104** | – |
| Other current liabilities | **20** | – |
| Provisions | **96** | – |
| **Total** | **220** | – |

IFRS5p33(b)

Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group is as follows:[1]

| | | 2012 | 2011 |
|---|---|---|---|
| | Revenue | **1,200** | 1,150 |
| | Expenses | **(960)** | (950) |
| | Profit before tax of discontinued operations | **240** | 200 |
| 12p81(h)(ii) | Tax | **(96)** | (80) |
| | **Profit after tax of discontinued operations** | **144** | 120 |
| | Pre-tax gain/(loss) recognised on the re-measurement of assets of disposal group | **(73)** | – |
| 12p81(h)(ii) | Tax | **29** | – |
| | After tax gain/(loss) recognised on the re-measurement of assets of disposal group | **(44)** | – |
| | **Profit for the year from discontinued operations** | **100** | 120 |

[1] These disclosures can also be given in the primary financial statements.

*(All amounts in C thousands unless otherwise stated)*

## 26 Share capital and premium

1p79

| | | Number of shares (thousands) | Ordinary shares | Share premium | Total |
|---|---|---|---|---|---|
| | At 1 January 2011 | 20,000 | 20,000 | 10,424 | 30,424 |
| | Employee share option scheme: | | | | |
| 1p106(d)(iii) | – Proceeds from shares issued | 1,000 | 1,000 | 70 | 1,070 |
| | **At 31 December 2011** | 21,000 | 21,000 | 10,494 | 31,494 |
| | Employee share option scheme: | | | | |
| 1p106(d)(iii) | – Proceeds from shares issued | 750 | 750 | 200 | 950 |
| IFRS3p B64(f)(iv) | Acquisition of subsidiary (note 39) | 3,550 | 3,550 | 6,450 | 10,000 |
| 1p79(a) | **At 31 December 2012** | **25,300** | **25,300** | **17,144** | **42,444** |

1p79(a) The company acquired 875,000 of its own shares through purchases on the EuroMoney stock exchange on 18 April 2012. The total amount paid to acquire the shares, net of income tax, was C2,564. The shares are held as 'treasury shares'.[1] The company has the right to re-issue these shares at a later date. All shares issued by the company were fully paid.

The group issued 3,550,000 shares on 1 March 2012 (14% of the total ordinary share capital issued) to the shareholders of ABC Group as part of the purchase consideration for 70% of its ordinary share capital. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the shares issued amounted to C10,050 (C2.83 per share). The related transaction costs amounting to C50 have been netted off with the deemed proceeds.

## 27 Share-based payments

IFRS2p45(a) Share options are granted to directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares less 15% on the date of the grant. Options are conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from the grant date, subject to the group achieving its target growth in earnings per share over the period of inflation plus 4%, the options have a contractual option term of five years. The group has no legal or constructive obligation to repurchase or settle the options in cash.

[1] Treasury shares should be accounted for in accordance with local company law and practice. Treasury shares may be disclosed separately on the balance sheet or deducted from retained earnings or a specific reserve. Depending on local company law, the company could have the right to resell the treasury shares.

*(All amounts in C thousands unless otherwise stated)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | | 2012 | | 2011 | |
|---|---|---|---|---|---|
| | | **Average exercise price in C per share option** | **Options (thousands)** | Average exercise price in C per share option | Options (thousands) |
| IFRS2p45(b)(i) | At 1 January | **1.73** | **4,744** | 1.29 | 4,150 |
| IFRS2p45(b)(ii) | Granted | **2.95** | **964** | 2.38 | 1,827 |
| IFRS2p 45(b)(iii) | Forfeited | **2.30** | **(125)** | 0.80 | (33) |
| IFRS2p 45(b)(iv) | Exercised | **1.28** | **(750)** | 1.08 | (1,000) |
| IFRS2p45(b) (v) | Expired | **0.00** | **–** | 2.00 | (200) |
| IFRS2p 45(b)(vi) | **At 31 December** | **2.03** | **4,833** | 1.73 | 4,744 |

IFRS2p45 (b)(vii), IFRS2p45(c)

Out of the 4,833,000 outstanding options (2011: 4,744,000 options), 1,875,000 options (2011: 1,400,000) were exercisable. Options exercised in 2012 resulted in 750,000 shares (2011: 1,000,000 shares) being issued at a weighted average price of C1.28 each (2011: C1.08 each). The related weighted average share price at the time of exercise was C2.85 (2011: C2.65) per share. The related transaction costs amounting to C10 (2011: C10) have been netted off with the proceeds received.

IFRS2p45(d)

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Grant-vest | Expiry date – 1 July | Exercise price in C per share options | Share options (thousands) | |
|---|---|---|---|---|
| | | | **2012** | 2011 |
| 2007-10 | 2012 | 1.10 | **–** | 500 |
| 2008-11 | 2013 | 1.20 | **800** | 900 |
| 2009-12 | 2014 | 1.35 | **1,075** | 1,250 |
| 2010-13 | 2015 | 2.00 | **217** | 267 |
| 2011-14 | 2016 | 2.38 | **1,777** | 1,827 |
| 2012-15 | 2017 | 2.95 | **964** | – |
| | | | **4,833** | 4,744 |

IFRS2p46, p47(a)

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was C0.86 per option (2011: C0.66). The significant inputs into the model were weighted average share price of C3.47 (2011: C2.80) at the grant date, exercise price shown above, volatility of 30% (2011: 27%), dividend yield of 4.3% (2011: 3.5%), an expected option life of three years (2011: 3 years) and an annual risk-free interest rate of 5% (2011: 4%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years. See note 10a for the total expense recognised in the income statement for share options granted to directors and employees.

*(All amounts in C thousands unless otherwise stated)*

## 28 Retained earnings

| | | |
|---|---|---|
| 1p106(d) | At 1 January 2011 | 48,470 |
| | Profit for the year | 15,512 |
| 1p106(d) | Dividends paid relating to 2010 | (15736) |
| IFRS2p50 | Value of employee services[1] | 822 |
| 16p41 | Depreciation transfer on land and buildings net of tax | 87 |
| 12p68C | Tax credit relating to share option scheme | 20 |
| 19p93A | Actuarial loss on post employment benefit obligations net of tax | (494) |
| | **At 31 December 2011** | **48,681** |
| 1p106(d) | At 1 January 2012 | 48,681 |
| | Profit for the year | 30,617 |
| 1p106(d) | Dividends paid relating to 2011 | (10,102) |
| IFRS2p50 | Value of employee services[1] | 690 |
| 16p41 | Depreciation transfer on land and buildings net of tax | 100 |
| 12p68C | Tax credit relating to share option scheme | 30 |
| 19p93A | Actuarial loss on post employment benefit obligations net of tax | – |
| 12p81(a),(b) | Impact of change in Euravian tax rate on deferred tax | (10) |
| | **At 31 December 2012** | **70,006** |

## 29 Other reserves

| | | Note | Convertible bond | Land and buildings revaluation[2] | Hedging | Treasury shares | Available-for-sale investments | Translation | Transactions with NCI | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | At 1 January 2011 | | – | 1,152 | 65 | – | 1,320 | 3,827 | – | 6,364 |
| 16p39, 12p61A, 12p81(ae) | Revaluation of land and buildings – gross | 16 | – | 1,133 | – | – | – | – | – | 1,133 |
| 12p61A, 12p81(ae) | Revaluation of land and buildings – tax | 13 | – | (374) | – | – | – | – | – | (374) |
| 16p41 | Depreciation transfer – gross | | – | (130) | – | – | – | – | – | (130) |
| 12p61A, 12p81(ae) | Depreciation transfer – tax | | – | 43 | – | – | – | – | – | 43 |
| 16p39, IFRS7p20 (a)(ii) | Revaluation of AFS – gross | 19 | – | – | – | – | 1,125 | – | – | 1,125 |
| 16p39, IFRS7p20 (a)(ii) | Revaluation transfer AFS – gross | 19 | – | – | – | – | (152) | – | – | (152) |
| 12p61A, 12p81(ae) | Revaluation of AFS – tax | 13 | – | – | – | – | (61) | – | – | (61) |
| 28p39 | Revaluation – associates | 12 | – | – | – | – | (14) | – | – | (14) |
| | Cash flow hedge: | | | | | | | | | |
| IFRS7p23(c) | – Fair value gains in year | | – | – | 300 | – | – | – | – | 300 |
| 12p61, p81 (ae) | – Tax on fair value gains | 13 | – | – | (101) | – | – | – | – | (101) |
| IFRS7p23(d) | – Transfers to sales | | – | – | (236) | – | – | – | – | (236) |

[1] The credit entry to equity in respect of the IFRS 2 charge should be recorded in accordance with local company law and practice. This may be a specific reserve, retained earnings or share capital.
[2] An entity should disclose in its financial statements whether there are any restrictions on the distribution of the 'land and buildings' fair value reserve to the equity holders of the company (IAS16p77(f)).

*(All amounts in C thousands unless otherwise stated)*

| | | Note | Convertible bond | Land and buildings revaluation | Hedging | Treasury shares | Available-for-sale investments | Translation | Transactions with NCI | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 12p61A, 81 (ae) | – Tax on transfer to sales | 13 | – | – | 79 | – | – | – | – | 79 |
| IFRS7p23(e) | – Transfers to inventory | | – | – | (67) | – | – | – | – | (67) |
| 12p61, 12p81(ae) | – Tax on transfer to inventory | 13 | – | – | 22 | – | – | – | – | 22 |
| 39p102(a) | Net investment hedge | 20 | – | – | – | – | – | 40 | – | 40 |
| 21p52(b) | Currency translation differences – Group | | – | – | – | – | – | (1,071) | – | (1,071) |
| 28p39 | Currency translation differences – Associates | 12 | – | – | – | – | – | 105 | – | 105 |
| | **At 31 December 2011** | | **–** | **1,824** | **62** | **–** | **2,218** | **2,901** | **–** | **7,005** |
| 16p39, 12p61A, 12p81(ae) | Revaluation of land and buildings – gross | 16 | | 1,005 | – | – | – | – | – | 1,005 |
| 12p61A, 12p81(ae) | Revaluation of land and buildings– tax | 13 | – | (250) | – | – | – | – | – | (250) |
| 16p41 | Depreciation transfer – gross | | – | (149) | – | – | – | – | – | (149) |
| 12p61A, 12p81(ae) | Depreciation transfer – tax | | – | 49 | – | – | – | – | – | 49 |
| 16p39, IFRS7p20 (a)(ii) | Revaluation of AFS – gross | 19 | – | – | – | – | 690 | – | – | 690 |
| 16p39, IFRS7p20 (a)(ii) | Revaluation transfer AFS – gross | 19 | – | – | – | – | (130) | – | – | (130) |
| 12p61A, 12p81(ae) | Revaluation of AFS – tax | 13 | – | – | | – | (198) | – | | (198) |
| 28p39 | Revaluation – associates | 12 | – | – | – | – | (12) | – | – | (12) |
| | Cash flow hedge: | | | | | | | | | |
| IFRS7p23(c) | – Fair value gains in year | | – | – | 368 | – | – | – | – | 368 |
| 12p61,81(ae) | – Tax on fair value gains | 13 | – | – | (123) | – | – | – | – | (123) |
| IFRS7p23(d) | – Transfers to sales | | – | – | (120) | – | – | – | – | (120) |
| 12p61A, p81 (ae) | – Tax on transfers to sales | 13 | – | – | 40 | – | – | – | – | 40 |
| IFRS7p23(e) | – Transfers to inventory | | – | – | (151) | – | – | – | – | (151) |
| 12p61, 12p81(ae) | – Tax on transfers to inventory | 13 | – | – | 50 | – | – | – | – | 50 |
| 39p102(a) | Net investment hedge | 20 | – | – | – | – | – | (45) | – | (45) |
| 21p52(b) | Currency translation differences – Group | | – | – | – | – | – | 2,161 | – | 2,161 |
| 28p39 | Currency translation differences – Associates | 12 | – | – | – | – | – | (74) | – | (74) |
| 28p39 | Convertible bond – equity component | 31 | 7,761 | – | – | – | – | – | – | 7,761 |

*(All amounts in C thousands unless otherwise stated)*

| | | Note | Convertible bond | Land and buildings revaluation | Hedging | Treasury shares | Available-for-sale investments | Translation | Transactions with NCI | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **12p61A, 12p81(ae)** | Tax on convertible bond[1] | 13 | (2,328) | – | – | – | – | – | – | (2,328) |
| | Purchase of treasury shares | 26 | – | – | – | (2,564) | – | – | – | (2,564) |
| **1p106(d) (iii)** | Acquisition of non-controlling interest in XYZ Group | 40 | – | – | – | – | – | – | (800) | (800) |
| **1p106(d) (iii)** | Decrease in ownership interest in Red Limited | 40 | – | – | – | – | – | – | 100 | 100 |
| **IFRS3p59** | Reclassification of revaluation of previously held interest in ABC Group | 39 | – | – | – | – | (850) | – | – | (850) |
| | **At 31 December 2012** | | **5,433** | **2,479** | **126** | **(2,564)** | **1,718** | **4,943** | **(700)** | **11,435** |

[1] Temporary taxable difference for the liability component of the convertible bond in accordance with IAS 12p23. Note: It is assumed that the tax base on the convertible bond is not split between the debt and equity elements. If the tax base were split, this would impact the deferred tax position.

*(All amounts in C thousands unless otherwise stated)*

## Other comprehensive income, net of tax

| | Group | Other reserves | Retained earnings | Total | Non-controlling interests | Total other comprehensive income |
|---|---|---|---|---|---|---|
| | **31 December 2012** | | | | | |
| 16p39 | Revaluation of land and buildings – net of tax | **755** | **–** | **755** | **–** | **755** |
| 19p93A | Actuarial loss on post employment benefit obligations net of tax | **–** | **–** | **–** | **–** | **–** |
| | Revaluation of AFS – net of tax | **362** | **–** | **362** | **–** | **362** |
| | Revaluation – associates | **(12)** | **–** | **(12)** | **–** | **(12)** |
| 28p39 | Currency translation differences – Associates | **(74)** | **–** | **(74)** | **–** | **(74)** |
| 39p102(a) | Net investment hedge | **(45)** | **–** | **(45)** | **–** | **(45)** |
| | Cash flow hedge | **64** | **–** | **64** | **–** | **64** |
| 21p52(b) | Currency translation differences – Group | **2,161** | **–** | **2,161** | **252** | **2,413** |
| | Impact of change in Euravian tax rate on deferred tax | **–** | **(10)** | **(10)** | **–** | **(10)** |
| | Depreciation on land and buildings | **(100)** | **100** | **–** | **–** | **–** |
| IFRS3p59 | Reclassification of revaluation of previously held interest in ABC Group | **(850)** | **–** | **(850)** | **–** | **(850)** |
| | **Total** | **2,261** | **90** | **2,351** | **252** | **2,603** |
| | **31 December 2011** | | | | | |
| 16p39 | Revaluation of land and buildings – net of tax | 759 | – | 759 | – | 759 |
| 19p93A | Actuarial loss on post employment benefit obligations – net of tax | – | (494) | (494) | – | (494) |
| | Revaluation of AFS – net of tax | 912 | – | 912 | – | 912 |
| 28p39 | Revaluation – associates | (14) | – | (14) | – | (14) |
| 28p39 | Currency translation differences – Associates | 105 | – | 105 | – | 105 |
| 39p102(a) | Net investment hedge | 40 | – | 40 | – | 40 |
| | Cash flow hedge | (3) | – | (3) | – | (3) |
| | Depreciation on land and buildings | (87) | 87 | – | – | – |
| 21p52(b) | Currency translation differences – Group | (1,071) | – | (1,071) | (40) | (1,111) |
| | **Total** | **641** | **(407)** | **234** | **(40)** | **194** |

## Commentary

1p106A

Entities are allowed to show the disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income in either the statement of changes in equity or in the notes. In these illustrative financial statements, we present this information in the notes.

*(All amounts in C thousands unless otherwise stated)*

## 30 Trade and other payables

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| 1p77 | Trade payables | | **8,983** | 9,495 |
| 24p18 | Amounts due to related parties | 41 | **3,202** | 1,195 |
| | Social security and other taxes | | **1,502** | 960 |
| | Other liabilities – contingent consideration | 39 | **1,500** | – |
| | Accrued expenses | | **1,483** | 828 |
| | | | **16,670** | 12,478 |

## 31 Borrowings

| | 2012 | 2011 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings | **32,193** | 40,244 |
| Convertible bond | **42,822** | – |
| Debentures and other loans | **3,300** | 18,092 |
| Redeemable preference shares | **30,000** | 30,000 |
| Finance lease liabilities | **6,806** | 8,010 |
| | **115,121** | 96,346 |
| **Current** | | |
| Bank overdraft (note 24) | **2,650** | 6,464 |
| Collaterised borrowings | **1,014** | – |
| Bank borrowings | **3,368** | 4,598 |
| Debentures and other loans | **2,492** | 4,608 |
| Finance lease liabilities | **2,192** | 2,588 |
| | **11,716** | 18,258 |
| **Total borrowings** | **126,837** | 114,604 |

*(a) Bank borrowings*

**IFRS7p31** Bank borrowings mature until 2016 and bear average coupons of 7.5% annually (2011: 7.4% annually).

**IFRS7p14** Total borrowings include secured liabilities (bank and collateralised borrowings) of C37,680 (2011: C51,306). Bank borrowings are secured by the land and buildings of the group (note 16). Collateralised borrowings are secured by trade receivables (note 21).

**IFRS7p31** The exposure of the group's borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting period are as follows:

| | 2012 | 2011 |
|---|---|---|
| 6 months or less | **10,496** | 16,748 |
| 6-12 months | **36,713** | 29,100 |
| 1-5 years | **47,722** | 38,555 |
| Over 5 years | **31,906** | 30,201 |
| | **126,837** | 114,604 |

*(All amounts in C thousands unless otherwise stated)*

The carrying amounts and fair value of the non-current borrowings are as follows:

IFRS7p25

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Bank borrowings | **32,193** | 40,244 | **32,590** | 39,960 |
| Redeemable preference shares | **30,000** | 30,000 | **28,450** | 28,850 |
| Debentures and other loans | **3,300** | 18,092 | **3,240** | 17,730 |
| Convertible bond | **42,822** | – | **42,752** | – |
| Finance lease liabilities | **6,806** | 8,010 | **6,205** | 7,990 |
| **Total** | **115,121** | 96,346 | **113,237** | 94,530 |

IFRS7p29(a), IFRS7p25

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 7.5% (2011: 7.2%).

IFRS7p31, IFRS7p34(c)

The carrying amounts of the group's borrowings are denominated in the following currencies:

| | **2012** | 2011 |
|---|---|---|
| UK pound | **80,100** | 80,200 |
| Euro | **28,353** | 16,142 |
| US dollar | **17,998** | 17,898 |
| Other currencies | **386** | 364 |
| **Total** | **126,837** | 114,604 |

The group has the following undrawn borrowing facilities:

DV7p50(a)

| | **2012** | 2011 |
|---|---|---|
| Floating rate: | | |
| Expiring within one year | **6,150** | 4,100 |
| Expiring beyond one year | **14,000** | 8,400 |
| Fixed rate: | | |
| Expiring within one year | **18,750** | 12,500 |
| **Total** | **38,900** | 25,000 |

IFRS7p17, 1p79(b)

The facilities expiring within one year are annual facilities subject to review at various dates during 2012. The other facilities have been arranged to help finance the proposed expansion of the group's activities in Europe.

*(b) Convertible bonds*

32p28, 32p31, 1p79(b)

The company issued 500,000 5.0% convertible bonds at a par value of C50 million[1] on 2 January 2012. The bonds mature five years from the issue date at their nominal value of C50 million or can be converted into shares at the holder's option at the maturity date at the rate of 33 shares per C5,000. The values of the liability component and the equity conversion component were determined at issuance of the bond.

[1] This amount is not in C thousands.

The convertible bond recognised in the balance sheet is calculated as follows:

| | | 2012 | 2011 |
|---|---|---|---|
| | Face value of convertible bond issued on 2 January 2012 | **50,000** | – |
| 12AppxIE4 | Equity component (note 29) | **(7,761)** | – |
| | Liability component on initial recognition at 2 January 2012 | **42,239** | – |
| | Interest expense (note 11) | **3,083** | – |
| | Interest paid | **(2,500)** | – |
| | **Liability component at 31 December 2012** | **42,822** | – |

IFRS7p27 The fair value of the liability component of the convertible bond at 31 December 2012 amounted to C42,617. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.5%.

*(c) Redeemable preference shares*

32p15, 32p18(a) The group issued 30 million cumulative redeemable preference shares with a par value of C1 per share on 4 January 2011. The shares are mandatorily redeemable at their par value on 4 January 2015, and pay dividends at 6.5% annually.

10p21 On 1 February 2013, the group issued C6,777 6.5% US dollar bonds to finance its expansion programme and working capital requirements in the US. The bonds are repayable on 31 December 2016.

*(d) Finance lease liabilities*

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

| | | 2012 | 2011 |
|---|---|---|---|
| 17p31(b) | Gross finance lease liabilities– minimum lease payments: | | |
| | No later than 1 year | **2,749** | 3,203 |
| | Later than 1 year and no later than 5 years | **6,292** | 7,160 |
| | Later than 5 years | **2,063** | 2,891 |
| | | **11,104** | 13,254 |
| | Future finance charges on finance lease liabilities | **(2,106)** | (2,656) |
| | **Present value of finance lease liabilities** | **8,998** | 10,598 |

17p31(b) The present value of finance lease liabilities is as follows:

| | 2012 | 2011 |
|---|---|---|
| No later than 1 year | **2,192** | 2,588 |
| Later than 1 year and no later than 5 years | **4,900** | 5,287 |
| Later than 5 years | **1,906** | 2,723 |
| | **8,998** | 10,598 |

*(All amounts in C thousands unless otherwise stated)*

## 32 Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | | 2012 | 2011 |
|---|---|---|---|
| 1p61 | Deferred tax assets: | | |
| | – Deferred tax assets to be recovered after more than 12 months | **(2,873)** | (3,257) |
| | – Deferred tax asset to be recovered within 12 months | **(647)** | (64) |
| | | **(3,520)** | (3,321) |
| | Deferred tax liabilities: | | |
| | – Deferred tax liability to be recovered after more than 12 months | **10,743** | 8,016 |
| | – Deferred tax liability to be recovered within 12 months | **1,627** | 1,037 |
| | | **12,370** | 9,053 |
| | **Deferred tax liabilities (net)** | **8,850** | 5,732 |

The gross movement on the deferred income tax account is as follows:

| | 2012 | 2011 |
|---|---|---|
| At 1 January | **5,732** | 3,047 |
| Exchange differences | **(2,003)** | (154) |
| Acquisition of subsidiary (note 39) | **1,953** | – |
| Income statement charge (note 13) | **379** | 2,635 |
| Tax charge /(credit) relating to components of other comprehensive income (note 13) | **491** | 224 |
| Tax charged/(credited) directly to equity (note 13) | **2,298** | (20) |
| **At 31 December** | **8,850** | 5,732 |

12p81(g)(i)(ii) The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | **Deferred tax liabilities** | **Accelerated tax depreciation** | **Fair value gains** | **Convertible bond** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| | At 1 January 2011 | 6,412 | 413 | – | 284 | 7,109 |
| 12p81(g)(ii) | Charged/(credited) to the income statement | 1,786 | – | – | 799 | 2,585 |
| 12p81(e) | Charged/(credited) to other comprehensive income | – | 435 | – | – | 435 |
| | Exchange difference | (100) | – | – | (54) | (154) |
| 12p81(g)(i) | At 31 December 2011 | 8,098 | 848 | – | 1,029 | 9,975 |
| 12p81(g)(ii) | Charged/(credited) to the income statement | 425 | – | (193) | 388 | 620 |
| 12p81(e) | Charged/(credited)/charged to other comprehensive income | – | 448 | – | 43 | 491 |
| 12p81(a) | Charged directly to equity | – | – | 2,328 | – | 2,328 |
| | Acquisition of subsidiary (note 39) | 553 | 1,125 | – | 275 | 1,953 |
| | Exchange difference | (333) | (600) | – | (350) | (1,283) |
| 12p81(g)(i) | **At 31 December 2012** | **9,076** | **2,421** | **2,135** | **1,735** | **14,084** |

*(All amounts in C thousands unless otherwise stated)*

| | Deferred tax assets | Retirement benefit obligation | Provisions | Impairment losses | Tax losses | Other | Total |
|---|---|---|---|---|---|---|---|
| | At 1 January 2011 | (428) | (997) | (732) | (1,532) | (373) | (4,062) |
| 12p81(g)(ii) | Charged/(credited) to the income statement | – | 181 | – | – | (131) | 50 |
| 12p81(e) | Charged/(credited) to other comprehensive income | (211) | – | – | – | – | (211) |
| 12p81(a) | Charged/(credited) directly to equity | – | – | – | – | (20) | (20) |
| | Exchange difference | – | – | – | – | – | – |
| 12p81(g)(i) | At 31 December 2011 | (639) | (816) | (732) | (1,532) | (524) | (4,243) |
| 12p81(g)(ii) | Charged/(credited) to the income statement | – | (538) | (322) | 750 | (131) | (241) |
| 12p81(e) | Charged/(credited) to other comprehensive income | – | – | – | – | – | – |
| 12p81(a) | Charged/(credited) directly to equity | – | – | – | – | (30) | (30) |
| | Exchange difference | (150) | (280) | (210) | – | (80) | (720) |
| 12p81(g)(i) | **At 31 December 2012** | (789) | **(1,634)** | **(1,264)** | **(782)** | **(765)** | **(5,234)** |

12p81(e) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets of C333 (2011: C1,588) in respect of losses amounting to C1,000 (2011: C5,294) that can be carried forward against future taxable income. Losses amounting to C900 (2011: C5,294) and C100 (2011: nil) expire in 2014 and 2015 respectively.

12p81(f) Deferred income tax liabilities of C3,141 (2011: C2,016) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled C30,671 at 31 December 2012 (2011: C23,294).

## 33 Post-employment benefits

| | | 2012 | 2011 |
|---|---|---|---|
| | **Balance sheet obligations for:** | | |
| | – Pension benefits | **3,225** | 1,532 |
| | – Post employment medical benefits | **1,410** | 701 |
| | **Liability in the balance sheet** | **4,635** | 2,233 |
| | Income statement charge for (note 10) | | |
| | – Pension benefits | **755** | 488 |
| | – Post employment medical benefits | **149** | 107 |
| | | **904** | 595 |
| 19p120A(h) | Actuarial losses recognised in the statement of other comprehensive income in the year | **–** | 705 |
| 19p120A(i) | Cumulative actuarial lossses recognised in the statement of other comprehensive income | **908** | 203 |

*(All amounts in C thousands unless otherwise stated)*

*(a) Pension benefits*

DV

The group operates defined benefit pension plans in the UK and the US based on employee pensionable remuneration and length of service. The majority of plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practice in each country, as is the nature of the relationship between the group and the trustees (or equivalent) and their composition.

19p120A(d)(f)

The amounts recognised in the balance sheet are determined as follows:

| | **2012** | 2011 |
|---|---|---|
| Present value of funded obligations | **6,155** | 2,943 |
| Fair value of plan assets | **(5,991)** | (2,797) |
| Deficit of funded plans | **164** | 146 |
| Present value of unfunded obligations | **3,206** | 1,549 |
| Unrecognised past service cost | **(145)** | (163) |
| **Liability in the balance sheet** | **3,225** | 1,532 |

19p120A(c)

The movement in the defined benefit obligation over the year is as follows:

| | **2012** | 2011 |
|---|---|---|
| At 1 January | **4,492** | 3,479 |
| Current service cost | **751** | 498 |
| Interest cost | **431** | 214 |
| Employee contributions | **55** | 30 |
| Actuarial(gains)/losses | **(15)** | 656 |
| Exchange differences | **(61)** | (280) |
| Past service cost | **18** | 16 |
| Benefits paid | **(66)** | (121) |
| Liabilities acquired in a business combination (note 39) | **3,691** | – |
| Curtailments | **65** | – |
| Settlements | **–** | – |
| **At 31 December** | **9,361** | 4,492 |

19p120A(e)

The movement in the fair value of plan assets of the year is as follows:

| | **2012** | 2011 |
|---|---|---|
| At 1 January | **2,797** | 2,264 |
| Expected return on plan assets | **510** | 240 |
| Actuarial (losses)/gains | **(15)** | 1 |
| Exchange differences | **25** | (22) |
| Employer contributions | **908** | 411 |
| Employee contributions | **55** | 30 |
| Benefits paid | **(66)** | (127) |
| Assets acquired in a business combination (note 39) | **1,777** | – |
| Settlements | **–** | – |
| **At 31 December** | **5,991** | 2,797 |

*(All amounts in C thousands unless otherwise stated)*

19p120A(g) The amounts recognised in the income statement are as follows:

| | 2012 | 2011 |
|---|---|---|
| Current service cost | **751** | 498 |
| Interest cost | **431** | 214 |
| Expected return on plan assets | **(510)** | (240) |
| Past service cost | **18** | 16 |
| Losses on curtailment[1] | **65** | – |
| **Total, included in staff costs (note 10)** | **755** | 488 |

19p120A(g) Of the total charge, C516 (2011: C319) and C239 (2011: C169) were included in 'cost of sales' and 'administrative expenses' respectively.

19p120A(m) The actual return on plan assets was C495 (2011: C241).

19p120A(n) The principal actuarial assumptions were as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **UK** | **US** | UK | US |
| Discount rate | **5.1%** | **5.2%** | 5.5.% | 5.6% |
| Expected return on plan assets | **8.5%** | **8.3%** | 8.7% | 8.7% |
| Future salary increases | **4.0%** | **4.5%** | 4.5% | 4.0% |
| Future pension increases | **3.0%** | **2.8%** | 3.1% | 2.7% |

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory. Mortality assumptions for the most important countries are based on the following post-retirement mortality tables: (i) UK: PNMA 00 and PNFA 00 with medium cohort adjustment subject to a minimum annual improvement of 1% and scaling factors of 110% for current male pensioners, 125% for current female pensioners and 105% for future male and female pensioners; and (ii) US: RP2000 with a projection period of 10–15 years.

These tables translate into an average life expectancy in years for a pensioner retiring at age 65:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **UK** | **US** | UK | US |
| Retiring at the end of the reporting period: | | | | |
| – Male | **20** | **20** | 22 | 20 |
| – Female | **25** | **24** | 25 | 24 |
| Retiring 20 years after the end of the reporting period | | | | |
| – Male | **24** | **23** | 24 | 23 |
| – Female | **27** | **26** | 27 | 26 |

[1] The gain or loss on curtailment is in principle the resulting change in surplus (or deficit) plus unrecognised past service cost attributable to the affected employees.

*(All amounts in C thousands unless otherwise stated)*

DV

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

| | Impact on defined benefit obligation | | |
|---|---|---|---|
| | **Change in assumption** | **Increase in assumption** | **Decrease in assumption** |
| Discount rate | 0.50% | Decrease by 8.2% | Increase by 9.0% |
| Salary growth rate | 0.50% | Increase by 1.8% | Decrease by 1.7% |
| Pension growth rate | 0.25% | Increase by 4.7% | Decrease by 4.4% |

| | **Increase by 1 year in assumption** | **Decrease by 1 year in assumption** |
|---|---|---|
| Life expectancy | Increase by 2.8% | Decrease by 2.9% |

19p122(b)

*(b) Post-employment medical benefits*

The group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes. The majority of these plans are unfunded.

19p120A(n)

In addition to the assumptions set out above, the main actuarial assumption is a long-term increase in health costs of 8.0% a year (2011: 7.6%).

19p120A (d)(f)

The amounts recognised in the balance sheet were determined as follows:

| | **2012** | 2011 |
|---|---|---|
| Present value of funded obligations | **705** | 340 |
| Fair value of plan assets | **(620)** | (302) |
| Deficit of the funded plans | **85** | 38 |
| Present value of unfunded obligations | **1,325** | 663 |
| **Liability in the balance sheet** | **1,410** | 701 |

19p120A(c)

The movement in the defined benefit obligation over the year is as follows:

| | **2012** | 2011 |
|---|---|---|
| At 1 January | **1,003** | 708 |
| Current service cost | **153** | 107 |
| Interest cost | **49** | 25 |
| Employee contributions by plan participants[1] | **–** | – |
| Actuarial losses/gains | **(2)** | 49 |
| Exchange differences | **25** | 114 |
| Past service cost[1] | **–** | – |
| Benefits paid[2] | **–** | – |
| Liabilities acquired in a business combination (note 39) | **802** | – |
| Curtailments[1] | **–** | – |
| Settlements[1] | **–** | – |
| **At 31 December** | **2,030** | 1,003 |

[1] The gain or loss on curtailment is in principle the resulting change in surplus (or deficit) plus unrecognised past service cost attributable to the affected employees.

[2] IAS 19 requires the disclosure of employee contributions, benefits paid, past service costs, settlements and curtailments as part of the reconciliation of the opening and closing balances of the present value of the defined benefit obligation. There is no such movement on the defined benefit obligation relating to pension plans in these financial statements, but the line item has been shown for illustrative purposes.

*(All amounts in C thousands unless otherwise stated)*

19p120A(e) The movement in the fair value of plan assets of the year is as follows:

| | 2012 | 2011 |
|---|---|---|
| At 1 January | **302** | 207 |
| Expected return on plan assets | **53** | 25 |
| Actuarial losses/gains | **(2)** | (1) |
| Exchange differences | **5** | (2) |
| Employer contributions[1] | **185** | 73 |
| Employee contributions | **–** | – |
| Benefits paid[2] | **–** | – |
| Assets acquired in a business combination (note 39) | **77** | – |
| Settlements[2] | **–** | – |
| **At 31 December** | **620** | 302 |

19p120A(g) The amounts recognised in the income statement are as follows:

| | 2012 | 2011 |
|---|---|---|
| Current service cost | **153** | 107 |
| Interest cost | **49** | 25 |
| Expected return on plan assets | **(53)** | (25) |
| **Total, included in staff costs (note 10)** | **149** | 107 |

19p120A(g) Of the total charge, C102 (2011: C71) and C47 (2011: C36) respectively were included in cost of sales and administrative expenses.

19p120A(m) The actual return on plan assets was C51 (2011: C24).

19p120A(o) The effect of a 1% movement in the assumed medical cost trend rate is as follows:

| | Increase | Decrease |
|---|---|---|
| Effect on the aggregate of the current service cost and interest cost | **24** | (20) |
| Effect on the defined benefit obligation | **366** | (313) |

*(c) Post-employment benefits (pension and medical)*

Plan assets are comprised as follows:

19p120A(j)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Equity instruments | **3,256** | **49%** | 1,224 | 40% |
| Debt instruments | **1,524** | **23%** | 571 | 18% |
| Property | **1,047** | **16%** | 943 | 30% |
| Other | **784** | **12%** | 361 | 12% |
| **Total** | **6,611** | **100%** | 3,099 | 100% |

[1] The gain or loss on curtailment is in principle the resulting change in surplus (or deficit) plus unrecognised past service cost attributable to the affected employees.
[2] IAS 19 requires the disclosure of employee contributions, benefits paid, past service costs, settlements and curtailments as part of the reconciliation of the opening and closing balances of the present value of the defined benefit obligation. There is no such movement on the defined benefit obligation relating to pension plans in these financial statements, but the line item has been shown for illustrative purposes.

*(All amounts in C thousands unless otherwise stated)*

DV

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in equities, although the group also invests in property, bonds, hedge funds and cash. The group believes that equities offer the best returns over the long term with an acceptable level of risk. The majority of equities are in a globally diversified portfolio of international blue chip entities, with a target of 60% of equities held in the UK and Europe, 30% in the US and the remainder in emerging markets.

**19p120A(k)**

Pension plan assets include the company's ordinary shares with a fair value of C136 (2011: C126) and a building occupied by the group with a fair value of C612 (2011: C609).

**19p120A(l)**

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of the reporting period. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

**19p120(q)**

Expected contributions to post-employment benefit plans for the year ending 31 December 2013 are C1,150.

**DV**

The group has agreed that it will aim to eliminate the deficit over the next nine years. Funding levels are monitored on an annual basis and the current agreed regular contribution rate is 14% of pensionable salaries in the UK and 12% in the US. The next triennial valuation is due to be completed as at 31 December 2013. The group considers that the contribution rates set at the last valuation date are sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly.

**DV**

An alternative method of valuation to the projected unit credit method is a buy-out valuation. This assumes that the entire post-employment benefit obligation will be settled by transferring all obligations to a suitable insurer. The group estimates the amount required to settle the post-employment benefit obligation at the end of the reporting period would be C15,500.

**19p120A(p)**

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **At 31 December** | | | | | |
| Present value of defined benefit obligation | **11,391** | 5,495 | 4,187 | 3,937 | 3,823 |
| Fair value of plan assets | **(6,611)** | (3,099) | (2,471) | (2,222) | (2,102) |
| **Deficit in the plan** | **4,780** | 2,396 | 1,716 | 1,715 | 1,721 |
| **Experience adjustments on plan liabilities** | **(17)** | 705 | 55 | 18 | (32) |
| **Experience adjustments on plan assets** | **17** | – | (197) | (50) | (16) |

## 34 Dividends per share

**1p107, 1p137(a), 10p12**

The dividends paid in 2012 and 2011 were C10,102 (C0.48 per share) and C15,736 (C0.78 per share) respectively. A dividend in respect of the year ended 31 December 2012 of C0.51 per share, amounting to a total dividend of C12,945, is to be proposed at the annual general meeting on 30 April 2013. These financial statements do not reflect this dividend payable.

*(All amounts in C thousands unless otherwise stated)*

## 35 Provisions for other liabilities and charges

| 1p78(d) | | Environ-mental restoration | Restruc-turing | Legal claims | Profit-sharing and bonuses | Contingent liability arising on a business combination | Total |
|---|---|---|---|---|---|---|---|
| 37p84(a) | At 1 January 2012 | 842 | – | 828 | 1,000 | – | 2,670 |
| | Charged/(credited) to the income statement: | | | | | | |
| 37p84(b) | – Additional provisions | 316 | 1,986 | 2,405 | 500 | – | 5,207 |
| | – On aquisition of ABC Group | – | – | – | – | 1,000 | 1,000 |
| 37p84(d) | – Unused amounts reversed | (15) | – | (15) | (10) | – | (40) |
| 37p84(e) | – Unwinding of discount | 40 | – | – | – | 4 | 44 |
| 37p84(c) | Used during year | (233) | (886) | (3,059) | (990) | – | (5,168) |
| | Exchange differences | (7) | – | (68) | – | – | (75) |
| IFRS5p38 | Transferred to disposal group classified as held for sale | (96) | – | – | – | – | (96) |
| 37p84(a) | **At 31 December 2012** | **847** | **1,100** | **91** | **500** | **1,004** | **3,542** |

Analysis of total provisions:

| | | 2012 | 2011 |
|---|---|---|---|
| 1p69 | Non-current | **316** | 274 |
| 1p69 | Current | **3,226** | 2,396 |
| | **Total** | **3,542** | 2,670 |

*(a) Environmental restoration*

37p85(a-c) The group uses various chemicals in working with leather. A provision is recognised for the present value of costs to be incurred for the restoration of the manufacturing sites. It is expected that C531 will be used during 2013 and C316 during 2014. Total expected costs to be incurred are C880 (2011: C760).

DV The provision transferred to the disposal group classified as held for sale amounts to C96 and relates to an environmental restoration provision for Shoes Limited (part of the UK wholesale segment). See note 25 for further details regarding the disposal group held for sale.

*(b) Restructuring*

37p85(a-c) The reduction of the volumes assigned to manufacturing operations in Step-land (a subsidiary) will result in the reduction of a total of 155 jobs at two factories. An agreement was reached with the local union representatives, which specifies the number of staff involved and the voluntary redundancy compensation package offered by the group, as well as amounts payable to those made redundant, before the financial year-end. The estimated staff restructuring costs to be incurred are C799 at 31 December 2012 (note 10). Other direct costs attributable to the restructuring, including lease termination, are C1,187. These costs were fully provided for in 2012. The provision of C1,100 at 31 December 2012 is expected to be fully utilised during the first half of 2013.

*(All amounts in C thousands unless otherwise stated)*

**36p130** A goodwill impairment charge of C4,650 was recognised in the cash-generating unit relating to Step-land as a result of this restructuring (note 17).

*(c) Legal claims*

**37p85(a-c)** The amounts represent a provision for certain legal claims brought against the group by customers of the US wholesale segment. The provision charge is recognised in profit or loss within 'administrative expenses'. The balance at 31 December 2012 is expected to be utilised in the first half of 2013. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2012.

*(d) Profit-sharing and bonuses*

**19p8(c),10, DV, 37p85(a-c)** The provision for profit-sharing and bonuses is payable within three month of the finalisation of the audited financial statements.

*(e) Recognised contingent liability*

**19p8(c),10, DV, 37p85(a-c)** A contingent liability of C1,000 has been recognised on the acquisition of ABC Group for a pending lawsuit in which the entity is a defendant. The claim has arisen from a customer alleging defects on products supplied to them. It is expected that the courts will have reached a decision on this case by the end of 2013. The potential undiscounted amount of all future payments that the group could be required to make if there was an adverse decision related to the lawsuit is estimated to be between C500 and C1,500. As of 31 December 2012, there has been no change in the amount recognised (except for the unwinding of the discount of C4) for the liability at 31 March 2012, as there has been no change in the probability of the outcome of the lawsuit.

**IFRS3B64(g)** The selling shareholders of ABC Group have contractually agreed to indemnify IFRS GAAP plc for the claim that may become payable in respect of the above-mentioned lawsuit. An indemnification asset of C1,000, equivalent to the fair value of the indemnified liability, has been recognised by the group. The indemnification asset is deducted from consideration transferred for the business combination. As is the case with the indemnified liability, there has been no change in the amount recognised for the indemnification asset as at 31 December 2012, as there has been no change in the range of outcomes or assumptions used to develop the estimate of the liability.

*(All amounts in C thousands unless otherwise stated)*

## 36 Cash generated from operations

| | | 2012 | 2011 |
|---|---|---|---|
| 7p18(b), 7p20 | Profit before income tax including discontinued operations | **47,843** | 25,118 |
| | Adjustments for: | | |
| | – Depreciation (note 16) | **17,754** | 9,662 |
| | – Amortisation (note 17) | **800** | 565 |
| | – Goodwill impairment charge (note 17) | **4,650** | – |
| | – (Profit)/loss on disposal of property, plant and equipment | **(17)** | 8 |
| | – Share-based payment and increase in retirement benefit obligations | **509** | 1,470 |
| | – Fair value gains on derivative financial instruments (note 8) | **(86)** | (88) |
| | – Net fair value (gains)/losses on financial assets at fair value through profit or loss (note 8) | **(85)** | 238 |
| | – Dividend income on available-for-sale financial assets (note 7) | **(1,100)** | (883) |
| | – Dividend income on financial assets at fair value through profit or loss (note 7) | **(800)** | (310) |
| | – Proivision for restructuring cost | **1,100** | – |
| | – Inventory write-down (note 6) | **3,117** | – |
| | – Finance costs – net (note 11) | **6,443** | 10,588 |
| | – Share of loss/(profit) from associates (note 12) | **(215)** | (145) |
| | – Foreign exchange losses/(gains) on operating activities (note 8) | **277** | (200) |
| | Gains on revaluation of available-for-sale investments (note 7) | **(850)** | – |
| | Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation): | | |
| | – Inventories | **(9,194)** | (966) |
| | – Trade and other receivables | **(1,893)** | (3,039) |
| | – Financial assets at fair value through profit or loss | **(3,747)** | (858) |
| | – Trade and other payables | **7,245** | 543 |
| | **Cash generated from operations** | **71,751** | 41,703 |

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

| | 2012 | 2011 |
|---|---|---|
| Net book amount (note 16) | **6,337** | 2,987 |
| Profit/(loss)on disposal of property, plant and equipment | **17** | (8) |
| **Proceeds from disposal of property, plant and equipment** | **6,354** | 2,979 |

7p43

*Non-cash transactions*

The principal non-cash transaction is the issue of shares as consideration for the acquisition discussed in note 39.

## 37 Contingencies

37p86

Since 2010, the group has been defending an action brought by an environment agency in Europe. The group has disclaimed the liability.

No provision in relation to this claim has been recognised in these consolidated financial statements, as legal advice indicates that it is not probable that a significant liability will arise. Further claims for which provisions have been made are reflected in note 35.

*(All amounts in C thousands unless otherwise stated)*

## 38 Commitments

*(a) Capital commitments*

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

| | | 2012 | 2011 |
|---|---|---|---|
| 16p74(c) | Property, plant and equipment | **3,593** | 3,667 |
| 38p122(e) | Intangible assets | **460** | 474 |
| | **Total** | **4,053** | 4,141 |

*(b) Operating lease commitments – group company as lessee*

17p35(d) The group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

17p35(d) The group also leases various plant and machinery under cancellable operating lease agreements. The group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in note 9.

17p35(a) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2012 | 2011 |
|---|---|---|
| No later than 1 year | **11,664** | 10,604 |
| Later than 1 year and no later than 5 years | **45,651** | 45,651 |
| Later than 5 years | **15,710** | 27,374 |
| **Total** | **73,025** | 83,629 |

## 39 Business combinations

IFRS3B64(a)(d) On 30 June 2011, the group acquired 15% of the share capital of ABC Group for C1,150. On 1 March 2012, the group acquired a further 56.73% of the share capital and obtained control of ABC Group, a shoe and leather goods retailer operating in the US and a wholesaler operating in most western European countries.

IFRS3B64(e) As a result of the acquisition, the group is expected to increase its presence in these markets. It also expects to reduce costs through economies of scale. The goodwill of C4,501 arising from the acquisition is attributable to acquired customer base and economies of scale expected from combining the operations of the group and ABC Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

IFRS3B64(k) The following table summarises the consideration paid for ABC group, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

*(All amounts in C thousands unless otherwise stated)*

| Reference | Consideration at 1 March 2012 | |
|---|---|---|
| IFRS3B64(f)(i), IFRS3B64(f)(iv) | Cash | 4,050 |
| IFRS3B64(f)(iii) | Equity instruments (3.55m ordinary shares) | 10,000 |
| IFRS3B64(g)(i) | Contingent consideration | 1,000 |
| IFRS3B64(f) | **Total consideration transferred** | **15,050** |
| | Indemnification asset | (1,000) |
| IFRS3B64(p)(i) | Fair value of equity interest in ABC Group held before the business combination | 2,000 |
| | **Total consideration** | **16,050** |
| IFRS3B64(i) | **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| | Cash and cash equivalents | 300 |
| | Property, plant and equipment (note 16) | 67,784 |
| | Trademarks (included in intangibles) (note 17) | 2,500 |
| | Licences (included in intangibles) (note 17) | 1,500 |
| | Available-for-sale financial assets (note 19) | 473 |
| | Inventories | 459 |
| | Trade and other receivables | 585 |
| | Trade and other payables | (11,409) |
| | Retirement benefit obligations: | |
| | – Pensions (note 33) | (1,914) |
| | – Other post-retirement obligations (note 33) | (725) |
| | Borrowings | (40,509) |
| | Contingent liability | (1,000) |
| | Deferred tax liabilities (note 32) | (1,953) |
| | **Total identifiable net assets** | **16,091** |
| IFRS3B64(o)(i) | **Non-controlling interest** | (4,542) |
| | **Goodwill** | 4,501 |
| | **Total** | **16,050** |

IFRS3B64(m)

Acquisition-related costs of C200 have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2012.

IFRS3B64 (f)(iv), B64(m)

The fair value of the 3,550 thousand ordinary shares issued as part of the consideration paid for ABC Group (C10,050) was based on the published share price on 1 March 2012. Issuance costs totalling C50 have been netted against the deemed proceeds.

IFRS3B 64(f)(iii), B64(g), B67(b)

The contingent consideration arrangement requires the group to pay in cash the former owners of ABC Group 10% of the average profit of ABC Group for three years from 2012-2014, in excess of C7,500, up to a maximum undiscounted amount of C2,500.

The potential undiscounted amount of all future payments that the group could be required to make under this arrangement is between C0 and C2,500.

The fair value of the contingent consideration arrangement of C1,000 was estimated by applying the income approach. The fair value estimates are based on a discount rate of 8% and assumed probability-adjusted profit in ABC Group of C10,000 to C20,000.

*(All amounts in C thousands unless otherwise stated)*

As of 31 December 2012, there was an increase of C500 recognised in the income statement for the contingent consideration arrangement, as the assumed probability-adjusted profit in ABC Group was recalculated to be approximately C20,000-30,000.

**IFRS3B64(h)** The fair value of trade and other receivables is C585 and includes trade receivables with a fair value of C510. The gross contractual amount for trade receivables due is C960, of which C450 is expected to be uncollectible.

**IFRS3B67(a)** The fair value of the acquired identifiable intangible assets of C4,000 (including trademarks and licences) is provisional pending receipt of the final valuations for those assets.

**IFRS3B64(j), B67(c), 37p84, p85** A contingent liability of C1,000 has been recognised for a pending lawsuit in which ABC Group is a defendant. The claim has arisen from a customer alleging defects on products supplied to them. It is expected that the courts will have reached a decision on this case by the end of 2013. The potential undiscounted amount of all future payments that the group could be required to make if there was an adverse decision related to the lawsuit is estimated to be between C500 and C1,500. As of 31 December 2012, there has been no change in the amount recognised (except for unwinding of the discount C4) for the liability at 1 March 2012, as there has been no change in the range of outcomes or assumptions used to develop the estimates.

**IFRS3B64(g), IFRS3p57** The selling shareholders of ABC Group have contractually agreed to indemnify IFRS GAAP plc for the claim that may become payable in respect of the above-mentioned lawsuit. An indemnification asset of C1,000, equivalent to the fair value of the indemnified liability, has been recognised by the group. The indemnification asset is deducted from consideration transferred for the business combination. As is the case with the indemnified liability, there has been no change in the amount recognised for the indemnification asset as at 31 December 2012, as there has been no change in the range of outcomes or assumptions used to develop the estimate of the liability.

**IFRS3B64(o)** The fair value of the non-controlling interest in ABC Group, an unlisted company, was estimated by using the purchase price paid for acquisition of 55% stake in ABC group. This purchase price was adjusted for the lack of control and lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in ABC Group.

**IFRS3B64(p)(ii)** The group recognised a gain of C850 as a result of measuring at fair value its 15% equity interest in ABC Group held before the business combination. The gain is included in other income in the group's statement of comprehensive income for the year ended 31 December 2012.

**IFRS3B64(q)(i)** The revenue included in the consolidated statement of comprehensive income since 1 March 2012 contributed by ABC Group was C44,709. ABC Group also contributed profit of C12,762 over the same period.

**IFRS3B64(q)(ii)** Had ABC Group been consolidated from 1 January 2012, the consolidated statement of income would show pro-forma revenue[1] of C220,345 and profit of C35,565.

[1] The information on combined revenue and profit does not represent actual results for the year and is therefore labelled as pro-forma.

*(All amounts in C thousands unless otherwise stated)*

## 40 Transactions with non-controlling interests

*(a) Acquisition of additional interest in a subsidiary*

On 21 April 2012, the company acquired the remaining 5% of the issued shares of XYZ group for a purchase consideration of C1,100. The group now holds 100% of the equity share capital of XYZ group. The carrying amount of the non-controlling interests in XYZ group on the date of acquisition was C300. The group derecognised non-controlling interests of C300 and recorded a decrease in equity attributable to owners of the parent of C800. The effect of changes in the ownership interest of XYZ group on the equity attributable to owners of the company during the year is summarised as follows:

| | **2012** | 2011 |
|---|---|---|
| Carrying amount of non-controlling interests aquired | **300** | – |
| Consideration paid to non-controlling interests | **(1,100)** | – |
| **Excess of consideration paid recognised in parent's equity** | **(800)** | – |

*(b) Disposal of interest in a subsidiary without loss of control*

On 5 September 2012, the company disposed of a 10% interest out of the 80% interest held in Red Limited at a consideration of C1,100. The carrying amount of the non-controlling interests in Red Limited on the date of disposal was C2,000 (representing 20% interest). This resulted in an increase in non-controlling interests of C1,000 and an increase in equity attributable to owners of the parent of C100. The effect of changes in the ownership interest of Red Limited on the equity attributable to owners of the company during the year is summarised as follows:

| | **31 December 2012** | 31 December 2011 |
|---|---|---|
| Carrying amount of non-controlling interests disposed of | **(1,000)** | – |
| Consideration received from non-controlling interests | **1,100** | – |
| **Increase in parent's equity** | **100** | – |

There were no transactions with non-controlling interests in 2011.

27p41(e)

*(c) Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the year ended 31 December 2012*

| | **31 December 2012** |
|---|---|
| Changes in equity attributable to shareholders of the company arising from: | |
| – Acquisition of additional interests in a subsidiary | (800) |
| – Disposal of interests in a subsidiary without loss of control | 100 |
| **Net effect in parent's equity** | **(700)** |

## 41 Related-parties

1p138(c), 24p13

The group is controlled by M Limited (incorporated in the UK), which owns 57% of the company's shares. The remaining 43% of the shares are widely held. The group's ultimate parent is G Limited (incorporated in the UK). The group's ultimate controlling party is Mr Power.

*(All amounts in C thousands unless otherwise stated)*

24p18, p19, p24

The following transactions were carried out with related parties:

24p18(a)

*(a) Sales of goods and services*

| | **2012** | 2011 |
|---|---|---|
| Sale of goods: | | |
| – Associates | **1,002** | 204 |
| – Associates of G Limited | **121** | 87 |
| Sales of services: | | |
| – Ultimate parent (legal and administration services) | **67** | 127 |
| – Close family members of the ultimate controlling party (design services) | **100** | 104 |
| **Total** | **1,290** | 522 |

Goods are sold based on the price lists in force and terms that would be available to third parties[1]. Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30% (2011: 10% to 18%).

*(b) Purchases of goods and services*

24p18(a)

| | **2012** | 2011 |
|---|---|---|
| Purchase of goods: | | |
| – Associates | **3,054** | 3,058 |
| Purchase of services: | | |
| – Entity controlled by key management personnel | **83** | 70 |
| – Immediate parent (management services) | **295** | 268 |
| **Total** | **3,432** | 3,396 |

24p23

Goods and services are bought from associates and an entity controlled by key management personnel on normal commercial terms and conditions. The entity controlled by key management personnel is a firm belonging to Mr Chamois, a non-executive director of the company. Management services are bought from the immediate parent on a cost-plus basis, allowing a margin ranging from 15% to 30% (2011: 10% to 24%).

24p17

*(c) Key management compensation*

Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services is shown below:

| | | **2012** | 2011 |
|---|---|---|---|
| 24p17(a) | Salaries and other short-term employee benefits | **2,200** | 1890 |
| 24p17(d) | Termination benefits | **1,600** | – |
| 24p17(b) | Post-employment benefits | **123** | 85 |
| 24p17(c) | Other long-term benefits | **26** | 22 |
| 24p17(e) | Share-based payments | **150** | 107 |
| | **Total** | **4,099** | 2,104 |

[1] Management should disclose that related-party transactions were made on an arm's length basis only when such terms can be substantiated (24p23).

*(All amounts in C thousands unless otherwise stated)*

24p18(b), 1p77 *(d) Year-end balances arising from sales/purchases of goods/services*

| | 2012 | 2011 |
|---|---|---|
| Receivables from related parties (note 21): | | |
| – Associates | **26** | 32 |
| – Associates of G Limited | **24** | 8 |
| – Ultimate parent | **50** | 40 |
| – Close family members of key management personnel | **4** | 6 |
| Payables to related parties (note 30): | | |
| – Immediate parent | **200** | 190 |
| – Associates | **2,902** | 1,005 |
| – Entity controlled by key management personnel | **100** | – |

The receivables from related parties arise mainly from sale transactions and are due two months after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2011: nil).

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables bear no interest.

24p18, 1p77 *(e) Loans to related parties*

| | 2012 | 2011 |
|---|---|---|
| Loans to key management of the company (and their families)[1]: | | |
| At 1 January | **196** | 168 |
| Loans advanced during year | **343** | 62 |
| Loan repayments received | **(49)** | (34) |
| Interest charged | **30** | 16 |
| Interest received | **(30)** | (16) |
| **At 31 December** | **490** | **196** |
| Loans to associates: | | |
| At 1 January | **1,192** | 1,206 |
| Loans advanced during year | **1,000** | 50 |
| Loan repayments received | **(14)** | (64) |
| Interest charged | **187** | 120 |
| Interest received | **(187)** | (120) |
| **At 31 December** | **2,178** | **1,192** |
| Total loans to related parties: | | |
| At 1 January | **1,388** | 1,374 |
| Loans advanced during year | **1,343** | 112 |
| Loan repayments received | **(63)** | (98) |
| Interest charged (note 11) | **217** | 136 |
| Interest received | **(217)** | (136) |
| **At 31 December (note 21)** | **2,668** | 1,388 |

[1] None of the loans made to members of key management has been made to directors.

*(All amounts in C thousands unless otherwise stated)*

24p18(b)(i) The loans advanced to key management have the following terms and conditions:

| Name of key management | Amount of loan | Term | Interest rate |
|---|---|---|---|
| **2012** | | | |
| Mr Brown | 173 | Repayable monthly over 2 years | 6.3% |
| Mr White | 170 | Repayable monthly over 2 years | 6.3% |
| **2011** | | | |
| Mr Black | 20 | Repayable monthly over 2 years | 6.5% |
| Mr White | 42 | Repayable monthly over 1 year | 6.5% |

IFRS7p15 Certain loans advanced to associates during the year amounting to C1,500 (2011: C500) are collateralised by shares in listed companies. The fair value of these shares was C65 at the end of the reporting period (2011: C590).

The loans to associates are due on 1 January 2013 and carry interest at 7.0% (2011:8%). The fair values and the effective interest rates of loans to associates are disclosed in note 21.

24p18(c) No provision was required in 2012 (2011: nil) for the loans made to key management personnel and associates.

## 42 Events after the reporting period

*(a) Business combinations*

10p21,IFRS3 B64(a)-(d) The group acquired 100% of the share capital of K&Co, a group of companies specialising in the manufacture of shoes for extreme sports, for a cash consideration of C5,950 on 1 February 2013.

Details of net assets acquired and goodwill are as follows:

| | | 2012 |
|---|---|---|
| IFRS3B64(f),(i) | Purchase consideration: | |
| | – Cash paid | **5,950** |
| IFRS3B64(m) | – Direct cost relating to acquisition – charged in the income statement | **150** |
| 7p40(a) | Total purchase consideration | **5,950** |
| | Fair value of assets acquired (see below) | **(5,145)** |
| | **Goodwill** | **805** |

IFRS3B64(e) The above goodwill is attributable to K&Co's strong position and profitability in trading in the niche market for extreme sports equipment.

*(All amounts in C thousands unless otherwise stated)*

IFRS3B64(i) The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

| | Fair value |
|---|---|
| Cash and cash equivalents | 195 |
| Property, plant and equipment | 31,580 |
| Trademarks | 1,000 |
| Licences | 700 |
| Customer relationships | 1,850 |
| Favourable lease agreements | 800 |
| Inventories | 995 |
| Trade and other receivables | 855 |
| Trade and other payables | (9,646) |
| Retirement benefit obligations | (1,425) |
| Borrowings | (19,259) |
| Deferred tax liabilities | (2,500) |
| **Net assets aquired** | 5,145 |

*(b) Associates*

10p21 The group acquired 40% of the share capital of L&Co, a group of companies specialising in the manufacture of leisure shoes, for a cash consideration of C2,050 on 25 January 2013.

Details of net assets acquired and goodwill are as follows:

| | **2012** |
|---|---|
| Purchase consideration: | |
| – Cash paid | **2,050** |
| – Direct cost relating to acquisition | **70** |
| Total purchase consideration | **2,120** |
| Share of fair value of net assets acquired (see below) | **(2,000)** |
| **Goodwill** | **120** |

DV The goodwill is attributable to L&Co's strong position and profitability in trading in the market of leisure shoes and to its workforce, which cannot be separately recognised as an intangible asset.

DV The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

| | Fair value |
|---|---|
| Contractual customer relationships | 380 |
| Property, plant and equipment | 3,200 |
| Inventory | 500 |
| Cash | 220 |
| Trade creditors | (420) |
| Borrowings | (1,880) |
| **Net assets aquired** | **2,000** |

*(All amounts in C thousands unless otherwise stated)*

*(c) Equity transactions*

**10p21, 33p71(e), 10p21, 10p22(f)**

On 1 January 2013, 1,200 thousand share options were granted to directors and employees with an exercise price set at the market share prices less 15% on that date of C3.13 per share (share price: C3.68) (expiry date: 31 December 2017).

The company re-issued 500,000 treasury shares for a total consideration of C1,500 on 15 January 2013.

*(d) Borrowings*

**10p21**

On 1 February 2013, the group issued C6,777 6.5% US dollar bonds to finance its expansion programme and working capital requirements in the US. The bonds are repayable on 31 December 2017.

*(All amounts in C thousands unless otherwise stated)*

# Independent auditor's report to the shareholders of IFRS GAAP plc

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of IFRS GAAP plc, which comprise the consolidated balance sheet as at 31 December 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs)[1], and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view[2] in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the accompanying consolidated financial statements give a true and fair view[3] of the financial position of IFRS GAAP plc and its subsidiaries as at 31 December 2012, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

[1] This can be changed to say, 'Management is responsible for the preparation and fair presentation of these financial statements in accordance...' where the term 'true and fair view' is not used.

[2] This can be changed to say '...relevant to the entity's preparation and fair presentation of the consolidated financial statements in order...' where the term 'true and fair view' is not used.

[3] The term 'give a true and fair view of' can be changed to 'present fairly, in all material aspects'.

*(All amounts in C thousands unless otherwise stated)*

**Report on other legal and regulatory requirements**

*[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]*

Auditor's signature
Date of the auditor's report
Auditor's address

*[The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries, the audit report covers both the current year and the comparative year.]*

# Appendix I – Operating and financial review; management commentary

## International Organization of Securities Commissions

In 1998, the International Organization of Securities Commissions (IOSCO) issued 'International disclosure standards for cross- border offerings and initial listings by foreign issuers', comprising recommended disclosure standards, including an operating and financial review and discussion of future prospects. IOSCO standards for prospectuses are not mandatory, but they are increasingly incorporated in national stock exchange requirements for prospectuses and annual reports. The text of IOSCO's standard on operating and financial reviews and prospects is reproduced below. Although the standard refers to a 'company' throughout, we consider that, where a company has subsidiaries, it should be applied to the group.

### Standard

Discuss the company's financial condition, changes in financial condition and results of operations for each year and interim period for which financial statements are required, including the causes of material changes from year to year in financial statement line items, to the extent necessary for an understanding of the company's business as a whole. Information provided also shall relate to all separate segments of the group. Provide the information specified below as well as such other information that is necessary for an investor's understanding of the company's financial condition, changes in financial condition and results of operations.

**A Operating results.** Provide information regarding significant factors, including unusual or infrequent events or new developments, materially affecting the company's income from operations, indicating the extent to which income was so affected. Describe any other significant component of revenue or expenses necessary to understand the company's results of operations.

(1) To the extent that the financial statements disclose material changes in net sales or revenues, provide a narrative discussion of the extent to which such changes are attributable to changes in prices or to changes in the volume or amount of products or services being sold or to the introduction of new products or services.

(2) Describe the impact of inflation, if material. If the currency in which financial statements are presented is of a country that has experienced hyperinflation, the existence of such inflation, a five-year history of the annual rate of inflation and a discussion of the impact of hyperinflation on the company's business shall be disclosed.

(3) Provide information regarding the impact of foreign currency fluctuations on the company, if material, and the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments.

(4) Provide information regarding any governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the company's operations or investments by host country shareholders.

**B Liquidity and capital resources.** The following information shall be provided:

(1) Information regarding the company's liquidity (both short and long term), including:

   (a) a description of the internal and external sources of liquidity and a brief discussion of any material unused sources of liquidity. Include a statement by the company that, in its opinion, the working capital is sufficient for the company's present requirements, or, if not, how it proposes to provide the additional working capital needed.

*(All amounts in C thousands unless otherwise stated)*

(b) an evaluation of the sources and amounts of the company's cash flows, including the nature and extent of any legal or economic restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends, loans or advances and the impact such restrictions have had or are expected to have on the ability of the company to meet its cash obligations.

(c) information on the level of borrowings at the end of the period under review, the seasonality of borrowing requirements and the maturity profile of borrowings and committed borrowing facilities, with a description of any restrictions on their use.

(2) Information regarding the type of financial instruments used, the maturity profile of debt, currency and interest rate structure. The discussion also should include funding and treasury policies and objectives in terms of the manner in which treasury activities are controlled, the currencies in which cash and cash equivalents are held, the extent to which borrowings are at fixed rates, and the use of financial instruments for hedging purposes.

(3) Information regarding the company's material commitments for capital expenditures as of the end of the latest financial year and any subsequent interim period and an indication of the general purpose of such commitments and the anticipated sources of funds needed to fulfil such commitments.

**C Research and development, patents and licenses, etc**. Provide a description of the company's research and development policies for the IASt three years, where it is significant, including the amount spent during each of the IASt three financial years on group-sponsored research and development activities.

**D Trend information**. The group should identify the most significant recent trends in production, sales and inventory, the state of the order book and costs and selling prices since the latest financial year. The group also should discuss, for at least the current financial year, any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the group's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

## Management commentary

The IASB issued a non-mandatory practice statement on management commentary in December 2010 that provides principles for the presentation of a narrative report on an entity's financial performance, position and cash flows.

The IASB's practice statement provides a broad framework of principles, qualitative characteristics and elements that might be used to provide users of financial reports with decision-useful information. The practice statement recommends that the commentary is entity-specific and may include the following components:

- A description of the business including discussion of matters such as the industries, markets and competitive position; legal, regulatory and macro-economic environment; and the entity's structure and economic model.
- Management's objectives and strategies to help users understand the priorities for action and the resources that must be managed to deliver results.
- The critical financial and non-financial resources available to the entity and how those resources are used in meeting management's objectives for the entity.
- The principal risks, and management's plans and strategies for managing those risks, and the effectiveness of those strategies.

*(All amounts in C thousands unless otherwise stated)*

- The performance and development of the entity to provide insights into the trends and factors affecting the business and to help users understand the extent to which past performance may be indicative of future performance.
- The performance measures that management uses to evaluate the entity's performance against its objectives, which helps users to assess the degree to which goals and objectives are being achieved.

*(All amounts in C thousands unless otherwise stated)*

# Appendix II – Alternative presentation of primary statements

This appendix is independent of the illustrative financial statements in the main body of IFRS GAAP plc. The figures do not have any correlation with those in the main body and hence should not be compared.

## Consolidated statement of cash flows – direct method

IAS 7 encourages the use of the 'direct method' for the presentation of cash flows from operating activities. The presentation of cash flows from operating activities using the direct method in accordance with IAS 7p18 is as follows:

| | | | Year ended 31 December | |
|---|---|---|---|---|
| **1p113, 7p10** | | **Note** | **2012** | 2011 |
| 7p18(a) | **Cash flows from operating activities** | | | |
| | Cash receipts from customers | | **212,847** | 114,451 |
| | Cash paid to suppliers and employees | | **(156,613)** | (72,675) |
| | Cash generated from operations | | **56,234** | 41,776 |
| | Interest paid | | **(7,835)** | (14,773) |
| | Income taxes paid | | **(16,909)** | (10,526) |
| | **Net cash flows from operating activities** | | **31,490** | 16,477 |
| 7p21, p10 | **Cash flows from investing activities** | | | |
| 7p39 | Acquisition of subsidiary, net of cash acquired | 39 | **(3,950)** | – |
| 7p16(a) | Purchases of property, plant and equipment | 16 | **(9,755)** | (6,042) |
| 7p16(b) | Proceeds from sale of property, plant and equipment | 36 | **6,354** | 2,979 |
| 7p16(a) | Purchases of intangible assets | 17 | **(3,050)** | (700) |
| 7p16(c) | Purchases of available-for-sale financial assets | 19 | **(2,781)** | (1,126) |
| 7p16(e) | Loans granted to associates | 41 | **(1,000)** | (50) |
| 7p16(f) | Loan repayments received from associates | 41 | **14** | 64 |
| 7p31 | Interest received | | **1,054** | 1,193 |
| 7p31 | Dividends received | | **1,130** | 1,120 |
| | **Net cash used in investing activities** | | **(11,984)** | (2,562) |
| 7p21, p10 | **Cash flows from financing activities** | | | |
| 7p17(a) | Proceeds from issuance of ordinary shares | 26 | **950** | 1,070 |
| 7p17(b) | Purchase of treasury shares | 28 | **(2,564)** | – |
| 7p17(c) | Proceeds from issuance of convertible bond | 31 | **50,000** | – |
| 7p17(c) | Proceeds from issuance of redeemable preference shares | | **–** | 30,000 |
| 7p17(c) | Proceeds from borrowings | | **8,500** | 18,000 |
| 7p17(d) | Repayments of borrowings | | **(78,117)** | (34,674) |
| 7p31 | Dividends paid to owners of the parent | | **(10,102)** | (15,736) |
| 7p31 | Dividends paid to holders of redeemable preference shares | 31 | **(1,950)** | (1,950) |
| 7p31 | Dividends paid to non-controlling interests | | **(1,920)** | (550) |
| | Net cash used in financing activities | | **(35,203)** | (3,840) |
| | **Net (decrease)/increase in cash, cash equivalents and bank overdrafts** | | **(15,697)** | 10,075 |
| 7p28 | Cash, cash equivalents and bank overdrafts at beginning of the year | 24 | **27,598** | 17,587 |
| | Exchange gains/(losses) on cash, cash equivalents and bank overdrafts | 24 | **535** | (64) |
| 7p28 | **Cash, cash equivalents and bank overdrafts at end of the year** | | **12,436** | 27,598 |

The notes on pages 19 to 109 are an integral part of these consolidated financial statements.

*(All amounts in C thousands unless otherwise stated)*

## Consolidated statement of comprehensive income – single statement, showing expenses by function

| | | | Year ended 31 December | |
|---|---|---|---|---|
| 1p10(b), 81(a) | | **Note** | **2012** | 2011 |
| | **Continuing operations** | | | |
| 1p82(a), 103 | Revenue | 5 | **211,034** | 112,360 |
| 1p99,103 | Cost of sales | 6 | **(77,366)** | (46,682) |
| 1p103 | **Gross profit** | | **133,668** | 65,678 |
| 1p99, 103 | Distribution costs | | **(52,529)** | (21,213) |
| 1p99, 103 | Administrative expenses | | **(29,895)** | (10,426) |
| 1p99, 103 | Other income | 7 | **2,750** | 1,259 |
| 1p85 | Other (losses)/gains – net | 8 | **(90)** | 63 |
| 1p85 | **Operating profit** | | **53,904** | 35,361 |
| 1p85 | Finance income | 11 | **1,730** | 1,609 |
| 1p82(b) | Finance cost | 11 | **(8,173)** | (12,197) |
| 1p85 | Finance costs – net | 11 | **(6,443)** | (10,558) |
| 1p82(c) | Share of profit of associates | 12 | **215** | 145 |
| 1p85 | **Profit before income tax** | | **47,676** | 24,918 |
| 1p82(d), 12p77 | Income tax expense | 13 | **(14,611)** | (8,670) |
| 1p85 | Profit for the year from continuing operations | 25 | **33,065** | 16,248 |
| IFRS5p33(a) | **Discontinued operations:** | | | |
| | Profit for the year from discontinued operations (attributable to owners of the parent) | | **100** | 120 |
| 1p82(f) | **Profit for the year** | | **33,165** | 16,368 |
| 1p82(g), | **Other comprehensive income:** | | | |
| 1p82(g), | Gains on revaluation of land and buildings | 29 | **755** | 759 |
| IFRS7p20(a)(ii) | Available-for-sale financial assets | 29 | **362** | 912 |
| 28p39, 1p82(h) | Share of other comprehensive income of associates | 29 | **(86)** | 91 |
| 1p82(g), 19p93B | Actuarial loss on retirement benefit obligations | 28,33 | **–** | (494) |
| 12p80(d) | Impact of change in the Euravian tax rate on deferred tax | 28,32 | **(10)** | – |
| IFRS7p23(c) | Cash flow hedges | 29 | **64** | (3) |
| 1p82(g) | Net investment hedge | 29 | **(45)** | 40 |
| 1p82(g) | Currency translation differences | 29 | **2,413** | (1,111) |
| 1p91(b) | Reclassification of revaluation of previously held interest in ABC Group | 7,29,39 | **(850)** | – |
| | Other comprehensive income for the year, net of tax | | **2,603** | 194 |
| 1p82(i( | **Total comprehensive income for the year** | | **35,768** | 16,562 |
| 1p83(a) | **Profit attributable to:** | | | |
| 1p83(a)(ii) | – Owners of the parent | | **30,617** | 15,512 |
| 1p83(a)(i), 27p27 | – Non-controlling interests | | **2,548** | 856 |
| | | | **33,165** | 16,368 |

*(All amounts in C thousands unless otherwise stated)*

| | | Note | Year ended 31 December 2012 | 2011 |
|---|---|---|---|---|
| 1p83(b) | **Total comprehensive income attributable to:** | | | |
| 1p83(b)(ii) | – Owners of the parent | | **32,968** | 15,746 |
| 1p83(b)(i) | – Non-controlling interest | | **2,800** | 816 |
| | | | **35,768** | 16,562 |
| | Total comprehensive income attributable to owners of the parent arises from: | | | |
| | – Continuing operations | | 32,868 | 15,626 |
| IFRS5p33(d) | – Discontinued operations | 25 | 100 | 120 |
| | | | 32,968 | 15,746 |

**Earnings per share from continuing and discontinued operations to owners of the parent during the year (expressed in C per share)**

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | **Basic earnings per share** | | | |
| 33p66 | From continuing operations | 14 | **1.31** | 0.76 |
| 33p68 | From discontinued operations | | **0.01** | 0.01 |
| | | | **1.32** | 0.77 |
| | **Diluted earnings per share**[1] | | | |
| 33p66 | From continuing operations | 14 | **1.18** | 0.71 |
| 33p68 | From discontinued operations | | **0.01** | 0.01 |
| | | | **1.19** | 0.72 |

The notes on pages 19 to 109 are an integral part of these consolidated financial statements.

[1] EPS for discontinued operations may be given in the notes to the accounts instead of the face of the income statement. The income tax effect has been presented on an aggregate basis; therefore an additional note disclosure resents the income tax effect of each component. Alternatively, this information could be presented within the statement of comprehensive income.

*(All amounts in C thousands unless otherwise stated)*

## Appendix III – Areas not illustrated in financial statements of IFRS GAAP plc

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*(All amounts in C thousands unless otherwise stated)*

## 1. Biological assets

### Note 1 – General information

1p138(b), 41p46(a)

The group is engaged in the business of farming sheep primarily for sale to meat processors. The group is also engaged in the business of growing and managing palm oil plantations for the sale of palm oil. The group earns ancillary income from various agricultural produce, such as wool.

### Note 2 – Accounting policies

**Basis of preparation**

1p117(a)

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments at fair value through profit or loss) and certain biological assets.

1p119

**Biological assets**

41p41, p47

Biological assets comprise sheep and palm oil plantations.

Sheep are measured at fair value less cost to sell, based on market prices at auction of livestock of similar age, breed and genetic merit with adjustments, where necessary, to reflect the differences.

The fair value of oil palms excludes the land upon which the trees are planted or the fixed assets utilised in the upkeep of planted areas. The biological process starts with preparation of land for planting seedlings and ends with the harvesting of crops in the form of fresh fruit bunches ('FFB'). Thereafter, crude palm oil and palm kernel oil is extracted from FFB. Consistently with this process, the fair value of oil palms is determined using a discounted cash flow model, by reference to the estimated FFB crop harvest over the full remaining productive life of the trees of up to 20 years, applying an estimated produce value for transfer to the manufacturing process and allowing for upkeep, harvesting costs and an appropriate allocation of overheads. The estimated produce value is derived from a long term forecast of crude palm oil prices to determine the present value of expected future cash flows over the next 20 years. The estimated FFB crop harvest used to derive the fair value is derived by applying palm oil yield to plantation size.

41p54(a-b)

Costs to sell include the incremental selling costs, including auctioneers' fees and commission paid to brokers and dealers.

Changes in fair value of livestock and palm oil plantations are recognised in the income statement.

Farming costs such as feeding, labour costs, pasture maintenance, veterinary services and sheering are expensed as incurred. The cost of purchase of sheep plus transportation charges are capitalised as part of biological assets.

*(All amounts in C thousands unless otherwise stated)*

## Note 3 – Estimates and judgements – Biological assets

40p47

In measuring the fair value of sheep and palm oil plantations various management estimates and judgements are required:

*(a) Sheep*

Estimates and judgements in determining the fair value of sheep relate to the market prices, average weight and quality of animals and mortality rates.

Market price of sheep is obtained from the weekly auctions at the local market. The quality of livestock sold at the local market is considered to approximate the group's breeding and slaughter livestock.

The sheep grow at different rates and there can be a considerable spread in the quality and weight of animals and that affects the price achieved. An average weight is assumed for the slaughter sheep livestock that are not yet at marketable weight.

*(b) Palm oil plantations*

Estimates and judgements in determining the fair value of palm oil plantations relate to determining the palm oil yield, the long term crude palm oil price, palm kernel oil price and the discount rates.

**Consolidated income statement (extract)**

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | **Revenue** | 4 | **26,240** | 27,548 |
| 41p40 | Change in fair value of biological assets | 5 | **23,480** | 19,028 |
| | Cost of sales of livestock and palm oil | 5 | **(23,180)** | (24,348) |

**Consolidated balance sheet (extract)**

| 1p68 | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | **Assets** | | | |
| 1p51 | **Non-current assets** | | | |
| 1p68(a) | Property, plant and equipment | | **155,341** | 98,670 |
| 1p54(f) | Biological assets | 5 | **37,500** | 25,940 |
| 1p51 | **Current assets** | | | |
| 1p54(f) | Biological assets | 5 | **4,300** | 5,760 |

## Note 4 – Revenue (extract)

| | Note | 2012 | 2011 |
|---|---|---|---|
| Sale of livestock and palm oil | 5 | **23,740** | 25,198 |
| Sale of wool | | **2,500** | 2,350 |
| Total revenue | | **26,240** | 27,548 |

*(All amounts in C thousands unless otherwise stated)*

## Note 5 – Biological assets

| Ref | | 2012 | 2011 |
|---|---|---|---|
| 41p50 | At 1 January | **31,700** | 32,420 |
| 41p50(b) | Increase due to purchases | **10,280** | 4,600 |
| 41p50(a) | Livestock losses | **(480)** | (350) |
| 41p50(a) | Change in fair value due to biological transformation | **21,950** | 17,930 |
| 41p50(a) | Change in fair value of livestock due to price changes | **1,530** | 1,448 |
| | Transfer of harvested FFB to inventory | **(18,450)** | (19,450) |
| 41p50(c) | Decrease due to sales | **(4,730)** | (4,898) |
| | At 31 December | **41,800** | 31,700 |
| 41p43, p45 | Sheep – at fair value less cost to sell: | | |
| | – Mature | **4,300** | 5,760 |
| | – Immature | **8,200** | 5,690 |
| | | **12,500** | 11,450 |
| | Palm oil plantation | | |
| | – Mature – at fair value less cost to sell | **29,300** | 20,250 |
| | | **29,300** | 20,250 |
| | At 31 December | **41,800** | 31,700 |

**41p46(b)** As at 31 December the group had 6,500 sheep and 2,600,000 hectares of palm oil plantations (2011: 5,397 sheep and 2,170,000 hectares of palm oil plantations). During the year the group sold 3,123 sheep (2011: 4,098 sheep) and 550,000 kgs of palm oil (2011: 545,000 kgs of palm oil).

**41p43** Sheep for slaughter are classified as immature until they are ready for slaughter.

Selling expenses of C560 (2011:C850) were incurred during the year.

Livestock are classified as current assets if they are to be sold within one year. Harvested FFB are transferred to inventory at fair value when harvested.

**41p49(c)**

## Note 6 – Financial risk management strategies

The group is exposed to risks arising from environmental and climatic changes, commodity prices and financing risks.

The group's geographic spread of farms allows a high degree of mitigation against adverse climatic conditions such as droughts and floods and disease outbreaks. The group has strong environmental policies and procedures in place to comply with environmental and other laws.

The group is exposed to risks arising from fluctuations in the price and sales volume of sheep. Where possible, the group enters into supply contracts for sheep to ensure sales volumes can be met by meat processing companies. The group has long-term contracts in place for supply of palm oil to its major customers.

The seasonal nature of the sheep farming business requires a high level of cash flow in the second half of the year. The group actively manages the working capital requirements and has secured sufficient credit facilities sufficient to meet the cash flow requirements.

*(All amounts in C thousands unless otherwise stated)*

41p49(b)

### Note 7 – Commitments

The group has entered into a contract to acquire 250 breeding sheep at 31 December 2012 for C1,250 (2011: nil).

## 2. Construction contracts

### Note – Accounting policies

11p3

A construction contract is defined by IAS 11, 'Construction contracts', as a contract specifically negotiated for the construction of an asset.

11p22

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The group uses the 'percentage-of-completion method 'to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the balance sheet, the group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

*(All amounts in C thousands unless otherwise stated)*

**Consolidated balance sheet (extract)**

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| 1p60 | **Current assets** | | | |
| 1p54(h) | Trade and other receivables | 12 | **23,303** | 20,374 |
| 1p60 | **Current liabilities** | | | |
| 1p54(k) | Trade and other payables | 21 | **17,667** | 13,733 |

**Consolidated income statement (extract)**

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| 11p39(a) | Contract revenue | | **58,115** | 39,212 |
| 11p16 | Contract costs | | **(54,729)** | (37,084) |
| 1p103 | Gross profit | | **3,386** | 2,128 |
| 1p103 | Selling and marketing costs | | **(386)** | (128) |
| 1p103 | Administrative expenses | | **(500)** | (400) |

## Note – Trade and other receivables (extract)[1]

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS7p36, 1p78(b) | Trade receivables | **18,174** | 16,944 |
| | Less: Provision for impairment of receivables | **(109)** | (70) |
| | Trade receivables – net | **18,065** | 16,874 |
| 11p42(a) | Amounts due from customers for contract work | **1,216** | 920 |
| | Prepayments | **1,300** | 1,146 |
| 1p77, 24p18 | Receivables from related parties (note 41) | **54** | 46 |
| 1p77, 24p18 | Loans to related parties (note 41) | **2,668** | 1,388 |
| | **Total** | **23,303** | 20,374 |

## Note – Trade and other payables (extract)[2]

| | | 2012 | 2011 |
|---|---|---|---|
| 1p77 | Trade payables | **10,983** | 9,495 |
| 24p18 | Amounts due to related parties (note 41) | **2,202** | 1,195 |
| 11p42(b) | Amounts due to customers for contract work | **997** | 1,255 |
| | Social security and other taxes | **2,002** | 960 |
| | Accrued expenses | **1,483** | 828 |
| | **Total** | **17,667** | 13,733 |

## Note – Construction contracts

| | | 2012 | 2011 |
|---|---|---|---|
| 11p40(a) | The aggregate costs incurred and recognised profits (less recognised losses) to date | **69,804** | 56,028 |
| | Less: Progress billings | **(69,585)** | (56,383) |
| | **Net balance sheet position for ongoing contracts** | **219** | (355) |

[1] At 31 December 2012, trade and other receivables include retentions of C232 (2011: C132) related to construction contracts in progress.
[2] At 31 December 2012, trade and other payables include customer advances of C142 (2011: C355) related to construction contracts in progress.

*(All amounts in C thousands unless otherwise stated)*

## 3. Oil and gas exploration assets

IFRS6p24

### Note – Accounting policies

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

*(a) Development tangible and intangible assets*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production or intangible assets. No depreciation or amortisation is charged during the exploration and evaluation phase.

*(b) Oil and gas production assets*

Oil and gas production properties are aggregated exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

*(c) Depreciation/amortisation*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production or intangible assets. No depreciation or amortisation is charged during the exploration and evaluation phase.

Oil and gas properties intangible assets are depreciated or amortised using the unit-of- production method. Unit-of-production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

*(All amounts in C thousands unless otherwise stated)*

*(d) Impairment – exploration and evaluation assets*

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

*(e) Impairment – proved oil and gas production properties and intangible assets*

Proven oil and gas properties and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

## Note – Property, plant and equipment[1]

| | Capitalised exploration and evaluation expenditure | Capitalised development expenditure | Subtotal – assets under construction | Production assets | Other businesses and corporate assets | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2012** | | | | | | |
| Cost | 218 | 12,450 | 12,668 | 58,720 | 3,951 | 75,339 |
| Accumulated amortisation and impairment | (33) | – | (33) | (5,100) | (77) | (5,210) |
| Net book amount | 185 | 12,450 | 12,635 | 53,620 | 3,874 | 70,129 |
| **Year ended 31 December 2012** | | | | | | |
| Opening net book amount | 185 | 12,450 | 12,635 | 53,620 | 3,874 | 70,129 |
| Exchange differences | 17 | 346 | 363 | 1,182 | 325 | 1,870 |
| Acquisitions | – | 386 | 386 | 125 | 4 | 515 |
| Additions | 45 | 1,526 | 1,571 | 5,530 | 95 | 7,196 |
| Transfers | (9) | (958) | (967) | 1,712 | – | 745 |
| Disposals | (12) | (1,687) | (1,699) | – | – | (1,699) |
| Depreciation charge | – | – | – | (725) | (42) | (767) |
| Impairment charge | (7) | (36) | (43) | (250) | (3) | (296) |
| **Closing net book amount** | **219** | **12,027** | **12,246** | **61,194** | **4,253** | **77,693** |
| **At 31 December 2012** | | | | | | |
| Cost | 264 | 12,027 | 12,291 | 67,019 | 4,330 | 83,640 |
| Accumulated amortisation and impairment | (45) | – | (45) | (5,825) | (77) | (5,947) |
| **Net book amount** | **219** | **12,027** | **12,246** | **61,194** | **4,253** | **77,693** |

[1] For the purpose of this illustrative appendix, comparatives for the year ended 31 December 2011 are not disclosed, although they are required by IAS 1.

*(All amounts in C thousands unless otherwise stated)*

## Note – Intangible assets[1]

| | Capitalised exploration and evaluation expenditure | Capitalised development expenditure | Subtotal – intangible assets in progress expenditure | Production assets | Goodwill[2] | Other | Total |
|---|---|---|---|---|---|---|---|
| **At 1 January 2012** | | | | | | | |
| Cost | 5,192 | 750 | 5,942 | 3,412 | 9,475 | 545 | 19,374 |
| Accumulated amortisation and impairment | (924) | – | (924) | (852) | (75) | (19) | (1,870) |
| **Net book amount** | **4,268** | **750** | **5,018** | **2,560** | **9,400** | **526** | **17,504** |
| **Year ended 31 December 2012** | | | | | | | |
| Opening net book amount | 4,268 | 750 | 5,018 | 2,560 | 9,400 | 526 | 17,504 |
| Exchange differences | 152 | 8 | 160 | 195 | 423 | 28 | 806 |
| Acquisitions | 26 | 32 | 58 | 5 | – | 5 | 68 |
| Additions | 381 | 8 | 389 | 15 | – | 86 | 490 |
| Transfers | (548) | 548 | – | – | – | – | – |
| Transfers to production | – | (850) | (850) | 105 | – | – | (745) |
| Disposals | – | (28) | (28) | (15) | – | – | (43) |
| Amortisation charge | – | – | – | (98) | – | (42) | (140) |
| Impairment charge | (45) | – | (45) | – | (175) | (5) | (225) |
| **Closing net book amount** | **4,234** | **468** | **4,702** | **2,767** | **9,648** | **598** | **17,715** |
| **At 31 December 2012** | | | | | | | |
| Cost | 5,203 | 468 | 5,671 | 3,717 | 9,898 | 659 | 19,945 |
| Accumulated amortisation and impairment | (969) | – | (969) | (950) | (250) | (61) | (2,230) |
| **Net book amount** | **4,234** | **468** | **4,702** | **2,767** | **9,648** | **598** | **17,715** |

Assets and liabilities related to the exploration and evaluation of mineral resources other than those presented above are as follows:

| | **2012** | 2011 |
|---|---|---|
| Receivables from joint venture partners | **25** | 22 |
| Payable to subcontractors and operators | **32** | 34 |

Exploration and evaluation activities have led to total expenses of C5,900 (2011: C5,700), of which C5,200 (2011: C4,300) are impairment charges.

In 2012, the disposal of a 16.67% interest in an offshore exploration stage ‘Field X’ resulted in post-tax profits on sale of C3,000 (2011: nil).

Cash payments of C41,500 (2011: C39,500) have been incurred related to exploration and evaluation activities. The cash proceeds due to the disposal of the interest in Field X were C8,000 (2011: nil).

[1] For the purpose of this illustrative appendix, comparatives for the year ended 31 December 2011 have not been disclosed, although they are required by IAS 1.
[2] Disclosures required by IAS 36 for impairment tests relating to indefinite life intangible assets have not been included in this appendix.

*(All amounts in C thousands unless otherwise stated)*

## 4. Leases: Accounting by lessor

17p4

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

### Note – Accounting policies

1p119

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

### Commentary

Additional disclosure is required of the following for a lease:

(a) reconciliation between the gross investment in the lease and the present value of the minimum lease payments receivable at the end of the reposting period. An entity discloses the gross investment in the lease and the present value of the minimum lease payments receivable at the end of the reporting periods:
  (i) not later than one year;
  (ii) later than one year and not later than five years; and
  (iii) later than five years;

(b) unearned finance income;

(c) the unguaranteed residual values accruing to the benefit of the lessor;

(d) the accumulated allowance for uncollectible minimum lease payments receivable;

(e) contingent rents recognised as income in the period; and

(f) a general description of the lessor's material leasing arrangements.

The method for allocating gross earnings to accounting periods is referred to a as the 'actuarial method'. The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

17p49

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

17p50

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

*(All amounts in C thousands unless otherwise stated)*

## Note – Property, plant and equipment

The category of vehicles and equipment includes vehicles leased by the group to third parties under operating leases with the following carrying amounts:

17p57

| | 2012 | 2011 |
|---|---|---|
| Cost | **70,234** | 83,824 |
| Accumulated depreciation at 1 January | **(14,818)** | (9,800) |
| Depreciation charge for the year | **(5,058)** | (3,700) |
| **Net book amount** | **50,358** | 70,324 |

## Note – Trade and other receivables

| Ref | | 2012 | 2011 |
|---|---|---|---|
| 1p78(b) | **Non-current receivables** | | |
| 17p47(a) | Finance leases – gross receivables | **1,810** | 630 |
| 17p47(b) | Unearned finance income | **(222)** | (98) |
| | | **1,588** | 532 |
| 1p78(b) | **Current receivables** | | |
| 17p47(a) | Finance leases – gross receivables | **1,336** | 316 |
| 17p47(b) | Unearned finance income | **(140)** | (38) |
| | | **1,196** | **278** |
| 1p78(b) | Gross receivables from finance leases: | | |
| 17p47(a) | – No later than 1 year | **1,336** | 316 |
| | – Later than 1 year and no later than 5 years | **1,810** | 630 |
| | – Later than 5 years | **–** | – |
| | | **3,146** | **946** |
| 1p78(b), 17p47(b) | Unearned future finance income on finance leases | **(362)** | (136) |
| | **Net investment in finance leases** | **2,784** | **810** |

1p78(b) The net investment in finance leases may be analysed as follows:

| Ref | | 2012 | 2011 |
|---|---|---|---|
| 17p47(a) | No later than 1 year | **1,196** | 278 |
| | Later than 1 year and no later than 5 years | **1,588** | 532 |
| | Later than 5 years | **–** | – |
| | | **2,784** | 810 |

## Note – Operating leases

17p56(a)

### Operating leases rental receivables – group company as lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

| | 2012 | 2011 |
|---|---|---|
| No later than 1 year | **12,920** | 12,920 |
| Later than 1 year and no later than 5 years | **41,800** | 41,800 |
| Later than 5 years | **840** | 10,840 |
| | **55,560** | 65,560 |

*(All amounts in C thousands unless otherwise stated)*

17p56(b) Contingent-based rents recognised in the income statement were C235 (2011: C40).

17p56(c) The company leases vehicles under various agreements which terminate between 2012 and 2016. The agreements do not include an extension option.

## 5. Government grants

### Note – Accounting policies

### Government grants

20p39(a), p12 Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight- line basis over the expected lives of the related assets.

### Note – Other (losses)/gains

20p39(b-c) The group obtained and recognised as income a government grant of C100 (2011: nil) to compensate for losses caused by flooding incurred in the previous year. The group is obliged not to reduce its average number of employees over the next three years under the terms of this government grant.

The group benefits from government assistance for promoting in international markets products made in the UK; such assistance includes marketing research and similar services provided by various UK government agencies free of charge.

## 6. Joint ventures

### Note – Accounting policies

1p119

### Consolidation

*(c) Joint ventures*

31p57 The group's interests in jointly controlled entities are proportionately consolidated. The group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the group's financial statements. The group recognises the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other venturers. The group does not recognise its share of profits or losses from the joint venture that result from the group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

*(All amounts in C thousands unless otherwise stated)*

### Note – Interest in joint venture

31p56

The group has a 50% interest in a joint venture, JV&Co, which provides products and services to the shoe industry. The following amounts represent the group's 50% share of the assets and liabilities, and sales and results of the joint venture. They are included in the balance sheet and income statement.

| | | **2012** | 2011 |
|---|---|---|---|
| | **Assets:** | | |
| | – Non-current assets | **2,730** | 2,124 |
| | – Current assets | **803** | 717 |
| | | **3,533** | 2,841 |
| | **Liabilities:** | | |
| | – Non-current liabilities | **1,114** | 1,104 |
| | – Current liabilities | **355** | 375 |
| | | **1,469** | 1,479 |
| | **Net assets** | **2,064** | 1,362 |
| | – Income | **5,276** | 5,618 |
| | – Expenses | **(3,754)** | (4,009) |
| | **Profit after income tax** | **1,522** | 1,609 |
| 31p55(b) | **Proportionate interest in joint venture's commitments** | **90** | 92 |

31p54

There are no contingent liabilities relating to the group's interest in the joint venture, and no contingent liabilities of the venture itself.

## 7. Revenue recognition: multiple arrangements

### Note – Accounting policies

The group offers certain arrangements whereby a customer can purchase a personal computer together with a two-year servicing agreement. Where such multiple-element arrangements exist, the amount of revenue allocated to each element is based upon the relative fair values of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately. The revenue relating to the computer is recognised when risks and rewards of the computer are transferred to the customer which occurs on delivery. Revenue relating to the service element is recognised on a straight-line basis over the service period.

## 8. Customer loyalty programmes

### Note – Accounting policy

The group operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. The reward points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the reward points are initially recognised as deferred income at their fair value. Revenue from the reward points is recognised when the points are redeemed. Breakage is recognised as

*(All amounts in C thousands unless otherwise stated)*

reward points are redeemed based upon expected redemption rates. Reward points expire 12 months after the initial sale.

**Note – Current liabilities – Other liabilities**

| | **2012** | 2011 |
|---|---|---|
| Deferred revenue: customer loyalty programme | **395** | 370 |

## 9. Put option arrangement

The potential cash payments related to put options issued by the group over the equity of subsidiary companies are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognised at fair value within borrowings with a corresponding charge directly to equity. The charge to equity is recognised separately as written put options over non-controlling interests, adjacent to non-controlling interests in the net assets of consolidated subsidiaries.

The group recognises the cost of writing such put options, determined as the excess of the fair value of the option over any consideration received, as a financing cost. Such options are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable. The charge arising is recorded as a financing cost. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

## 10. Foreign currency translations – disposal of foreign operation and partial disposal

**21p48, 48A-C** On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

*(All amounts in C thousands unless otherwise stated)*

## 11. Share-based payments – modification and cancellation

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

If an equity award is cancelled by forfeiture, when the vesting conditions (other than market conditions) have not been met, any expense not yet recognised for that award, as at the date of forfeiture, is treated as if it had never been recognised. At the same time, any expense previously recognised on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

*(All amounts in C thousands unless otherwise stated)*

# Appendix IV – New standards and amendments

This appendix details (a) new standards and amendments effective for the first time for periods on or after 1 January 2012 and (b) forthcoming requirements – that is, new standards and amendments issued and effective after 1 January 2012.

## New standards and amendments

Below is a list of standards/interpretations that have been issued and are effective for periods starting on or after 1 January 2012.

| Topic | Key requirements | Effective date |
|---|---|---|
| Amendment to IFRS 7, 'Financial instruments: Disclosures', on transfer of financial assets | These amendments are as part the IASBs comprehensive review of off balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. | 1 July 2011 |
| Amendment to IFRS 1, 'First time adoption', on hyperinflation and fixed dates | The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. | 1 July 2011 (not endorsed by the EU at the time of going to print) |
| Amendment to IAS 12, 'Income taxes', on deferred tax | Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. | 1 January 2012 (not endorsed by the EU at the time of going to print) |

*(All amounts in C thousands unless otherwise stated)*

## Forthcoming requirements

Below is a list of standards/interpretations that have been issued and are effective for periods after 1 January 2012.

| Topic | Key requirements | Effective date |
|---|---|---|
| Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income | The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. | 1 July 2012 |
| Amendment to IAS 19, 'Employee benefits' | These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. | 1 January 2013 |
| Amendment to IFRS 1, 'First time adoption', on government loans | This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. | 1 January 2013 |
| Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting | This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. | 1 January 2013 |
| Amendment to IFRSs 10, 11 and 12 on transition guidance | These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. | 1 January 2013 |
| Annual improvements 2011 | These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:<br>• IFRS 1, 'First time adoption'<br>• IAS 1, 'Financial statement presentation'<br>• IAS 16, 'Property plant and equipment'<br>• IAS 32, 'Financial instruments; Presentation'<br>• IAS 34, 'Interim financial reporting' | 1 January 2013 |
| IFRS 10, 'Consolidated financial statements' | The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. | 1 January 2013 |

*(All amounts in C thousands unless otherwise stated)*

| Topic | Key requirements | Effective date |
|---|---|---|
| IFRS 11, 'Joint arrangements' | IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. | 1 January 2013 |
| IFRS 12, 'Disclosures of interests in other entities' | IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. | 1 January 2013 |
| IFRS 13, 'Fair value measurement' | IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. | 1 January 2013 |
| IAS 27 (revised 2011), 'Separate financial statements' | IAS 27 (revised 2011) includes the requirements relating to separate financial statements. | 1 January 2013 |
| IAS 28 (revised 2011), 'Associates and joint ventures' | IAS 28 (revised 2011) includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11. | 1 January 2013 |
| IFRIC 20, 'Stripping costs in the production phase of a surface mine' | This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. | 1 January 2013 |
| Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting | These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. | 1 January 2014 |
| IFRS 9, 'Financial instruments' | IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. | 1 January 2015 |

## Appendix V – IAS 19 (revised), 'Employee benefits'

This appendix presents an illustrative example of the requirements of the revised IAS 19, Employee benefits', applicable to IFRS GAAP plc's financial statements. IAS 19 (revised) allows for early adoption but is retrospectively applicable for annual periods beginning on or after 1 January 2013.

**1p119**

### Note – Employee benefits

The group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

*(a) Pension obligations*

**19Rp26,p27, p28** A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

**19Rp30** Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

**19Rp57,p58, p59, p60, p67, p68, p83** The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

**19Rp57(d)** Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

**19Rp103** Past-service costs are recognised immediately in income.

**19Rp51** For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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 available.

*(b) Other post-employment obligations*

**19Rp155** Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in

*(All amounts in C thousands unless otherwise stated)*

service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

*(c) Termination benefits*

**19Rp159**

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

*(d) Profit-sharing and bonus plans*

**19Rp19**

The group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The table below outlines where the group's post-employment amounts and activity are included in the financial statements.

| | **2012** | 2011 |
|---|---|---|
| **Balance sheet obligations for:** | | |
| – Defined pension benefits | **3,684** | 1,900 |
| – Post-employment medical benefits | **1,410** | 701 |
| **Liability in the balance sheet** | **5,094** | 2,601 |
| **Income statement charge included in operating profit for[1]:** | | |
| – Defined pension benefits | **948** | 561 |
| – Post-employment medical benefits | **184** | 119 |
| | **1,132** | 680 |
| **Remeasurements for:** | | |
| – Defined pension benefits | **(84)** | 717 |
| – Post-employment medical benefits | **(35)** | 193 |
| | **(119)** | 910 |

[1] The income statement charge included within operating profit includes current service cost, interest cost, past service costs and gains and losses on settlement.

*(All amounts in C thousands unless otherwise stated)*

19Rp138 *(a) Defined benefit pension plans*

DV, 19Rp136, p138, p139

The group operates defined benefit pension plans in the UK and US under broadly similar regulatory frameworks. All of the plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the UK plans, pensions in payment are generally updated in line with the retail price index, whereas in the US plans, pensions generally do not receive inflationary increases once in payment. With the exception of this inflationary risk in the UK, the plans face broadly similar risks, as described below. The majority of benefit payments are from trustee-administered funds; however, there are also a number of unfunded plans where the company meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practice in each country, as is the nature of the relationship between the group and the trustees (or equivalent) and their composition. Responsibility for governance of the plans – including investment decisions and contribution schedules – lies jointly with the company and the board of trustees. The board of trustees must be composed of representatives of the company and plan participants in accordance with the plan's regulations.

19Rp140(a) The amounts recognised in the balance sheet are determined as follows:

| | **2012** | 2011 |
|---|---|---|
| Present value of funded obligations | **6,155** | 2,943 |
| Fair value of plan assets | **(5,211)** | (2,797) |
| Deficit of funded plans | **944** | 146 |
| Present value of unfunded obligations | **2,426** | 1,549 |
| Total deficit of defined benefit pension plans | **3,370** | 1,695 |
| Impact of minimum funding requirement/asset ceiling | **314** | 205 |
| **Liability in the balance sheet** | **3,684** | 1,900 |

*(All amounts in C thousands unless otherwise stated)*

**19Rp140(a), 141(a-h)**

The movement in the net defined benefit obligation over the year is as follows:

| | Present value of obligation | Fair value of plan assets | Total | Impact of minimum funding requirement /asset ceiling | Total |
|---|---|---|---|---|---|
| At 1 January 2011 | 3,479 | (2,264) | 1,215 | 120 | 1,335 |
| Current service cost | 498 | – | 498 | – | 498 |
| Interest expense/(income) | 214 | (156) | 58 | 5 | 63 |
| | **712** | **(156)** | **556** | **5** | **561** |
| Remeasurements: | | | | | |
| – Return on plan assets, excluding amounts included in interest expense/(income) | – | (85) | (85) | – | (85) |
| – (Gain)/loss from change in demographic assumptions | 20 | – | 20 | – | 20 |
| – (Gain)/loss from change in financial assumptions | 61 | – | 61 | – | 61 |
| – Experience (gains)/ losses | 641 | – | 641 | – | 641 |
| – Change in asset ceiling, excluding amounts included in interest expense | – | – | – | 80 | 80 |
| | **722** | **(85)** | **637** | **80** | **717** |
| Exchange differences | (324) | 22 | (302) | – | (302) |
| Contributions: | | | | | |
| – Employers | – | (411) | (411) | – | (411) |
| – Plan participants | 30 | (30) | – | – | – |
| Payments from plans: | | | | | |
| – Benefit payments | (127) | 127 | – | – | – |
| **At 31 December 2011** | **4,492** | **(2,797)** | **1,695** | **205** | **1,900** |
| At 1 January 2012 | 4,492 | (2,797) | 1,695 | 205 | 1,900 |
| Current service cost | 751 | – | 751 | – | 751 |
| Interest expense/(income) | 431 | (308) | 123 | 9 | 132 |
| Past service cost and gains and losses on settlements | 65 | – | 65 | – | 65 |
| | **1,247** | **(308)** | **939** | **9** | **948** |

*(All amounts in C thousands unless otherwise stated)*

| | Present value of obligation | Fair value of plan assets | Total | Impact of minimum funding requirement /asset ceiling | Total |
|---|---|---|---|---|---|
| Remeasurements: | | | | | |
| – Return on plan assets, excluding amounts included in interest expense/(income) | – | (187) | (187) | – | (187) |
| – (Gain)/loss from change in demographic assumptions | 32 | – | 32 | – | 32 |
| – (Gain)/loss from change in financial assumptions | 121 | – | 121 | – | 121 |
| – Experience (gains)/ losses | (150) | – | (150) | – | (150) |
| – Change in asset ceiling, excluding amounts included in interest expense | – | – | – | 100 | 100 |
| | **3** | **(187)** | **(184)** | **100** | **(84)** |
| Exchange differences | (61) | (25) | (86) | – | (86) |
| Contributions: | | | | | |
| – Employers | – | (908) | (908) | – | (908) |
| – Plan participants | 55 | (55) | – | – | – |
| Payments from plans: | | | | | |
| – Benefit payments | (566) | 566 | – | – | – |
| – Settlements | (280) | 280 | – | – | – |
| Acquired in a business combination | 3,691 | (1,777) | 1,914 | – | 1,914 |
| **At 31 December 2012** | **8,581** | **(5,211)** | **3,370** | **314** | **3,684** |

**19Rp141** One of the plans has a surplus that is not recognised on the basis that future economic benefits are not available to the entity in the form of a reduction in future contributions or a cash refund.

**19Rp139(c)** In connection with the closure of a factory, a curtailment loss was incurred and a settlement arrangement agreed with the plan trustees, effective December 30, 2012, which settled all retirement benefit plan obligations relating to the employees of that factory.

*(All amounts in C thousands unless otherwise stated)*

DV

The defined benefit obligation and plan assets are composed by country as follows:

| | **2012** | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **UK** | **US** | **Others** | **Total** | UK | US | Others | Total |
| Present value of obligation | **3,843** | **4,215** | **523** | **8,581** | 2,962 | 1,050 | 480 | 4,492 |
| Fair value of plan assets | **(2,674)** | **(2,102)** | **(435)** | **(5,211)** | (2,018) | (394) | (385) | (2,797) |
| | **1,169** | **2,113** | **88** | **3,370** | 944 | 656 | 95 | 1,695 |
| Impact of minimum funding requirement/ asset ceiling | **–** | **–** | **314** | **314** | – | – | 205 | 205 |
| Total | **1,169** | **2,113** | **402** | **3,684** | 944 | 656 | 300 | 1,900 |

19Rp144

The significant actuarial assumptions were as follows[1]:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **UK** | **US** | UK | US |
| Discount rate | **5.1%** | **5.2%** | 5.5.% | 5.6% |
| Salary growth rate | **4.0%** | **4.5%** | 4.5% | 4.0% |
| Pension growth rate | **3.0%** | **2.8%** | 3.1% | 2.7% |

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65[1]:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **UK** | **US** | UK | US |
| Retiring at the end of the reporting period: | | | | |
| – Male | **22** | **20** | 22 | 20 |
| – Female | **25** | **24** | 25 | 24 |
| Retiring 20 years after the end of the reporting period | | | | |
| – Male | **24** | **23** | 24 | 23 |
| – Female | **27** | **26** | 27 | 26 |

[1] Significant actuarial assumptions for other plans not in UK or US have not been included for purposes of these illustrative financial statements.

*(All amounts in C thousands unless otherwise stated)*

19Rp145(a) The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

| | Impact on defined benefit obligation | | |
|---|---|---|---|
| | **Change in assumption** | **Increase in assumption** | **Decrease in assumption** |
| Discount rate | 0.50% | Decrease by 8.2% | Increase by 9.0% |
| Salary growth rate | 0.50% | Increase by 1.8% | Decrease by 1.7% |
| Pension growth rate | 0.50% | Increase by 4.7% | Decrease by 4.4% |

| | **Increase by 1 year in assumption** | **Decrease by 1 year in assumption** |
|---|---|---|
| Life expectancy | Increase by 2.8% | Decrease by 2.9% |

19Rp145(b) The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

19Rp145(c) The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

19Rp138 *(b) Post-employment medical benefits*

DV, 19Rp144 The group operates a number of post-employment medical benefit schemes, principally in the US. The majority of these plans are unfunded. The method of accounting, significant assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes set out above with the addition of actuarial assumptions relating to the long-term increase in healthcare costs of 8.0% a year (2011:7.6%) and claim rates of 6% (2011: 5.2%).

19Rp140(a) The amounts recognised in the balance sheet are determined as follows:

| | **2012** | 2011 |
|---|---|---|
| Present value of funded obligations | **705** | 340 |
| Fair value of plan assets | **(605)** | (294) |
| Deficit of the funded plans | **100** | 46 |
| | **1,310** | 655 |
| **Liability in the balance sheet** | **1,410** | 701 |

*(All amounts in C thousands unless otherwise stated)*

19Rp140(a), 141(a-h)

The movement in the net defined benefit obligation over the year is as follows:

| | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| At 1 January 2011 | 708 | (207) | 501 |
| Current service cost | 107 | – | 107 |
| Interest expense/(income) | 25 | (13) | 12 |
| | 132 | (13) | 119 |
| Remeasurements: | | | |
| – Return on plan assets, excluding amounts included in interest expense/(income) | – | (11) | (11) |
| – (Gain)/loss from change in demographic assumptions | 3 | – | 3 |
| – (Gain)/loss from change in financial assumptions | 7 | – | 7 |
| – Experience (gains)/losses | 194 | – | 194 |
| | 204 | (11) | 193 |
| Exchange differences | (31) | 2 | (29) |
| Contributions/premiums paid: | | | |
| – Employers | (10) | (73) | (83) |
| Payments from plans: | | | |
| – Benefit payments | (8) | 8 | – |
| **At 31 December 2011** | **995** | **(294)** | **701** |
| At 1 January 2012 | 995 | (294) | 701 |
| Current service cost | 153 | – | 153 |
| Interest expense/(income) | 49 | (18) | 31 |
| | 202 | (18) | 184 |
| Remeasurements: | | | |
| – Return on plan assets, excluding amounts included in interest expense/(income) | – | (33) | (33) |
| – (Gain)/loss from change in demographic assumptions | 4 | – | 4 |
| – (Gain)/loss from change in financial assumptions | 10 | – | 10 |
| – Experience (gains)/losses | (16) | – | (16) |
| | (2) | (33) | (35) |
| Exchange differences | 37 | (5) | 32 |
| Contributions/premiums paid: | | | |
| – Employers | (12) | (185) | (197) |
| Payments from plans: | | | |
| – Benefit payments | (7) | 7 | – |
| Acquired in a business combination (note 39) | 802 | (77) | 725 |
| **At 31 December 2012** | **2,015** | **(605)** | **1,410** |

*(All amounts in C thousands unless otherwise stated)*

*(c) Post-employment benefits (pension and medical)*

**19Rp142** Plan assets are comprised as follows:

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Quoted** | **Un-quoted** | **Total** | **in %** | Quoted | Un-quoted | Total | in % |
| Equity instruments | | | **1,824** | **31%** | | | 1,216 | 39% |
| Information technology | 502 | – | 502 | | 994 | – | 994 | |
| Energy | 557 | – | 557 | | – | – | – | |
| Manufacturing | 746 | – | 746 | | 194 | – | 194 | |
| Other | – | 19 | 19 | | – | 28 | 28 | |
| Debt instruments | | | **1,816** | **31%** | | | 420 | 14% |
| Government | 916 | – | 916 | | 321 | – | 321 | |
| Corporate bonds (Investment grade) | 900 | – | 900 | | 99 | – | 99 | |
| Corporate bonds (Non-investment grade) | 68 | 277 | 345 | | 41 | 110 | 151 | |
| Property | | | **1,392** | **24%** | | | 1,094 | 35% |
| in US | – | 800 | 800 | | – | 697 | 697 | |
| in UK | – | 247 | 247 | | – | 246 | 246 | |
| Qualifying insurance policies | – | 496 | **496** | **9%** | – | 190 | 190 | 6% |
| Cash and cash equivalents | 177 | – | **177** | **3%** | 94 | – | 94 | 3% |
| Investment funds | 111 | – | **111** | **2%** | 77 | – | 77 | 2% |
| **Total** | **3,977** | **1,839** | **5,816** | **100%** | 1,820 | 1,271 | 3,091 | 100% |

**19Rp143** Pension and medical plan assets include the company's ordinary shares with a fair value of C136 (2011: C126) and US real estate occupied by the group with a fair value of C612 (2011: C609).

**19Rp139(b)** Through its defined benefit pension plans and post-employment medical plans, the group is exposed to a number of risks, the most significant of which are detailed below:

| | |
|---|---|
| Asset volatility | The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the UK and US plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.<br><br>As the plans mature, the group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. The first stage of this process was completed in FY12 with the sale of a number of equity holdings and purchase of a mixture of government and corporate bonds. The government bonds represent investments in UK and US government securities only. The corporate bonds are global securities with an emphasis on the UK and US.<br><br>However, the group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, |

*(All amounts in C thousands unless otherwise stated)*

| | |
|---|---|
| | a level of continuing equity investment is an appropriate element of the group's long term strategy to manage the plans efficiently. See below for more details on the group's asset-liability matching strategy. |
| Changes in bond yields | A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings. |
| Inflation risk | The majority of the plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.<br><br>In the US plans, the pensions in payment are not linked to inflation, so this is a less material risk. |
| Life expectancy | The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy. |

**19Rp146**

In case of the funded plans, the group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The group has not changed the processes used to manage its risks from previous periods. The group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in equities, although the group also invests in property, bonds, cash and investment (hedge) funds. The group believes that equities offer the best returns over the long term with an acceptable level of risk. The majority of equities are in a globally diversified portfolio of international blue chip entities, with a target of 60% of equities held in the UK and Europe, 30% in the US and the remainder in emerging markets.

**19Rp147(a)**

The group has agreed that it will aim to eliminate the pension plan deficit over the next nine years. Funding levels are monitored on an annual basis and the current agreed contribution rate is 14% of pensionable salaries in the UK and 12% in the US. The next triennial valuation is due to be completed as at 31 December 2013. The group considers that the contribution rates set at the last valuation date are sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly.

**19Rp147(b)**

Expected contributions to post-employment benefit plans for the year ending 31 December 2013 are C1,150.

*(All amounts in C thousands unless otherwise stated)*

**19Rp147(c)** The weighted average duration of the defined benefit obligation is 25.2 years.

**19Rp147(c)** Expected maturity analysis of undiscounted pension and post-employment medical benefits:

| At 31 December 2012 | Less than a year | Between 1-2 years | Between 2-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Pension benefits | 628 | 927 | 2,004 | 21,947 | 25,506 |
| Post-employment medical benefits | 127 | 174 | 714 | 4,975 | 5,990 |
| **Total as at 31 December 2012** | **755** | **1,101** | **2,718** | **26,922** | **31,496** |

*(All amounts in C thousands unless otherwise stated)*

## Appendix VI – IFRS 9, 'Financial instruments'

This appendix presents an illustrative example of the requirements of IFRS 9, 'Financial instruments', applicable to IFRS GAAP plc's financial statements. IFRS 9 should be retrospectively applied for annual periods beginning on or after 1 January 2015 and allows for early adoption. If an entity adopts IFRS 9 for annual periods beginning on or after 1 January 2012 but before 1 January 2013 must elect either to provide the disclosures set out in paragraphs 44S-44W of IFRS 7 or to restate prior periods. If an entity adopts IFRS 9 on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S-44W of IFRS 7 and the entity need not restate prior periods.

The main assumptions applied in this illustrative appendix are as follows:

1. IFRS GAAP plc decided to early adopt IFRS 9. It chose 1 January 2012 as the date of initial application.
2. The group decided to apply the limited exemption in IFRS 9p7.2.14 and has not restated prior periods in its year of the initial application but provided the disclosures set out in paragraphs 44S-44W of IFRS 7. Therefore:
   (a) Where this exemption is applied, the entity should recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the reporting period that includes the date of initial application. In this appendix, IFRS plc does not have any such difference mainly because there were no changes in classification that could originate such a difference (that is, financial assets previously classified at amortised cost or cost and now classified as fair value through profit or loss or vice versa). However, IFRS plc did reclass amounts within equity, from other reserves to retained earnings, due to a reclassification of available for sale debt instruments to fair value through profit or loss.

   (b) The entity is not required to present a statement of financial position at the beginning of the earliest comparative period in accordance with IAS1p10(f), because comparative information is not restated as a result of early adoption.

   (c) As the group is not restating prior periods, it discloses the applicable accounting policies for both periods, applying IAS 39 for the prior period and IFRS 9 for the current period. This appendix only includes the disclosures regarding IFRS 9.

   (d) The previous point is also relevant for the notes regarding classification, measurement and disclosure of financial instruments previously applied, which are retained for the previous period. This illustrative appendix only includes the disclosures regarding IFRS 9 for the current period.
3. The group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available for sale, because its business model is not to hold these equity investments for trading. These investments do not meet the definition of held for trading of IAS39p1 and IAS39p9 (IFRS 9p5.7.5). For this reason equity investments at fair value for through other comprehensive income were all classified as non-current.
4. Debt securities were not considered to meet the criteria to be classified at amortised cost in accordance with IFRS 9, because the objective of the group's business model is not to hold these debt securities in order to collect their contractual cash flows. They were therefore reclassified from available for sale to financial assets at fair value through profit or loss.
5. The group did not have any financial instruments designated as at fair value through profit or loss in the fair value option condition in accordance with IAS 39.

*(All amounts in C thousands unless otherwise stated)*

6. The group did not designate any financial asset or financial liabilities as at fair value through profit or loss on initial application in accordance with IFRS 9p4.1.5 or IFRS 9p4.2.2.
7. The group does not have unquoted equities or derivatives on unquoted equities.
8. The group's financial liabilities are measured at amortised cost except for the derivative financial instruments. No reclassifications have been made between categories and as noted above, there are no financial liabilities designated at fair value through profit or loss. Given there is no impact to financial liabilities upon initial application of IFRS 9, they have not been contemplated in this appendix.

## Commentary

In November 2011, the IASB decided to consider making limited modifications to IFRS 9 to address specific application issues, the interaction with the insurance project and convergence with the FASB on their financial instruments project. A target exposure draft is expected in Q4 2012. As a result, certain areas of IFRS 9 are likely to change including the transition guidance. Entities considering adopting IFRS 9 should consider the impact of the limited modifications project.

*(All amounts in C thousands unless otherwise stated)*

## Consolidated income statement[1]

| 1p10(b), p81(a) | | | Year ended 31 December | |
|---|---|---|---|---|
| **1p113, 1p38** | | **Note** | **2012** | 2011 |
| | **Continuing operations** | | | |
| **1p82(a)** | Revenue | 5 | **211,034** | 112,360 |
| **1p99, 103** | Cost of sales | 6 | **(77,366)** | (46,682) |
| **1p103** | **Gross profit** | | **133,668** | 65,678 |
| **1p99, 103** | Distribution costs | | **(52,529)** | (21,213) |
| **1p99, 103** | Administrative expenses | | **(29,895)** | (10,426) |
| **1p99,103** | Other income | 7 | **1,900** | 1,259 |
| **1p85** | Other (losses)/gains – net | 8 | **758** | 63 |
| **1p82(aa)** | Net gain/(loss) from derecognising financial assets measured at amortised cost | | **–** | – |
| **1p82(ca)** | Net gain/ loss) on reclassification of financial assets from amortised cost to fair value through profit or loss | | **–** | – |
| **1p85** | **Operating profit**[2] | | **53,902** | 35,361 |
| **1p85** | Finance income | 11 | **767** | 1,609 |
| **1p82(b)** | Finance costs | 11 | **(8,173)** | (12,197) |
| **1p85** | Finance costs – net | 11 | **(7,406)** | (10,588) |
| **1p82(c)** | Share of (loss)/profit of associates | 12(b) | **215** | 145 |
| **1p85** | **Profit before income tax** | | **46,711** | 24,918 |
| **1p82(d),12p77** | Income tax expense | 13 | **(14,611)** | (8,670) |
| **1p85** | **Profit for the year from continuing operations** | | **32,100** | 16,248 |
| **IFRS5p33(a)** | **Discontinued operations** | | | |
| | Profit for the year from discontinued operations | 25 | **100** | 120 |
| **1p82(f)** | **Profit for the year** | | **32,200** | 16,368 |
| | **Profit attributable to:** | | | |
| **1p83(a)(ii)** | Owners of the parent | | **29,652** | 15,512 |
| **1p83(a)(i), 27p27** | Non controlling interests | | **2,548** | 856 |
| | | | **32,200** | 16,368 |
| | **Basic earnings per share** | | | |
| **33p66** | From continuing operations | 14 | 1.31 | 0.75 |
| **33p68** | From discontinued operations[3] | | 0.01 | 0.01 |
| **33p66** | From profit for the year | | 1.32 | 0.76 |
| | **Diluted earnings per share** | | | |
| **33p66** | From continuing operations | 14 | 1.19 | 0.71 |
| **33p68** | From discontinued operations | | 0.01 | 0.01 |
| **33p66** | From profit for the year | | 1.20 | 0.72 |

The notes on pages 19 to 109 are an integral part of these consolidated finanical statements.

[1] See the commentary on the income statement in the primary financial statements of this publication, paras 12 and 13.
[2] IAS 1 does not prescribe the disclosure of operating profit on the face of the income statement. However, entities are not prohibited from disclosing this or a similar line item.
[3] EPS for discontinued operations may be given in the notes to the financial statements instead of the income statement.

*(All amounts in C thousands unless otherwise stated)*

## Commentary

IFRS plc has no 'Net gains/(losses) from derecognising financial assets measured at amortised cost' or 'Net gains/(losses) on reclassification of financial assets from amortised cost to fair value through profit or loss'. However, these line items are shown for illustrative purposes, as they are required in IAS 1p82(aa) and (ca) as IFRS 9 consequential amendments.

*(All amounts in C thousands unless otherwise stated)*

## Consolidated statement of comprehensive income

| | | Note | Year ended 31 December 2012 | 2011 |
|---|---|---|---|---|
| | **Profit for the year** | | **32,200** | 16,368 |
| | **Other comprehensive income:** | | | |
| 1p82(g) | Gains on revaluation of land and buildings | 29 | **755** | 759 |
| IFRS7p20(a)(ii) | Change in value of available-for-sale financial assets | 29 | **–** | 912 |
| IFRS9p5.7.1, IFRS7p20(a)(vii) | Gain/(loss) arising on revaluation of financial assets at fair value through other comprehensive income | 29 | **477** | – |
| 1p82(h) | Share of other comprehensive income of associates | 29 | **(86)** | 91 |
| 19p93B, 1p82(g) | Actuarial loss on post employment benefit obligations | 28,33 | **–** | (494) |
| 1p82(g) | Impact of change in Euravian tax rate on deferred tax[1] | 28,32 | **(10)** | – |
| IFRS7p23(c) | Cash flow hedges | 29 | **64** | (3) |
| 1p82(g) | Net investment hedge | 29 | **(45)** | 40 |
| 1p82(g), 21p52(b) | Currency translation differences | 29 | **2,413** | (1,111) |
| | **Other comprehensive income for the year, net of tax** | | **3,568** | 194 |
| 1p82(i) | **Total comprehensive income for the year** | | **35,768** | 16,562 |
| | **Attributable to:** | | | |
| 1p83(b)(ii) | Owners of the parent | | **32,968** | 15,746 |
| 1p83(b)(i) | Non-controlling interests | | **2,800** | 816 |
| | **Total comprehensive income for the year** | | **35,768** | 16,562 |
| | Total comprehensive income attributable to equity shareholders arises from: | | | |
| | Continuing operations | | **32,868** | 15,626 |
| IFRS5p33(d) | Discontinued operations | 25 | **100** | 120 |
| | | | **32,968** | 15,746 |

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 13.

The notes on pages 19 to 109 are an integral part of these consolidated financial statements.

[1] The impact of change in Euravian tax rate is shown for illustrative purposes.

*(All amounts in C thousands unless otherwise stated)*

## Consolidated balance sheet

| | | Note | As at 31 December 2012 | 2011 |
|---|---|---|---|---|
| 1p10(a), p113 | **Assets** | | | |
| 1p60, 66 | **Non-current assets** | | | |
| 1p54(a) | Property, plant and equipment | 16 | **155,341** | 100,233 |
| 1p54(c) | Intangible assets | 17 | **26,272** | 20,700 |
| 1p54(e), 28p38 | Investments in associates | 12 | **13,373** | 13,244 |
| 1p54(o), p56 | Deferred income tax assets | 32 | **3,520** | 3,321 |
| 1p54(d), IFRS7p8(d) | Available-for-sale financial assets | 19 | **–** | 14,910 |
| 1p54(d), IFRS7p11A | Financial assets at fair value through other comprehensive income | 19 | **18,735** | – |
| 1p54(d), IFRS7p8(a) | Derivative financial instruments | 20 | **395** | 245 |
| 1p54(d), IFRS7p8(a) | Financial assets at fair value through profit or loss | | **635** | – |
| 1p54(h), IFRS7p8(c) | Trade and other receivables | 21 | **2,322** | 1,352 |
| | | | **220,593** | 154,005 |
| 1p60, 1p66 | **Current assets** | | | |
| 1p54(g) | Inventories | 22 | **24,700** | 18,182 |
| 1p54(h), IFRS7p8(c) | Trade and other receivables | 21 | **19,765** | 18,330 |
| 1p54(d), IFRS7p8(a) | Derivative financial instruments | 20 | **1,069** | 951 |
| 1p54(d), IFRS7p8(a) | Financial assets at fair value through profit or loss | 23 | **11,820** | 7,972 |
| 1p54(i), IFRS7p8 | Cash and cash equivalents (excluding bank overdrafts) | 24 | **17,928** | 34,062 |
| | | | **75,282** | 79,497 |
| IFRS5p38,40 | Assets of disposal group classified as held for sale | 25 | **3,333** | – |
| | | | **78,615** | 79,497 |
| | **Total assets** | | **299,208** | **233,502** |
| | **Equity and liabilities** | | | |
| 1p54(r) | **Equity attributable to owners of the parent** | | | |
| 1p78(e), 54(r) | Ordinary shares | 26 | **25,300** | 21,000 |
| 1p78(e), 55 | Share premium | 26 | **17,144** | 10,494 |
| 1p78(e) | Other reserves | 29 | **12,240** | 7,005 |
| 1p78(e), 55 | Retained earnings | 28 | **69,201** | 48,681 |
| | | | **123,885** | 87,180 |
| 1p54(q) | **Non-controlling interests** | | **7,888** | 1,766 |
| | **Total equity** | | **131,773** | **88,946** |

*(All amounts in C thousands unless otherwise stated)*

| | | Note | As at 31 December 2012 | 2011 |
|---|---|---|---|---|
| | **Liabilities** | | | |
| 1p60, p69 | **Non-current liabilities** | | | |
| 1p54(m), IFRS7p8(f) | Borrowings | 31 | **115,121** | 96,346 |
| 1p54(m), IFRS7p8(e) | Derivative financial instruments | 20 | **135** | 129 |
| 1p54(o), 1p56 | Deferred income tax liabilities | 32 | **12,370** | 9,053 |
| 1p55, 1p78(d) | Retirement benefit obligations | 33 | **4,635** | 2,233 |
| 1p54(l), 1p78(d) | Provisions for other liabilities and charges | 35 | **1,320** | 274 |
| | | | **133,581** | 108,035 |
| 1p60, 1p69 | **Current liabilities** | | | |
| 1p54(k), IFRS7p8(f) | Trade and other payables | 30 | **16,670** | 12,478 |
| 1p54(n) | Current income tax liabilities | | **2,566** | 2,771 |
| 1p54(m), IFRS7p8(f) | Borrowings | 31 | **11,716** | 18,258 |
| 1p54(m), IFRS7p8(e) | Derivative financial instruments | 20 | **460** | 618 |
| 1p54(l) | Provisions for other liabilities and charges | 35 | **2,222** | 2,396 |
| | | | **33,634** | 36,521 |
| IFRS5p38, 1p54(p) | Liabilities of disposal group classified as held | 25 | **220** | – |
| | | | **33,854** | 36,521 |
| | **Total liabilities** | | **167,435** | **144,556** |
| | **Total equity and liabilities** | | **299,208** | **233,502** |

10p17 The notes on pages 19 to 109 are an integral part of these consolidated financial statements.

## Commentary — Consolidated balance sheet

IFRS9p7.2.14 An entity should apply IFRS 9 retrospectively in accordance to the transition provisions. However, these transition provisions have an exception that allow an entity that adopts IFRS 9 for reporting periods beginning on or after 1 January 2012 but before 1 January 2013 not to restate prior periods if disclosures set in paragraphs 44S-44W of IFRS 7 are provided. IFRS GAAP plc decided to provide the disclosures, therefore, the requirement to present a statement of financial position as at the beginning of the earliest comparative period in accordance with IAS 1p10(f) is not required in this example.

*(All amounts in C thousands unless otherwise stated)*

## Consolidated statement of changes in equity

| | | | Attributable to equity holders of the company | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1p108,109 | | **Note** | **Share capital** | **Share premium** | **Other reserves[1]** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| | **Balance as at 1 January 2011** | | 20,000 | 10,424 | 6,364 | 48,470 | 85,258 | 1,500 | 86,758 |
| 1p106(d)(i) | Profit for the year | | – | – | – | 15,512 | 15,512 | 856 | 16,368 |
| | Other comprehensive income for the year[2] | | – | – | 641 | -407 | 234 | (40) | 194 |
| 1p106(a) | **Total comprehensive income for the year** | | – | – | 641 | 15,105 | 15,746 | 816 | 16,562 |
| IFRS2p50 | Value of employee services | 28 | – | – | – | 822 | 822 | – | 822 |
| | Tax credit relating to share option scheme | 28 | – | – | – | 20 | 20 | – | 20 |
| | Proceeds from shares issued | 26 | 1,000 | 70 | – | – | 1,070 | – | 1,070 |
| 1p106(d)(iii) | Dividends to equity holders of the company | 34 | – | – | – | (15,736) | (15,736) | (550) | (16,286) |
| 1p106(d)(iii) | **Total contribution by and distributions to owners of the company, recognised directly in equity** | | 1,000 | 70 | – | (14,894) | (13,824) | (550) | (14,374) |
| | **Balance as at 31 December 2011** | | **21,000** | **10,494** | **7,005** | **48,681** | **87,180** | **1,766** | **88,946** |
| | **Balance at 1 January 2012** | | 21,000 | 10,494 | 7,005 | 48,681 | 87,180 | 1,766 | 88,946 |
| IFRS9p7.2.14 | Effect on change in accounting policy for classification and measurement of financial assets | | – | – | (30) | 30 | – | – | – |
| 1p106(d)(i) | Profit for the year | | – | – | – | 29,652 | 29,652 | 2,548 | 32,200 |
| | Other comprehensive income for the year[2] | | – | – | 3,096 | 220 | 3,316 | 252 | 3,568 |
| 1p106(a) | **Total comprehensive income for the year** | | – | – | 3,096 | 29,872 | 32,968 | 2,800 | 35,768 |

[1] Individual reserves can be grouped into 'other reserves' in the statement of changes in equity if these are similar in nature and can be regarded as a component of equity. If the individual reserves are not shown in the statement of changes in equity, an analysis should be given in the notes.

[2] Companies can implement this by either (a) showing each line item of other comprehensive income separately in the above statement; or (b) by having a single-line presentation of other comprehensive income (as shown above) plus a separate note showing an analysis of each item of other comprehensive income for each component of equity. IFRS GAAP plc has provided the disclosure in note 29.

*(All amounts in C thousands unless otherwise stated)*

| | | | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Note | Share capital | Share premium | Other reserves | Retained earnings | Total | Non-cont-rolling interest | Total equity |
| IFRS2p50 | Value of employee services | 28 | – | – | – | 690 | 690 | – | 690 |
| | Tax credit relating to share option scheme | 28 | – | – | – | 30 | 30 | – | 30 |
| | Proceeds from shares issued | 26 | 750 | 200 | – | – | 950 | – | 950 |
| | Purchase of treasury shares | 29 | – | – | (2,564) | – | (2,564) | – | (2,564) |
| | Issue of ordinary shares related to business combination | 26 | 3,550 | 6,450 | – | – | 10,000 | – | 10,000 |
| | Convertible bond – equity component | 29 | – | – | 5,433 | – | 5,433 | – | 5,433 |
| 1p106(d)(iii) | Dividends to equity holders of the company | 35 | – | – | – | (10,102) | (10,102) | (1,920) | (12,022) |
| 1p106(d)(iii) | **Total contribution by and distributions to owners of the company, recognised directly in equity** | | 4,300 | 6,650 | 2,869 | (9,382) | 4,437 | (1,920) | 2,517 |
| 1p106(d)(iii) | Non-controlling interest arising on business combination | 39 | – | – | – | – | – | 4,542 | 4,542 |
| 1p106(d)(iii) | Acquisition of non-controlling interest in XYZ Group | 40 | – | – | (400) | – | (400) | (300) | (700) |
| 1p106(d)(iii) | Decrease in ownership | 40 | – | – | (300) | – | (300) | 1,000 | 700 |
| 1p106(d)(iii) | **Total transactions with owners of the company, recognised directly in equity** | | 4,300 | 6,650 | 2,869 | (9,382) | 4,437 | 2,622 | 7,059 |
| | **Balance as at 31 December 2012** | | **25,300** | **17,144** | **12,240** | **69,201** | **123,885** | **7,888** | **131,773** |

The notes to pages 19 to 109 are an integral part of these consolidated financial statements.

If the individual reserves are not shown on the face of the statement of changes in equity, an analysis should be given in the notes.

*(All amounts in C thousands unless otherwise stated)*

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

#### 2.1.1 Changes in accounting policy and disclosures

*(a) New and amended standards adopted by the group*

(Refer to the note 2.1.1 in the main section of this publication.)

**8p28**

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It was amended in December 2011. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Adoption of IFRS 9 is mandatory from 1 January 2015; earlier adoption is permitted.

**8p28, IFRS9 p7.2.2, p7.2.3, p7.2.14**

The group has adopted IFRS 9 from 1 January 2012, as well as the related consequential amendments to other IFRSs, because this new accounting policy provides reliable and more relevant information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transition provisions of and choices provided by the standard, comparative figures have not been restated.

**IFRS9 p7.2.4**

The group's management has assessed the financial assets and financial liabilities held by the group at the date of initial application of IFRS 9 (1 January 2012). The main effects resulting from this assessment were:

- Investments in debt securities previously classified as available for sale, do not meet the criteria to be classified as at amortised cost in accordance with IFRS 9. They are now therefore classified as financial assets at fair value through profit or loss. As a result, on 1 January 2012 assets with a fair value of C264 at 1 January 2012 were transferred to investments held at fair value through profit or loss; their related fair value gains of C30 were reclassified from the available-for-sale investments reserve to retained earnings. In 2012, fair value gains related to these investments amounting to C15 were recognised in profit or loss (taxation effect has been ignored for this illustrative purposes).
- Equity investments not held for trading that were previously measured at fair value and classified as available for sale have been designated as at fair value through other comprehensive income. As a result, fair value gains of C2,188 were reclassified from the available-for-sale investments reserve to the investments revaluation reserve at 1 January 2012. These equity investments at fair value for through other comprehensive income were all classified as non-current.

*(All amounts in C thousands unless otherwise stated)*

There was no difference between the previous carrying amount (IAS 39) and the revised carrying amount (IFRS 9) of the financial assets at 1 January 2012 to be recognised in opening retained earnings.

**8p28(f)** The effect of this change in accounting policy on earnings per share is shown in note 34.

### 2.9.1 Classification prior to 1 January 2012

(Refer to the note 2.9.1 in the main section of this publication.)

### 2.9.2 Recognition and measurement prior to 1 January 2012

(Refer to the note 2.9.2 in the main section of this publication.)

### 2.9.3 Classification from 1 January 2012

**IFRS9p4.1.1** As from 1 January 2012, the group classifies its financial assets in the following measurement categories: those at measured fair value and those measured at amortised cost. This classification depends on whether the financial asset is a debt or equity investment.

**Debt investments**

*(a) Financial assets at amortised cost*

**IFRS9p4.1.2** A debt investment is classified as 'amortised cost' only if both of the following criteria are met: the objective of the group's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt investment are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

*(b) Financial assets at fair value*

**IFRS9p4.1.4** If either of the two criteria above are not met, the debt instrument is classified as 'fair value through profit or loss'.

**IFRS9p4.1.5** The group has not designated any debt investment as measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

**Equity investments**

**IFRS9p5.7.5, p5.7.6** All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the group can make an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

### 2.9.4 Recognition and measurement from 1 January 2012

**IFRS9p3.1.2** Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have

*(All amounts in C thousands unless otherwise stated)*

expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

**IFRS9p5.1.1, p5.2.1** At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value though profit or loss are expensed in the income statement.

**IFRS9p5.7.1** A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the income statement within 'other (losses)/gains — net' in the period in which they arise.

**IFRS9p5.7.2** A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method (note 2.11).

**IFRS9p5.7.5, p5.7.6** The group subsequently measures all equity investments at fair value. Where the group's management has elected to present unrealised and realised fair value gains and losses on equity investments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

**IFRS9p4.4.1** The group is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

## 2.11 Impairment of financial assets

*(a) Assets carried at amortised cost*

**IFRS9p5.2.2, 39p58, p59** The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(Refer to the note 2.11(a) in the main section of this publication.)

*(b) Assets classified as available for sale (applicable until 31 December 2011)*

(Refer to the note 2.11(b) in the main section of this publication.)

*(All amounts in C thousands unless otherwise stated)*

## Commentary – accounting policies for financial liabilities

IFRS9p4.2.2, p5.7.7

The application of IFRS 9 for the financial liabilities of IFRS GAAP plc does not represent a change for the entity. For accounting policy please refer to notes in section 2 of the main section of this publication. However, entities having financial liabilities designated at fair value through profit or loss accounting policy would possibly be modified. As per IFRS9p4.2.2 and IFRS9p5.7.7 the effects of changes in the liabilities credit risk should be presented in other comprehensive income unless it creates or enlarges an accounting mismatch in wich case it should be presented in profit or loss.

## Commentary – summary of significant accounting policies – IFRS 9

IFRS9p4.1.1, p4.1.2, p4.1.4

IFRS 9 includes a single model that has only two measurement categories: amortised cost and fair value. To qualify for amortised cost accounting, the instrument must meet two criteria: (1) the objective of the business model is to hold the financial asset for the collection of the cash flows; and (2) all contractual cash flows represent only principal and interest on that principal. All other instruments are mandatorily measured at fair value. Classification under IFRS 9 is determined at inception based on the two criteria previously described.

IFRS9p5.7.5, B5.7.1

IFRS 9 requires all equity investments to be measured at fair value. However an entity may make an irrevocable election at initial recognition to present all fair value changes for non-trading equity investments in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; there is therefore no impairment. The standard also requires recognition of dividends from that investment in profit or loss when the entity's right to receive payment of the dividend is established in accordance with IAS 18.

IFRS9p4.4.1, p5.6.1, p5.6.2, B4.4.1-4.4.3

IFRS 9 prohibits reclassifications between fair value and amortised cost except in rare circumstances when the entity's business model changes. All reclassifications are accounted for prospectively. Any difference between the carrying amount and fair value on a reclassification is recognised in a separate line in profit or loss. To ensure full transparency, the standard requires additional disclosures for any reclassifications.

IFRS9p4.1.5

IFRS 9 continues to allow entities the option to designate assets at fair value through profit or loss at initial recognition where this significantly reduces an accounting mismatch. The designation at fair value through profit or loss is irrevocable.

IFRS9p7.2.11, pB5.4.14-5.4.17

IFRS 9 removes the exemption allowing unquoted equities and derivatives on unquoted equities to be measured at cost. Such investments are required to be measured at fair value through profit or loss. IFRS 9 provides guidance on when cost may be an appropriate estimate of fair value. Any difference between the previous carrying amount in accordance with IAS 39 and fair value (IFRS 9) should be recognised in the opening retained earnings of the reporting period that includes the date of initial application.

*(All amounts in C thousands unless otherwise stated)*

| | |
|---|---|
| IFRS9p7.1.1-7.2.2, p7.2.14 | The effective date of IFRS 9 is 1 January 2015; early application is permitted. IFRS 9 should be applied retrospectively. However, IFRS 9 as modified in December 2011 provides exemption from restating comparative periods. |
| IFRS9p7.2.4 | At the date of initial application of IFRS 9, an entity should assess whether a financial asset meets the criteria in IFRS 9 p4.1.2(a) on the basis of the facts and circumstances that exist at the date of initial application. |
| IFRS9p7.2.7 | An entity may, at the date of initial application of IFRS 9, designate a financial asset at fair value through profit or loss (IFRS 9p4.1.5) or an investment in an equity instrument at fair value through other comprehensive income (IFRS 9p5.7.5). Such designations are made on the basis of the facts and circumstances that exist at the date of initial application. |
| IFRS9p7.2.14 | If an entity does not restate prior periods based o IFRS 9p7.2.14, it should recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the reporting period that includes the date of initial application. |
| IFRS9pB5.7.3 | IFRS 9p5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. Such an investment is not a monetary item. The gain or loss that is presented in other comprehensive income in accordance with IFRS 9p5.7.5 therefore includes any related foreign exchange component. |
| IFRS9p4.2.1, p4.2.2 | Regarding financial liabilities IFRS 9 kept majority of the requirements of IAS 39. Financial liabilities are subsequent measured at amortised cost using the effective interest method except for certain financial liabilities (as listed in IFRS 9p4.2.1) including financial liabilities at fair value through profit or loss. |
| IFRS9p4.2.2, p5.7.7 | IFRS 9 kept the option to designate financial liabilities at fair value through profit or loss. However, it changed the accounting for effects in changes in own credit risk. As per IFRS 9p4.2.2 and IFRS 9p5.7.7, the effects of changes in the liabilities credit risk should be presented in other comprehensive income unless it creates or enlarges an accounting mismatch – in which case, it should be presented in profit or loss. |

## 3 Financial risk management

### 3.1 Financial risk factors

(Refer to note 3.1 in the main section of this publication.)

*(a) Market risk*

(Refer to note 3.1 (a) in the main section of this publication.)

*(ii) Price risk*

**IFRS7p33(a)(b)** The group is exposed to equity securities price risk because of investments held by the group and classified on the consolidated balance sheet either as at fair value.

*(All amounts in C thousands unless otherwise stated)*

The group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The group's investments in equity of other entities that are publicly traded are included in one of the following three equity indexes: DAX equity index, Dow Jones equity index and FTSE 100 UK equity index.

**IFRS7p40, IFRS7IG36**

The table below summarises the impact of increases/decreases of the three equity indexes on the group's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 5% with all other variables held constant and all the group's equity instruments moved according to the historical correlation with the index:

| | **Impact on post-tax profit in C** | | **Impact on other components of equity in C** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Index** | | | | |
| Dax | **200** | 120 | **290** | 290 |
| Dow Jones | **150** | 120 | **200** | 70 |
| FTSE 100 UK | **60** | 30 | **160** | 150 |

Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as fair value through comprehensive income (2012) and available for sale (2011).

*(iii) Cash flow and fair value interest rate risk*

(Refer to note 3.1(a)(iii) in the main section of this publication.)

**IFRS7p40, IFRS7IG36**

At 31 December 2012, if interest rates on Currency-denominated borrowings had been 0.1% higher/lower with all other variables held constant, post-tax profit for the year would have been C22 (2011: C21) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; and C5 lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets measured at fair value through profit or loss. Other components of equity in 2011 would have been C3 lower/higher for fixed rate financial assets classified as available for sale. At 31 December 2012, if interest rates on UK pound-denominated borrowings at that date had been 0.5% higher/lower with all other variables held constant, post- tax profit for the year would have been C57 (2011: C38) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; and C6 lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. Other components of equity in 2011 would have been C4 lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available for sale.

## 3.3 Fair value estimation

(Refer to note 3.3 in the main section of this publication.)

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2012.

*(All amounts in C thousands unless otherwise stated)*

(Refer to the analysis for the comparative year in the main section of this publication.)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value: | | | | |
| – Trading derivatives | – | 250 | 111 | 361 |
| – Trading equity securities | 11,820 | – | – | 11,820 |
| – Investment equity securities | 18,735 | – | – | 18,735 |
| – Debt investments | 288 | 347 | – | 635 |
| Derivatives used for hedging | – | 1,103 | – | 1,103 |
| **Total assets** | **30,843** | **1,700** | **111** | **32,654** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss: | | | | |
| – Trading derivatives | – | 268 | – | 268 |
| Derivatives used for hedging | – | 327 | – | 327 |
| **Total liabilities** | **–** | **595** | **–** | **595** |

(Refer to note 3.3 in the main section of this publication.)

## 4 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.

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### 4.1 Critical accounting estimates and assumptions

(Refer to note 4.1 in the main section of this publication.)

*(c) Fair value of derivatives and other financial instruments*

IFRS7p27

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The group has used discounted cash flow analysis for various debt investments that are not traded in active markets.

The carrying amount of such debt investments would be an estimated C12 lower or C15 higher were the discount rate used in the discount cash flow analysis to differ by 10% from management's estimates.

*(Refer to the note 4.1(d) onwards in the main section of this publication).*

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### 4.2 Critical judgements in applying the entity's accounting policies

(Refer to the note 4.2 in the main section of this publication.)

*(b) Impairment of available-for-sale equity investments*

(The note in 4.2(b) is not relevant if the entity applies IFRS 9 as of the reporting date.)

*(All amounts in C thousands unless otherwise stated)*

## 7 Other income

| | | 2012 | 2011 |
|---|---|---|---|
| 18p35(b)(v) | Dividend income on available-for-sale financial assets | **–** | 883 |
| IFRS7p11A(d) | Dividend income on financial assets at fair value through other comprehensive income | **1,100** | – |
| 18p35(b)(v) | Dividend income on financial assets at fair value through profit or loss | **800** | 310 |
| | Investment income | **1,900** | 1,193 |
| | Insurance reimbursement | **–** | 66 |
| | **Total** | **1,900** | 1,259 |

The insurance reimbursement relates to the excess of insurance proceeds over the carrying values of goods damaged.

## 8 Other (losses)/gains – net

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS7p20(a)(i) | Financial assets at fair value through profit or loss (note 23): | | |
| | – Fair value losses | **(508)** | (238) |
| | – Fair value gains | **1,441** | – |
| IFRS7p20(a)(i) | Foreign exchange forward contracts: | | |
| | – Held for trading | **86** | 88 |
| 21p52(a) | – Net foreign exchange gains/(losses) (note15) | **(277)** | 200 |
| IFRS7p24(a) | Ineffectiveness on fair value hedges (note 20) | **(1)** | (1) |
| IFRS7p24(b) | Ineffectiveness on cash flow hedges (note 20) | **17** | 14 |
| | **Total** | **758** | 63 |

*(All amounts in C thousands unless otherwise stated)*

## 11 Finance income and costs

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS7p20(b) | Interest expense: | | |
| | – Bank borrowings | **(5,317)** | (10,646) |
| | – Dividend on redeemable preference shares (note 31) | **(1,950)** | (1,950) |
| | – Convertible bond (note 31) | **(3,083)** | – |
| | – Finance lease liabilities | **(550)** | (648) |
| 37p84(e) | – Provisions: unwinding of discount (note 34) | **(44)** | (37) |
| 21p52(a) | Net foreign exchange gains on financing activities (note 15) | **2,594** | 996 |
| | Fair value gains on financial instruments: | | |
| IFRS7p23(d) | – Interest rate swaps: cash flow hedges, transfer from equity | **102** | 88 |
| IFRS7p24(a)(i) | – Interest rate swaps: fair value hedges | **16** | 31 |
| IFRS7p24(a)(ii) | Fair value adjustment of bank borrowings attributable to interest rate risk | **(16)** | (31) |
| | **Finance costs** | **(8,248)** | (12,197) |
| | Less: amounts capitalised on qualifying assets | **75** | – |
| | Total finance cost | **(8,173)** | (12,197) |
| | Finance income: | | |
| | – Interest income on short-term bank deposits | **550** | 489 |
| IFRS7p20(b) | – Interest income on available-for-sale financial assets | **–** | 984 |
| IFRS7p20(b) | – Interest income on loans to related parties (note 41) | **217** | 136 |
| | **Finance income** | **767** | 1,609 |
| | **Net finance costs** | **(7,406)** | (10,588) |

*(All amounts in C thousands unless otherwise stated)*

## 18a Financial instruments by category

IFRS7p6-8

| Financial assets | 2012 |
|---|---|
| Financial assets measured at fair value through profit or loss | |
| Financial assets held for trading: (IFRS9p4.1.4, IFRS7p8(a)) | |
| – Investments in equity instruments held for trading (note 23) | 11,820 |
| – Derivatives used for hedging (note 20) | 1,103 |
| – Derivatives used for trading (note 20) | 361 |
| | **13,284** |
| Financial assets at fair value through profit or loss: (IFRS9p4.1.4, IFRS7p8(a)) | |
| – Investments in debt securities (note 23) | 635 |
| | **635** |
| Financial assets measured at fair value through other comprehensive income: (IFRS9p5.7.5) | |
| – Investments in equity instruments (note 19) | 18,735 |
| | **18,735** |
| Financial assets measured at amortised cost: (IFRS9p4.1.2) | |
| – Trade and other receivables excluding pre-payments (note 21) | 20,787 |
| – Cash and cash equivalents (note 24) | 17,928 |
| | **38,715** |
| **Total** | **71,369** |

IFRS7p6-8

| Financial assets | 2011 |
|---|---|
| Loans and receivables: | |
| – Trade and other receivables excluding pre-payments (note 21) | 18,536 |
| – Cash and cash equivalents (note 24) | 34,062 |
| Assets at fair value through profit and loss: | |
| – Derivative financial instruments (note 20) | 321 |
| – Financial assets at fair value through profit or loss (note 23) | 7,972 |
| Derivatives used for hedging (note 20) | 875 |
| Available for sale (note 19) | 14,910 |
| **Total** | **76,676** |

Pre-payments are excluded from the trade and other receivables balance, as this analysis is required only for financial instruments (C1,300 and C1,146 as of 2012 and 2011, respectively).

The categories in this disclosure for financial assets are determined by IFRS9 in 2012 and by IAS 39 in 2011 (note 2.9). There are no changes to the disclosure categories for financial liabilities.

IFRS7p6-8

| Financial liabilities | 2012 | 2011 |
|---|---|---|
| Liabilities at fair value through the profit and loss: | | |
| – Derivative financial instruments (note 20) | 268 | 298 |
| Derivatives used for hedging (note 20) | 327 | 449 |
| Other financial liabilities at amortised cost: | | |
| – Borrowings (excluding finance lease liabilities) | 117,839 | 104,006 |
| – Finance lease liabilities | 8,998 | 10,598 |
| – Trade and other payables excluding statutory liabilities | 15,668 | 11,518 |
| **Total** | **143,100** | **126,869** |

*(All amounts in C thousands unless otherwise stated)*

Statutory liabilities are excluded from the trade payables balance, as this analysis is required only for financial instruments.

## 18b Credit quality of financial assets

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS7p36(c) | **Investments in debt securities (replacing available-for-sale debt securities)** | | |
| | A (debt securities at fair value through profit or loss) | **635** | – |
| | A (debt securities classified as available for sale) | **–** | 264 |
| | | **635** | 264 |

(Refer to the note 18b in the main section of this publication.)

## 18c Classification of financial assets and liabilities at the date of initial application

IFRS7p44I, p44V

The classification and measurement category for each class of financial assets and liabilities at the date of initial application were as follows:

| | Measurement category | | Carrying amount | | |
|---|---|---|---|---|---|
| **Financial asset** | **Original (IAS 39)** | **New (IFRS 9)** | **Original (IAS 39)** | **New (IFRS 9)** | **Difference** |
| Equity investments (note 19) | Available for sale | Financial assets at fair value through other comprehensive income | 14,646 | 14,646 | – |
| Debt securities (note 19) | Available for sale | Financial asset at fair value through profit or loss | 264 | 264 | – |
| Interest rate swaps (note 20) | Derivatives used for hedging | Derivatives used for hedging | 269 | 269 | – |
| Forward foreign exchange contracts – cash flow hedges (note 20) | Derivatives used for hedging | Derivatives used for hedging | 606 | 606 | – |
| Forward foreign exchange contracts – trading (note 20) | Financial asset at fair value through profit or loss | Financial asset at fair value through profit or loss | 321 | 321 | – |
| Equity investments – held for trading (note 23) | Financial asset at fair value through profit or loss | Financial asset at fair value through profit or loss | 7,972 | 7,972 | – |
| Trade and other receivables (note 21) | Loans and receivables | Financial assets at amortised cost | 17,102 | 17,102 | – |

*(All amounts in C thousands unless otherwise stated)*

| | Measurement category | | Carrying amount | | |
|---|---|---|---|---|---|
| **Financial asset** | **Original (IAS 39)** | **New (IFRS 9)** | **Original (IAS 39)** | **New (IFRS 9)** | **Difference** |
| Loans to related parties (note 21) | Loans and receivables | Financial assets at amortised cost | 1,434 | 1,434 | – |
| Cash and cash equivalents (note 24) | Loans and receivables | Financial assets at amortised cost | 34,062 | 34,062 | – |
| **Total financial assets** | | | **76,676** | **76,676** | **–** |
| Derivative financial instruments (note 20) | Financial liabilities at fair value through profit or loss | Financial liabilities at fair value through profit or loss | 132 | 132 | – |
| Derivatives used for hedging (note 20) | Financial liabilities at fair value through profit or loss/other comprehensive income | Financial liabilities at fair value through profit or loss/ other comprehensive income | 615 | 615 | – |
| Borrowings (excluding finance lease liabilities – note 31) | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 104,006 | 104,006 | – |
| Finance lease liabilities (note 31) | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 10,598 | 10,598 | – |
| Trade and other payables excluding statutory liabilities (note 30) | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 11,518 | 11,518 | – |
| **Total financial liabilities** | | | **126,869** | **126,869** | **–** |

**IFRS7p44J** Debt securities, debentures and preference shares that are not equity do not meet the criteria to be classified as at amortised cost in accordance with IFRS 9, because the objective of the group's business model is not to hold these debt securities in order to collect their contractual cash flows. Therefore, they were re-classified from available for sale to financial assets at fair value through profit or loss.

**IFRS7p11A(b)** The group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available for sale, because the business model is to hold these equity investments for long-term strategic investment and not for trading.

**IFRS7p44I(c)** The group did not have any financial assets or financial liabilities in the statement of financial position that were previously designated as fair value through profit or loss but are no longer so designated. Neither did it designate any financial asset at fair value through profit or loss on initial application of IFRS 9.

*(All amounts in C thousands unless otherwise stated)*

## Commentary

**IFRS9pB7.2.1** At the date of initial application of IFRS 9, an entity must determine whether the objective of the its business model for managing any of its debt investments meets the condition in IFRS9p4.1.2(a) or if its equity investments are eligible for the election in IFRS9p5.7.5. For that purpose, an entity should determine whether financial assets meet the definition of held for trading based on the facts and circumstances that exist at the date of initial application.

**IFRS9 Appdx A** According to Appendix A of IFRS 9 a financial asset or a financial liability is held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short- term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

For the purpose of this illustrative appendix, the equity investments previously classified as available for sale do not meet the definition of financial assets held for trading.

**IFRS7p44I** IFRS 7 requires an entity, when it first applies IFRS9, to disclose for each class of financial assets and financial liabilities at the date of initial application:

(a) the original measurement category and carrying amount determined in accordance with IAS39;
(b) the new measurement category and carrying amount determined in accordance with IFRS9; and
(c) the amount of any financial asset and liabilities that were previously designated as measured at fair value through profit or loss but are no longer so designated.

**IFRS9p7.2.14** The original and new carrying amounts to be included in this disclosure should be at the beginning of the annual reporting period that includes the date of initial application.

**IFRS7p44J** An entity should disclose qualitative information to enable users to understand the following aspects, when it first applies IFRS 9:

(a) how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9.
(b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

*(All amounts in C thousands unless otherwise stated)*

## 18d Reconciliation of financial assets and liabilities at the date of initial application

### Financial assets

IFRS7p44S-44W

| Measurement category | IAS 39 carrying amount 31 December 2011 | Reclassifi-cations | Remeasure-ments | IFRS 9 carrying amount 1 January 2012 | Retained earnings effect on 1 January 2012 |
|---|---|---|---|---|---|
| **Fair value through profit or loss**[1] | 9,168 | | | 9,168 | – |
| Additions: | | | | | |
| From available for sale (IAS 39) | | 264 | – | 264 | 30 |
| From amortised cost (IAS 39) – required reclassification | | – | – | – | – |
| From amortised cost (IAS 39) – fair value option elected at 1 January 2012 | | – | – | – | – |
| Subtractions: | | | | | |
| To amortised cost (IFRS 9) | | – | | – | – |
| **Total change to fair value through profit or loss** | **9,168** | **264** | **–** | **9,432** | **30** |
| **Fair value through other comprehensive income**[2] | 14,910 | – | – | 14,910 | |
| Additions: | | | | | |
| From fair value through profit or loss (fair value option under IAS 39) – fair value through other comprehensive income elected at 1 January 2012 | | – | – | – | – |
| From cost (IAS 39) | | – | – | – | – |
| Subtractions: | | | | | |
| Available for sale (IAS 39) to fair value through profit or loss (IFRS 9) | | (264) | – | (264) | – |
| Available for sale (IAS 39) to amortised cost (IFRS 9) | | – | – | – | – |
| **Total change to fair value through other comprehensive income** | **14,910** | **(264)** | **–** | **14,646** | **–** |

[1] Includes also hedging derivatives.

[2] The IAS 39 carrying amount at 31 December 2011 includes all investments that were previously classified as available for sale under IAS 39 (both debt an equity investments). Given that the equity investments will continue to be measured at fair value through OCI (albeit subject to different accounting under IFRS 9 than the previous available for sale category under IAS 39), they have not been reclassified for the purposes of this table.

*(All amounts in C thousands unless otherwise stated)*

| Measurement category | IAS 39 carrying amount 31 December 2011 | Reclassifi-cations | Remeasure-ments | IFRS 9 carrying amount 1 January 2012 | Retained earnings effect on 1 January 2012 |
|---|---|---|---|---|---|
| **Amortised cost** | 52,598 | | | 52,598 | – |
| Additions: | | | | | |
| From available for sale (IAS 39) | | – | – | – | – |
| From fair value through profit or loss (IAS 39) – required reclassification | | – | – | – | – |
| From fair value through profit or loss (IAS 39) – fair value option revoked at 1 January 2012 | | – | – | – | – |
| Subtractions: | | | | | |
| To fair value through profit or loss (IFRS 9) – required reclassification | | – | – | – | – |
| To fair value through profit or loss (IFRS 9) – fair value option elected at 1 January 2012 | | – | – | – | – |
| **Total change to amortised cost** | **52,598** | **–** | **–** | **52,598** | **–** |
| **Total financial assets balances, reclassifications and remeasurements at 1 January 2012** | **76,676** | **–** | **–** | **76,676** | **30** |

## Financial liabilities

IFRS7p44S-44W

| Measurement category | IAS 39 carrying amount 31 December 2011 | Reclassifi-cations | Remeasure-ments | IFRS 9 carrying amount 1 January 2012 | Retained earnings effect on 1 January 2012 |
|---|---|---|---|---|---|
| **Fair value through profit or loss**[1] | 747 | | | 747 | – |
| Additions: | | | | | |
| From amortised cost (IAS 39) – fair value option elected at 1 January 2012 | | – | – | – | – |
| Subtractions: | | | | | |
| To amortised cost (IFRS 9) – fair value option revoked at 1 January 2012 | | – | | – | – |
| **Total change to fair value through profit or loss** | **747** | **–** | **–** | **747** | **–** |

[1] Includes also hedging derivatives.

*(All amounts in C thousands unless otherwise stated)*

| Measurement category | IAS 39 carrying amount 31 December 2011 | Reclassifi-cations | Remeasure-ments | IFRS 9 carrying amount 1 January 2012 | Retained earnings effect on 1 January 2012 |
|---|---|---|---|---|---|
| **Amortised cost** | 126,122 | | | 126,122 | – |
| Additions: | | | | | |
| From fair value through profit or loss (IAS 39) – required reclassification | | – | – | – | – |
| From fair value through profit or loss (IAS 39) – fair value option revoked at 1 January 2012 | | – | – | – | – |
| Subtractions: | | | | | |
| To fair value through profit or loss (IFRS 9) – fair value option elected at 1 January 2012 | | – | – | – | – |
| **Total change to amortised cost** | **126,122** | **–** | **–** | **126,122** | **–** |
| **Total financial liabilities balances, reclassifications and remeasurements at 1 January 2012** | **126,869** | **–** | **–** | **126,869** | **–** |
| **Total change to retained earnings** | **–** | **–** | **–** | **–** | **30** |

## Commentary – reconciliation between IAS 39 and IFRS 9 classification

IFRS7p44U

IFRS 7p44U requires that in the reporting period in which IFRS9 is initially applied, the entity shall disclose for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS9 the following information:

- fair value of the financial assets and liabilities at the end of the reporting period
- fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets of financial liabilities had not been reclassified;
- the effective interest rate determined on the date of reclassification; and
- the interest income or expense recognised.

IFRS GAAP plc has not made qualifying reclassifications therefore this disclosure requirement is not illustrated.

*(All amounts in C thousands unless otherwise stated)*

## 19 Available-for-sale financial assets and equity investments at fair value through other comprehensive income

**Available-for-sale investments (applicable for the comparative period)**

| Reference | | 2011 |
|---|---|---|
| | At 1 January 2011 | 14,096 |
| | Exchange differences | (435) |
| | Additions | 1,126 |
| | Disposals | – |
| | Net gains/(losses) transfer from equity (note 29) | (152) |
| 1p79(b) | Net gains/(losses) transfer to equity (note 29) | 275 |
| | **At 31 December 2011** | **14,910** |
| 1p66 | Less: non-current portion | (14,910) |
| 1p66 | **Current portion** | – |

**IFRS7p20 (a)(ii)** During 2011 the group removed profits of C187 and losses C35 from equity into the income statement. Losses in the amount of C20 were due to impairments.

**IFRS7p27(b), p31, p34** Available-for-sale financial assets as of the end of 2011 included the following:

| | 2011 |
|---|---|
| Listed securities: | |
| Equity securities – UK | 8,300 |
| Equity securities – Europe | 2,086 |
| Equity securities – US | 4,260 |
| Unlisted securities: | |
| – Debt securities with fixed interest ranging from 6.3% to 6.5% and maturity dates between July 2013 and May 2015 | 264 |
| **Total** | **14,910** |

**IFRS7p34(c)** Available-for-sale financial assets as of the end of 2011 were denominated in the following currencies:

| | 2011 |
|---|---|
| UK pound | 8,121 |
| Euro | 2,086 |
| US dollar | 4,260 |
| Other currencies | 443 |
| **Total** | **14,910** |

**IFRS7p27** The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2011: 5.8%).

**IFRS7p36(a)** The maximum exposure to credit risk at previous year-end was the carrying value of the debt securities classified as available for sale.

*(All amounts in C thousands unless otherwise stated)*

**Investments at fair value through other comprehensive income (applicable for the current period)**

| | | 2012 |
|---|---|---|
| | At 1 January 2012[1] | – |
| | Balance transferred from AFS[1] | 14,646 |
| | Exchange differences | 230 |
| | Acquisition of sub (note 39) | 473 |
| | Additions | 3,967 |
| | Disposals | (1,256) |
| 1p79(b) | Net gains/(losses) transfer to equity (note 29) | 675 |
| | **At 31 December 2012** | **18,735** |
| | Listed securities: | |
| | – Equity securities – UK | 8,335 |
| | – Equity securities – Europe | 5,850 |
| | – Equity securities – US | 4,550 |
| IFRS7p11A | Total investments at fair value through OCI | 18,735 |
| | Less non-current portion | (18,735) |
| | **Current portion** | **–** |

**IFRS7p11A(b), IFRS9p5.7.5, IFRS9 Appdx**

Upon first application of IFRS9 the group has designated the above equity investments at fair value through other comprehensive income because they are held for long-term investment rather than for trading. Accordingly, the whole portfolio is classified as non-current.

**IFRS7p11A(d)**

Dividends recognised during 2012 related to these equity investments are shown in note 7.

**IFRS7p11A(d-e), p11B**

During 2012, the group disposed of investments with a cost of C1,256 from investments in equity instruments measured at fair value through other comprehensive income. The investments were sold to maintain the group's desired balance of investments between different industries. The fair value of these investments at the date of derecognition was C1,386. The cumulative gain on disposal was C130. There were no dividends recognised during the period relating to these derecognised equity investments. As these investments were disposed after the date of application of IFRS 9 the gain on disposal was not transferred to the profit or loss but reclassified from the investment revaluation reserve to retained earnings within equity.

[1] The opening balance for investments at fair value through OCI does not include equity instruments that were previously classified as available for sale under IAS 39. These equity instruments have been captured in the balance transferred from AFS line. Furthermore, the balance transferred from AFS line excludes the debt instruments that have been reclassified from AFS to fair value through profit or loss upon adoption of IFRS 9.

*(All amounts in C thousands unless otherwise stated)*

## 23 Financial assets at fair value through profit or loss

*(a) Financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS9*

| | | 2012 | 2011 |
|---|---|---|---|
| IFRS7p8(a), p31, p34(c) | **Listed equity securities** | | |
| | – Equity securities – UK | **5,850** | 3,560 |
| | – Equity securities – Europe | **4,250** | 3,540 |
| | – Equity securities – US | **1,720** | 872 |
| | **Total listed equity securities (classified as current assets)** | **11,820** | 7,972 |
| | **Listed debt securities** | | |
| | – Debentures with fixed interest of 6.5% and maturity date of 27 August 2014 | 210 | – |
| | – Cumulative 9.0% redeemable preference shares | 78 | – |
| | **Unlisted debt securities:** | | |
| | – Debt securities with fixed interest ranging from 6.3% to 6.5% and maturity dates between July 2014 and May 2015 | 347 | – |
| | **Total debt securities** | **635** | **–** |
| | Less non-current portion | (635) | – |
| | **Current portion** | – | – |

**IFRS7p27** The fair value of all listed securities is based on their current bid prices in an active market. The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2012: 6%).

**7p15** Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows (note 36).

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other (losses)/gains — net' in the income statement (note 8).

**IFRS7p36(a)** The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities.

*(b) Financial assets designated upon initial recognition at fair value through profit or loss*

IFRS GAAP plc did not designate any financial assets at fair value through profit or loss.

*(All amounts in C thousands unless otherwise stated)*

IFRS7p34(c) Financial assets in equity and debt investments measured at fair value (through profit or loss or through other comprehensive income) are denominated in the following currencies:

| | 2012 |
|---|---|
| UK pound | 13,747 |
| Euros | 10,100 |
| US dollars | 6,270 |
| Other currencies | 1,073 |
| | 31,190 |

## 28 Retained earnings

| Reference | | |
|---|---|---|
| 1p106(d) | At 1 January 2011 | 48,470 |
| | Profit for the year | 15,512 |
| 1p106(d) | Dividends paid relating to 2010 | (15,736) |
| IFRS2p50 | Value of employee services | 822 |
| 16p41 | Depreciation transfer on land and buildings net of tax | 87 |
| 12p68C | Tax credit relating to share option scheme | 20 |
| 19p93A | Actuarial loss on post employment benefit obligations net of tax | (494) |
| | **At 31 December 2011** | **48,681** |
| | At 1 January 2012 | 48,681 |
| IFRS9p7.2.14 | Effect of change in accounting policy for classification and measurement of financial assets (note 2.1) | 30 |
| | Profit for the year | 29,652 |
| 1p106(d) | Dividends paid relating to 2011 | (10,102) |
| IFRS2p50 | Value of employee services | 690 |
| 16p41 | Depreciation transfer on land and buildings net of tax | 100 |
| 12p68C | Tax credit relating to share option scheme | 30 |
| IFRS7p11A(e) IFRS9B5.7.1 | Transfer of gain/(loss) realised on disposal of equity investment at fair value through OCI | 130 |
| 19p93A | Actuarial loss on post employment benefit obligations net of tax | – |
| 12p80(d) | Impact of change in Euravian tax rate on deferred tax | (10) |
| | **At 31 December 2012** | **69,201** |

*(All amounts in C thousands unless otherwise stated)*

## 29 Other reserves

| | Note | Convertible bond | Land and buildings revaluation | Hedging | Treasury shares | Available-for-sale investments | Investment revaluation | Translation | Transactions with NCI | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2011 | | – | 1,152 | 65 | – | 1,320 | – | 2,977 | – | 5,514 |
| Revaluation of land and buildings – gross | 16, 19 | – | 1,133 | – | – | – | – | – | – | 1,133 |
| Revaluation of land and buildings – tax | 13 | – | (374) | – | – | – | – | – | – | (374) |
| Depreciation transfer – gross | | – | (130) | – | – | – | – | – | – | (130) |
| Depreciation transfer – tax | | – | 43 | – | – | – | – | – | – | 43 |
| Revaluation of AFS – gross | | – | – | – | – | 1,125 | – | – | – | 1,125 |
| Revaluation transfer AFS – gross | 19 | – | – | – | – | (152) | – | – | – | (152) |
| Revaluation of AFS – tax | | – | – | – | – | (61) | – | – | – | (61) |
| Revaluation – associates | 12(b) | – | – | – | – | (14) | – | – | – | (14) |
| Fair value gains in year | | – | – | 300 | – | – | – | – | – | 300 |
| Tax on fair value gains | 13 | – | – | (101) | – | – | – | – | – | (101) |
| Transfers to sales | | – | – | (236) | – | – | – | – | – | (236) |
| Tax on transfer to sales | | – | – | 79 | – | – | – | – | – | 79 |
| Transfers to inventory | | – | – | (67) | – | – | – | – | – | (67) |
| Tax on transfer to inventory | 13 | – | – | 22 | – | – | – | – | – | 22 |
| Net investment hedge | 20 | – | – | – | – | – | – | 40 | – | 40 |
| Currency translation differences – Group | | – | (50) | – | – | – | – | (171) | – | (221) |
| Currency translation differences – associates | 12 | – | – | – | – | – | – | 105 | – | 105 |
| **At 31 December 2012** | | **–** | **1,774** | **62** | **–** | **2,218** | **–** | **2,951** | **–** | **7,005** |
| Effect of change in accounting policy for classification and measurement of financial assets: | 2.1 | | | | | | | | | |
| – Reclassification to retained earnings, items now classified as FVTPL | | – | – | – | – | (30) | – | – | – | (30) |
| – Reclassification to investment revaluation reserve | | – | – | – | – | (2,188) | 2,188 | – | – | – |
| Gain/loss on disposal of equity instruments classifies as fair value through OCI | | – | – | – | – | – | (130) | – | – | (130) |

*(All amounts in C thousands unless otherwise stated)*

| | Note | Convertible bond | Land and buildings revaluation | Hedging | Treasury shares | Available-for-sale investments | Investment revaluation | Translation | Transactions with NCI | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Revaluation of land and buildings – gross | 16,30 | – | 1,005 | – | – | – | – | – | – | 1,005 |
| Revaluation of land and buildings – tax | 13 | – | (250) | – | – | – | – | – | – | (250) |
| Depreciation transfer – gross | | – | (149) | – | – | – | – | – | – | (149) |
| Depreciation transfer – tax | | – | 49 | – | – | – | – | – | – | 49 |
| Gains/(loss) arising on revaluation of financial assets at fair value through other comprehensive income – gross | | – | – | – | – | – | 675 | – | – | 675 |
| Gains/(loss) arising on revaluation of financial assets at fair value through other comprehensive income – tax | | – | – | – | – | – | (198) | – | – | (198) |
| Revaluation – associates | 12 | – | – | – | – | – | (12) | – | – | (12) |
| Fair value gains in year | | – | – | 368 | – | – | – | – | – | 368 |
| Tax on fair value gains | 13 | – | – | (123) | – | – | – | – | – | (123) |
| Transfers to sales | | – | – | (120) | – | – | – | – | – | (120) |
| Tax on transfers to sales | 13 | – | – | 40 | – | – | – | – | – | 40 |
| Transfers to inventory | | – | – | (151) | – | – | – | – | – | (151) |
| Tax on transfers to inventory | 13 | – | – | 50 | – | – | – | – | – | 50 |
| Net investment hedge | 20 | – | – | – | – | – | – | (45) | – | (45) |
| Currency translation differences – Group | | – | 15 | – | – | – | – | 2,146 | – | 2,161 |
| Currency translation differences – associates | 12 | – | – | – | – | – | – | (74) | – | (74) |
| Convertible bond – equity component | 31 | 7,761 | – | – | – | – | – | – | – | 7,761 |
| Tax on convertible bond | 13 | (2,328) | – | – | – | – | – | – | – | (2,328) |
| Purchase of treasury shares | | – | – | – | (2,564) | – | – | – | – | (2,564) |
| Acquisition of non-controlling interest in XYZ Group | | – | – | – | – | – | – | – | (400) | (400) |
| Decrease in ownership interest in Red Limited | | – | – | – | – | – | – | – | (300) | (300) |
| **At 31 December 2012** | | **5,433** | **2,444** | **126** | **(2,564)** | **–** | **2,523** | **4,978** | **(700)** | **12,240** |

*(All amounts in C thousands unless otherwise stated)*

## Other comprehensive income, net of tax

| | | Other reserves | Retained Earnings | Total | Non-controlling interests | Total other comprehensive income |
|---|---|---|---|---|---|---|
| | **31 December 2012** | | | | | |
| 16p39 | Revaluation of land and buildings – net of tax | 755 | – | 755 | – | 755 |
| 19p93A | Actuarial loss on post employment benefit obligations net of tax | – | – | – | – | – |
| | Revaluation of AFS – net of tax | 362 | – | 362 | – | 362 |
| | Revaluation – associates | (12) | – | (12) | – | (12) |
| 28p39 | Currency translation differences – associates | (74) | – | (74) | – | (74) |
| 39p102(a) | Net investment hedge | (45) | – | (45) | – | (45) |
| | Cash flow hedge | 64 | – | 64 | – | 64 |
| 21p52(b) | Currency translation differences – Group | 2,161 | – | 2,161 | 252 | 2,413 |
| | Impact of change in Euravian tax rate on deferred tax | – | (10) | (10) | – | (10) |
| | Depreciation on land and buildings | (100) | 100 | – | – | – |
| IFRS3p59 | Reclassification of revaluation of previously held interest in ABC Group | (850) | – | (850) | – | (850) |
| | **Total** | **2,261** | **90** | **2,351** | **252** | **2,603** |
| | **31 December 2011** | | | | | |
| 16p39 | Revaluation of land and buildings – net of tax | 759 | – | 759 | – | 759 |
| 19p93A | Actuarial loss on post employment benefit obligations – net of tax | – | (494) | (494) | – | (494) |
| | Revaluation of AFS – net of tax | 912 | – | 912 | – | 912 |
| 28p39 | Revaluation – associates | (14) | – | (14) | – | (14) |
| 28p39 | Currency translation differences – associates | 105 | – | 105 | – | 105 |
| 39p102(a) | Net investment hedge | 40 | – | 40 | – | 40 |
| | Cash flow hedge | **(3)** | **–** | (3) | **–** | **(3)** |
| | Depreciation on land and buildings | (87) | 87 | – | – | – |
| 21p52(b) | Currency translation differences – Group | (1,071) | **–** | (1,071) | **(40)** | **(1,111)** |
| | **Total** | **641** | **(407)** | **234** | **(40)** | **194** |

1p106A

## Commentary

Entities are allowed to show the disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income in either the statement of changes in equity or in the notes. In these illustrative financial statements, we present this information in the notes.

*(All amounts in C thousands unless otherwise stated)*

# Appendix VII – IFRSs 10, 11 and 12

> This appendix is independent of the illustrative financial statements in the main body of IFRS GAAP plc. The figures do not have any correlation with those in the main body and hence should not be compared.

This appendix has two sections illustrating the disclosure requirements of IFRS 12, 'Disclosure of interests in other entities'. IFRS 12 is part of the group of five standards that address the scope of the reporting entity. The rest of the group consists of IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint arrangements', Consequential amendments to IAS 28, 'Investments in associates and joint ventures', and IAS 27, 'Separate financial statements'. The standards are effective for annual periods beginning on or after 1 January 2013. They may be adopted early, although they have not yet been endorsed for application in the EU. If an entity adopts IFRS 12 for annual periods beginning on or before 1 January 2013, the whole group of standards should be adopted at the same time. However, IFRS 12 disclosures can be made without early adoption.

The first section of this appendix presents only the disclosure requirements in IFRS 12 for interests in subsidiaries. The adoption of IFRS 10 in this example has not resulted in any change in the amounts consolidated by IFRS GAAP plc, so the primary financial statements are not replicated in this appendix.

The second section of the appendix presents an illustrative example of the IFRS 12 requirements relating to joint arrangements that are accounted for in accordance with IFRS 11. It illustrates the impact of a change in accounting policy from accounting for investments in jointly controlled entities using the proportional consolidation method in accordance with IAS 31, 'Interests in joint ventures', to accounting for joint ventures using the equity method in accordance with IFRS 11. Not all jointly controlled entities under IAS 31 will be joint ventures under IFRS 11. A simplified version of the financial statements of IFRS GAAP plc has been used in this section to illustrate the change in policy. The disclosures that IFRS 12 requires for associates are similar to those required for joint ventures so have not been replicated.

## Disclosure requirements in IFRS 12 for interests in subsidiaries

The main assumptions applied in this illustrative appendix are as follows:

- IFRS GAAP plc decided to early adopt IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint arrangements', IFRS 12, 'Disclosure of interests in other entities', IAS 27, 'Separate financial statements' and IAS 28, 'Investments in associates and joint ventures', (as amended 2011).
- Subsidiaries of the Group are not structured entities.

This section of the illustrative appendix focuses on the disclosure requirements under IFRS 12 for interests in subsidiaries.

*(All amounts in C thousands unless otherwise stated)*

## 2 Summary of significant accounting policies

### 2.1 Basis of preparation

(Refer to the note 2 in the main section of this publication for the current accounting policies.)

#### 2.1.1 Changes in accounting policy and disclosures

*(a) New and amended standards adopted by the group*

The group has early-adopted the following standards, together with the consequential amendments to other IFRSs, for the financial year ended 31 December 2012.

- IFRS 10, 'Consolidated financial statements': IFRS 10 was issued in May 2011 and replaces all the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements', and SIC-1 2, 'Consolidation – special purpose entities'.

  The Group assessed whether the consolidation conclusion under IFRS 10 differs from IAS 27/SIC 12 as at 1 January 2012.

  If the consolidation conclusion under IFRS 10 differs from IAS 27/SIC 12 as at 1 January 2012, the immediately preceding comparative period (i.e. financial year beginning 1 January 2011) is restated to be consistent with the accounting conclusion under IFRS 10, unless impracticable. Any difference between IFRS 10 carrying amounts and previous carrying amounts on 1 January 2011 is adjusted to equity.

  For investees that will be consolidated under both IFRS 10 and the previous guidance in IAS 27/SIC 12 as at 1 January 2012, or investees that will be unconsolidated under both sets of guidance as at 1 January 2012, no adjustment to previous accounting has been made.

  The group assessed that adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiaries.

- IFRS 12, 'Disclosure of interests in other entities': IFRS 12 was issued in May 2011, and provides disclosure requirements on interests in subsidiaries, associates, joint ventures, and unconsolidated structured entities.

- IAS 27, 'Separate financial statements': IAS 27 was amended in May 2011 following the issuance of IFRS 10. The revised IAS 27 deals only with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company.

The group has applied the above standards retrospectively. The above standards did not result in significant changes to the group's financial statements.

### 2.2 Consolidation

*(a) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those

*(All amounts in C thousands unless otherwise stated)*

returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

## 3 Critical accounting estimates and judgements

### 3.1 Critical judgements in applying accounting policies

**IFRS12p13**

*(a) Consolidation of entities in which the group holds less than 50%.*

The directors of the group made significant judgements that the following subsidiaries are controlled by the group, even though the group holds less than half of the voting rights of these subsidiaries:

- XYZ Plc: The directors consider that the group has de facto control of XYZ Plc even though it has less than 50% of the voting rights. This is because the group is the majority shareholder of XYZ Plc with a 49 % equity interest, while all other shareholders individually own less than 1% of its equity shares. There is no history of other shareholders forming a group to exercise their votes collectively.
- DEF Limited: The group is the majority shareholder, while the remaining shares are held by eight investors who have a holding of between 5-7% each The group has control of DEF Limited, as an agreement that was signed between the shareholders of DEF Limited grants the group the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. A 67% majority vote is required to change this agreement, which cannot be achieved without the group's consent as the group holds 45% of the voting rights.

*(All amounts in C thousands unless otherwise stated)*

## 4 Interest in subsidiaries

**IFRS12p10(a)**

### 4.1 Information about principal subsidiaries

Set out below are the group's principal subsidiaries at 31 December 2012. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The country of incorporation or registration is also their principal place of business.

**IFRS12p12 (a-c)**

| Name of entity | Place of business / country of incorporation | % of ownership interest held by the group | % of ownership interest held by the NCI | Principal activities |
|---|---|---|---|---|
| A Limited | UK/Jersey | 100 | – | Insurance business |
| B Limited | UK/Jersey | 100 | – | Insurance business |
| XYZ Plc | UK | 49 | 51 | Building construction, civil and foundation engineering and investment holding |
| Red Limited | UK | 70 | 30 | |
| DEF Limited | South Africa/ Jersey | 45 | 55 | |

**IFRS12p12(f)** The total non-controlling interest for the period is C7,888, of which C5,127 is for XYZ Plc and C2,366 is attributed to DEF Limited. The non-controlling interest in respect of Red Limited is not material.

**IFRS12 p10(b)(i)**

### 4.2 Significant restrictions

These restrictions can be amended or removed by the shareholders of DEF Limited passing a special resolution.

Cash and short-term deposits of C1,894 are held in African countries (including South Africa) and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from those countries, other than through normal dividends.

The carrying amount of restricted assets that relate to DEF Ltd included within the consolidated financial statements to which the above restrictions apply is C3,895.

### 4.3 Summarised financial information on subsidiaries with material non-controlling interests

**IFRS12p12(g)** Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group.

*(All amounts in C thousands unless otherwise stated)*

IFRS12p12(g)

## Summarised balance sheet

| | XYZ Plc | | DEF Limited | |
|---|---|---|---|---|
| | As at 31 December | | As at 31 December | |
| | **2012** | 2011 | **2012** | 2011 |
| Current | | | | |
| Assets | **13,290** | 9,828 | **19,935** | 14,742 |
| Liabilities | **(3,009)** | (2,457) | **(4,514)** | (3,686) |
| Total current net assets | **10,281** | **7,371** | **15,421** | **11,056** |
| Non-current | | | | |
| Assets | **6,672** | 6,357 | **10,008** | 9,536 |
| Liabilities | **(2,565)** | (1,161) | **(3,848)** | (1,742) |
| Total non-current net assets | **4,107** | **5,196** | **6,160** | **7,794** |
| Net assets | **14,388** | **12,567** | **21,581** | **18,850** |

## Summarised income statement

| | XYZ Plc | | DEF Limited | |
|---|---|---|---|---|
| | As at 31 December | | As at 31 December | |
| | **2012** | 2011 | **2012** | 2011 |
| Revenue | **19,602** | 17,883 | **29,403** | 26,825 |
| Profit before income tax | **4,218** | 4,407 | **6,327** | 6,611 |
| Income tax expense/income | **(2,292)** | (3,111) | **(3,438)** | (4,667) |
| Post-tax profit from continuing operations | **1,926** | 1,296 | **2,889** | 1,944 |
| Post-tax profit from discontinued operations | **–** | – | **23** | 19 |
| Other comprehensive income | **369** | 330 | **554** | 495 |
| Total comprehensive income | **2,295** | 1,626 | **3,443** | 2,439 |
| Profit/(loss) allocated to NCI | **982** | 661 | **1,589** | 1,069 |
| Dividends paid to NCI | **130** | 89 | **150** | 130 |

*(All amounts in C thousands unless otherwise stated)*

IFRS12pB10b

## Summarised cash flows

| | XYZ Plc | DEF Limited |
|---|---|---|
| | 31 December 2012 | 31 December 2012 |
| **Cash flows from operating activities** | | |
| Cash generated from operations | 3,854 | 10,586 |
| Interest paid | (23) | (1,958) |
| Income tax paid | (84) | (2,842) |
| Net cash generated from operating activities | **3,747** | **5,786** |
| **Cash flows from investing activities** | | |
| Purchase of PPE | – | (475) |
| Proceeds from disposal of intangible asset | 156 | 250 |
| Purchase of AFS asset | (374) | – |
| Net cash used in investing activities | **(218)** | **(225)** |
| **Cash flows from financing activities** | | |
| Debt repayment | – | (873) |
| Proceeds from borrowings | 500 | 1,000 |
| Net cash used in financing activities | **500** | **127** |
| **Net (decrease)/increase in cash and cash equivalents** | **4,029** | **5,688** |
| Cash, cash equivalents and bank overdrafts at beginning of year | 576 | 4,576 |
| Exchange gains/(losses) on cash and cash equivalents | (56) | 38 |
| Cash and cash equivalents at end of year | **4,549** | **10,302** |

IFRS12pB11

The information above is the amount before inter-company eliminations.

### 4.4 Disposal of interest in Red Limited without loss of control

IFRS12p18

On 5 September 2012, the Company disposed of a 10% interest out of the 80% interest held in Red Limited at a consideration of C1,100. The carrying amount of the non-controlling interests in Red Limited on the date of disposal was C2,000 (representing 20% interest). This resulted in an increase in non-controlling interests of C1, 000 and an increase in equity attributable to owners of the parent of C100. The effect of changes in the ownership interest of Red Limited on the equity attributable to owners of the Company during the year is summarised as follows:

| | **2012** | 2011 |
|---|---|---|
| Carrying amount of group's interest disposed of | (1,000) | – |
| Consideration received from non-controlling interests | 1,100 | – |
| Gain on disposal recorded within parent's equity | 100 | – |

There were no transactions with non-controlling interests in 2011.

*(All amounts in C thousands unless otherwise stated)*

### 4.5 Effects of changes in ownership interests in subsidiaries that do not result in loss of control

*(c) Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the year ended 31 December 2012*

| | **2012** | 2011 |
|---|---|---|
| Changes in equity attributable to shareholders of the Company arising from: | | |
| – Disposal of interests in Red Limited without loss of control | 100 | – |

## IFRS 12 requirements relating to joint arrangements that are accounted for in accordance with IFRS 11

The main assumptions applied in this section of the illustrative appendix are as follows:

- IFRS GAAP plc decided to early adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 (as amended in 2011).
- The group has two joint ventures but no joint operations and no associates.
- Both joint ventures have the same year end as IFRS GAAP plc. [IFRS 12 p22(b)].
- Neither of the group's investments in the joint ventures are impaired and there are no unrecognised losses in respect of those investments.
- There are no significant restrictions on the joint ventures ability to transfer funds to IFRS GAAP plc.
- There have been no changes to the facts and circumstances during the period that require reassessment of the classification of the joint ventures and no changes to the ownership interests in the periods presented.

*(All amounts in C thousands unless otherwise stated)*

## Consolidated balance sheet

| | | | Group | | |
|---|---|---|---|---|---|
| | | Note | 2012 | As at 31 December 2011 (restated) | As at 1 January 2011 (restated) |
| 1p10(a), p113 | **Assets** | | | | |
| 1p60, 66 | **Non-current assets** | | | | |
| 1p54(a) | Property, plant and equipment | 6 | **160,341** | 105,233 | 86,738 |
| 1p54(c) | Intangible assets | 7 | **26,272** | 20,700 | 16,937 |
| 1p54(e) | Investments in joint ventures accounted for using the equity method | 8 | **5,276** | 3,809 | 2,932 |
| 1p54(o), p56 | Deferred income tax assets | 23 | **3,520** | 3,321 | 2,823 |
| 1p54(d), IFRS7p8(d) | Available-for-sale financial assets | 10 | **17,420** | 14,910 | 12,674 |
| 1p54(d), IFRS7p8(a) | Derivative financial instruments | 11 | **395** | 245 | 208 |
| 1p54(h), IFRS7p8(c) | Trade and other receivables | 12 | **2,322** | 1,352 | 1,149 |
| | | | **215,546** | 149,570 | 123,461 |
| 1p60, 1p66 | **Current assets** | | | | |
| 1p54(g) | Inventories | 13 | **24,700** | 18,182 | 14,530 |
| 1p54(h), IFRS7p8(c) | Trade and other receivables | 12 | **19,765** | 18,330 | 14,898 |
| 1p54(d), IFRS7p8(d) | Available-for-sale financial assets | 10 | **1,950** | – | – |
| 1p54(d), IFRS7p8(a) | Derivative financial instruments | 11 | **1,069** | 951 | 808 |
| 1p54(d), IFRS7p8(a) | Financial assets at fair value through profit or loss | 14 | **11,820** | 7,972 | 6,776 |
| 1p54(i), IFRS7p8 | Cash and cash equivalents (excluding bank overdrafts) | 15 | **17,928** | 34,062 | 28,761 |
| | | | **77,232** | 79,497 | 65,773 |
| IFRS5p38, p40 | Assets of disposal group classified as held for sale | 16 | **3,333** | – | – |
| | | | **80,565** | 79,497 | 65,773 |
| | **Total assets** | | **296,111** | 229,067 | 189,234 |

*(All amounts in C thousands unless otherwise stated)*

| | | | Group | | |
|---|---|---|---|---|---|
| | | | | As at 31 December | As at 1 January |
| | | | | 2011 | 2011 |
| | | Note | 2012 | (restated) | (restated) |
| | **Equity and liabilities** | | | | |
| 1p54(r) | Equity attributable to equity holders of the company | | | | |
| 1p78(e), p54(r) | Ordinary shares | 17 | **17,850** | 17,850 | 17,850 |
| 1p78(e), p55 | Share premium | 17 | **8,920** | 8,920 | 8,920 |
| 1p78(e), p54(r) | Other reserves | 20 | **7,193** | 6,407 | 5,954 |
| 1p78(e), p55 | Retained earnings | 19 | **94,713** | 51,334 | 36,623 |
| | **Total equity** | | **128,676** | 84,511 | 69,347 |
| | **Liabilities** | | | | |
| 1p60,69 | **Non-current liabilities** | | | | |
| 1p54(m), IFRS7p8(f) | Borrowings | 22 | **115,121** | 96,346 | 79,662 |
| 1p54(m), IFRS7p8(e) | Derivative financial instruments | 11 | **135** | 129 | 110 |
| 1p54(o), p56 | Deferred income tax liabilities | 23 | **12,370** | 9,053 | 7,695 |
| 1p54(l), p78(d) | Retirement benefit obligations | 24 | **4,635** | 2,233 | 1,898 |
| 1p54(l), p78(d) | Provisions for other liabilities and charges | 25 | **1,320** | 274 | 323 |
| | | | **133,581** | 108,035 | 89,688 |
| 1p60, p69 | **Current liabilities** | | | | |
| 1p54(k), IFRS7p8(f) | Trade and other payables | 21 | **16,670** | 12,478 | 10,419 |
| 1p54(n) | Current income tax liabilities | | **2,566** | 2,771 | 2,266 |
| 1p54(m), IFRS7p8(f) | Borrowings | 22 | **11,716** | 18,258 | 14,977 |
| 1p54(m), IFRS7p8(e) | Derivative financial instruments | 11 | **460** | 618 | 525 |
| 1p54(l) | Provisions for other liabilities and charges | 25 | **2,222** | 2,396 | 2,012 |
| | | | **33,634** | 36,521 | 30,199 |
| IFRS5p38, 1p54(p) | Liabilities of disposal group classified as held-for-sale | 16 | **220** | – | – |
| | | | **33,854** | 36,521 | 30,199 |
| | **Total liabilities** | | **167,435** | 144,556 | 119,887 |
| | **Total equity and liabilities** | | **296,111** | 229,067 | 189,234 |

The notes to pages 19 to 109 are an integral part of these consolidated financial statements.

*(All amounts in C thousands unless otherwise stated)*

## Statement of comprehensive income

| | | For the period ended 31 December 2012 | For the period ended 31 December 2011 (restated) |
|---|---|---|---|
| 1p82(a) | Revenue | **184,147** | 153,801 |
| | Operating expenses | **(91,541)** | (97,791) |
| 1p82(b) | Finance costs | **(6,070)** | (5,072) |
| 1p82(c) | Share of profit of investments accounted for using the equity method | **1,467** | 877 |
| | Profit before tax | **88,003** | 51,815 |
| 1p82(d), 12p77 | Tax expense | **(44,644)** | (37,104) |
| IFRS5p33a) | Profit for the period from continuing operations | **43,359** | 14,711 |
| | Profit on discontinued operations | **20** | – |
| | Profit for the period | **43,379** | 14,711 |
| | **Other comprehensive income** | | |
| IFRS7p20(a)(ii) | Gain on available for sale financial assets | **786** | 453 |
| | Total comprehensive income | **44,165** | 15,164 |

The notes to pages 19 to 109 are an integral part of these consolidated financial statements

## Statement of cash flows

| | | For the period ended 31 December 2012 | For the period ended 31 December 2011 (restated) |
|---|---|---|---|
| | **Cash flows from operating activities** | **109,840** | 66,789 |
| 7p31 | Interest paid | **(6,070)** | (5,072) |
| 7p35 | Income tax paid | **(41,731)** | (35,739) |
| | **Net cash from operating activities** | **62,039** | 25,978 |
| 7p21, | **Cash flows from investing activities** | | |
| 7p16(a) | Purchase of property, plant and equipment | **(69,390)** | (32,364) |
| 7p16(a) | Acquisition of intangible assets | **(9,175)** | (4,778) |
| 7p16(c) | Purchase of financial instruments | **(11,841)** | (3,500) |
| | | **(90,406)** | (40,642) |
| | **Cash flows from financing activities:** | | |
| 7p17(c) | – Proceeds from borrowings | **12,233** | 19,965 |
| | **Net movement in cash flows** | **(16,134)** | 5,301 |
| | **Cash balance at beginning of period** | **34,062** | 28,761 |
| | **Cash balance at end of period** | **17,928** | 34,062 |

The notes to pages 19 to 109 are an integral part of these consolidated financial statements.

*(All amounts in C thousands unless otherwise stated)*

## 2 Summary of significant accounting policies

Only the extracts relevant to joint arrangements are given below.

1p119

### Consolidation

*(c) Joint arrangements*

31p57

Prior to 1 January 2012, the group's interests in jointly controlled entities were proportionately consolidated.

### Changes in accounting policy

8p28(a)

The group has early adopted IFRS 11, 'Joint arrangements', on 1 January 2012. This resulted in the group changing its accounting policy for its interests in joint arrangements. IFRS GAAP plc also adopted IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interests in other entities', and consequential amendments to IAS 28, 'Investments in associates and joint ventures' and IAS 27, 'Separate financial statements', at the same time.

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. IFRS GAAP plc has assessed the nature of its joint arrangements and determined them to be joint ventures.

## Commentary – venture capital organisations and mutual funds

Venture capital organisations or mutual funds, unit trusts and similar entities may also designate investments in joint ventures as at fair value through profit or loss. As IFRS GAAP plc does not meet these criteria, it must use the equity method to account for its joint ventures.

IFRS11pC2

The group has applied the new policy for interests in joint ventures occurring on or after 1 January 2011 in accordance with the transition provisions of IFRS 11. The group recognised its investment in joint ventures at the beginning of the earliest period presented (1 January 2011), as the total of the carrying amounts of the assets and liabilities previously proportionately consolidated by the group. This is the deemed cost of the group's investments in joint ventures for applying equity accounting.

28p10

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

IFRS11pC2-3
28p28

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the

*(All amounts in C thousands unless otherwise stated)*

asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group. The change in accounting policy has been applied as from 1 January 2011. There is no impact on the net assets of the periods presented.

The effects of the change in accounting policies on the financial position, comprehensive income and the cash flows of the group at 1 January 2011 and 31 December 2011 are summarised below. The change in accounting policy has had no impact on earnings per share.

8p28(f)

## Commentary – extent of disclosures for the change in accounting policy

IAS 8, 'Accounting policies, changes in accounting estimates and errors', requires entities to disclose the amount of the adjustment to each financial statement line item due to the change in accounting policy. This information is not required to be presented in a table. IFRS GAAP plc has elected to give the information in this format for illustration, as a change in policy from proportional consolidation could potentially affect most of the line items in the financial statements.

*(All amounts in C thousands unless otherwise stated)*

## Impact of change in accounting policy on statement of financial position

8p28

| | As at 31 December 2012 | Change in accounting policy | As at 31 December 2012 as presented | As at 31 December 2011 (previously stated) | Change in accounting policy | As at 31 December 2011 (restated) | As at 1 January 2011 (previously stated) | Change in accounting policy | As at 1 January 2011 (restated) |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Property, plant and equipment | 164,941 | (4,600) | **160,341** | 109,243 | (4,010) | 105,233 | 90,198 | (3,460) | 86,738 |
| Intangible assets | 27,180 | (908) | **26,272** | 21,583 | (883) | 20,700 | 17,595 | (858) | 16,737 |
| Investments accounted for using the equity method | 0 | 5,276 | **5,276** | – | 3,809 | 3,809 | – | 2,932 | 2,932 |
| Deferred income tax asset | 3,520 | – | **3,520** | 3,321 | – | 3,321 | 2,823 | – | 2,823 |
| Available-for-sale financial assets | 17,420 | – | **17,420** | 14,910 | – | 14,910 | 12,674 | – | 12,674 |
| Derivative financial instruments | 395 | – | **395** | 245 | – | 245 | 208 | – | 208 |
| Trade and other receivables | 2,322 | – | **2,322** | 1,352 | – | 1,352 | 1,149 | – | 1,149 |
| | 215,778 | (232) | **215,546** | 150,654 | (1,084) | 149,570 | 124,647 | (1,386) | 123,261 |
| **Current assets** | | | | | | | | | |
| Inventories | 26,529 | (1,829) | **24,700** | 19,452 | (1,270) | 18,182 | 15,455 | (925) | 14,530 |
| Trade and other receivables | 21,620 | (1,855) | **19,765** | 19,448 | (1,118) | 18,330 | 15,581 | (683) | 14,898 |
| Available-for-sale financial assets | 1,950 | – | **1,950** | – | – | – | – | – | 0 |
| Derivative financial instruments | 1,069 | – | **1,069** | 951 | – | 951 | 808 | – | 808 |
| Financial assets at fair value through profit or loss | 11,820 | – | **11,820** | 7,972 | – | 7,972 | 6,776 | – | 6,776 |
| Cash and cash equivalents (excluding bank overdrafts) | 18,518 | (590) | **17,928** | 34,452 | (390) | 34,062 | 28,953 | (192) | 28,761 |
| | 81,506 | (4,274) | **77,232** | 82,275 | (2,778) | 79,497 | 67,573 | (1,800) | 65,773 |
| Assets of disposal group | 3,333 | – | **3,333** | – | – | – | – | – | – |
| | 84,839 | (4,274) | **80,565** | 82,275 | (2,778) | 79,497 | 67,573 | (1,800) | 65,773 |
| **Total assets** | **300,617** | **(4,506)** | **296,111** | **232,929** | **(3,862)** | **229,067** | **192,220** | **(3,186)** | **189,034** |

*(All amounts in C thousands unless otherwise stated)*

| | As at 31 December 2012 | Change in accounting policy | As at 31 December 2012 as presented | As at 31 December 2011 (previously stated) | Change in accounting policy | As at 31 December 2011 (restated) | As at 1 January 2011 (previously stated) | Change in accounting policy | As at 1 January 2011 (restated) |
|---|---|---|---|---|---|---|---|---|---|
| **Equity and liabilities** | | | | | | | | | |
| **Equity attributable to equity holders of the company** | | | | | | | | | |
| Ordinary shares | 17,850 | – | **17,850** | 17,850 | – | 17,850 | 17,850 | – | 17,850 |
| Share premium | 8,920 | – | **8,920** | 8,920 | – | 8,920 | 8,920 | – | 8,920 |
| Other reserves | 7,193 | – | **7,193** | 6,407 | – | 6,407 | 5,954 | – | 5,954 |
| Retained earnings | 94,713 | – | **94,713** | 51,334 | – | 51,334 | 36,623 | – | 36,623 |
| Total equity | 128,676 | – | **128,676** | 84,511 | – | 84,511 | 69,347 | – | 69,347 |
| **Liabilities** | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | |
| Borrowings | 118,342 | (3,221) | **115,121** | 99,100 | (2,754) | 96,346 | 81,894 | (2,232) | 79,662 |
| Derivative financial instruments | 135 | – | **135** | 129 | – | 129 | 110 | – | 110 |
| Deferred income tax liabilities | 12,370 | – | **12,370** | 9,053 | – | 9,053 | 7,695 | – | 7,695 |
| Retirement benefit obligations | 4,635 | – | **4,635** | 2,233 | – | 2,233 | 1,898 | – | 1,898 |
| Provisions for other liabilities and charges | 1,608 | (288) | **1,320** | 472 | (198) | 274 | 234 | (111) | 123 |
| | 137,090 | (3,509) | **133,581** | 110,987 | (2,952) | 108,035 | 91,831 | (2,343) | 89,488 |
| **Current liabilities** | | | | | | | | | |
| Trade and other payables | 16,991 | (321) | **16,670** | 12,719 | (241) | 12,478 | 10,606 | (187) | 10,419 |
| Current income tax liabilities | 2,665 | -99 | **2,566** | 2,864 | -93 | 2,771 | 2,355 | -89 | 2,266 |
| Borrowings | 12,268 | (552) | **11,716** | 18,805 | (547) | 18,258 | 15,519 | (542) | 14,977 |
| Derivative financial instruments | 460 | – | **460** | 618 | – | 618 | 525 | – | 525 |
| Provisions for other liabilities and charges | 2,247 | -25 | **2,222** | 2,425 | -29 | 2,396 | 2,037 | -25 | 2,012 |
| | 34,631 | (997) | **33,634** | 37,431 | (910) | 36,521 | 31,042 | (843) | 30,199 |
| Liabilities of disposal group | 220 | – | **220** | – | – | – | – | – | – |
| | 34,851 | (997) | **33,854** | 37,431 | (910) | 36,521 | 31,042 | (843) | 30,199 |
| **Total liabilities** | 171,941 | (4,506) | **167,435** | 148,418 | (3,862) | 144,556 | 122,873 | (3,186) | 119,687 |
| **Total equity and liabilities** | **300,617** | **(4,506)** | **296,111** | **232,929** | **(3,862)** | **229,067** | **192,220** | **(3,186)** | **189,034** |

*(All amounts in C thousands unless otherwise stated)*

## Impact of change in accounting policy on the statement of comprehensive income

8p28

| | For period ended 31 December 2012 | Impact of change in accounting policy | For period ended 31 December 2012 as presented | For period ended 31 December 2011 | Impact of change in accounting policy | For period ended 31 December 2011 (restated) |
|---|---|---|---|---|---|---|
| **Statement of comprehensive income** | | | | | | |
| Revenue | 195,957 | (11,810) | **184,147** | 165,380 | (11,579) | 153,801 |
| Operating expenses | (99,699) | 8,158 | **(91,541)** | -105,940 | 8,149 | (97,791) |
| Finance costs | (6,847) | 777 | **(6,070)** | (5,898) | 827 | (5,071) |
| Share of profit of investments accounted for using the equity method | – | 1,467 | **1,467** | – | 877 | 877 |
| Profit before tax | 89,411 | (1,408) | **88,003** | 53,542 | (1,726) | 51,816 |
| Tax expense | (46,052) | 1,408 | **(44,644)** | (38,830) | 1,727 | (37,104) |
| Profit for the period from continuing operations | 43,359 | – | **43,359** | 14,711 | – | 14,711 |
| Profit on discontinued operations | 20 | – | **20** | – | – | – |
| Profit for the period | 43,379 | – | **43,379** | – | – | – |
| Other comprehensive income | | – | | | | |
| Gain/loss on available for sale financial assets | 786 | – | **786** | 453 | – | 453 |
| Total comprehensive income | 44,165 | – | **44,165** | 15,164 | – | 15,164 |

*(All amounts in C thousands unless otherwise stated)*

## Impact of change in accounting policy on the statement of cash flows

8p28

| | For period ended 31 December 2012 | Impact of change in accounting policy | For period ended 31 December 2012 as presented | For period ended 31 December 2011 | Impact of change in accounting policy | For period ended 31 December 2011 (Restated) |
|---|---|---|---|---|---|---|
| **Statement of cash flows** | | | | | | |
| **Cash flows from operating activities** | 112,575 | (2,735) | **109,840** | 69,797 | (3,008) | 66,789 |
| Interest paid | (6,848) | 778 | **(6,070)** | (5,889) | 827 | (5,062) |
| Income tax paid | (43,134) | 1,403 | **(41,731)** | (37,462) | 1,723 | (35,739) |
| **Net cash from operating activities** | 62,593 | (554) | **62,039** | 26,446 | (458) | 25,988 |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (70,180) | 790 | **(69,390)** | (33,114) | 750 | (32,364) |
| Acquisition of intangible assets | (9,212) | 37 | **(9,175)** | (4,815) | 37 | (4,778) |
| Purchase of financial instruments | (11,841) | – | **(11,841)** | (3,500) | – | (3,500) |
| | (91,233) | 827 | **(90,406)** | (41,429) | 787 | (40,642) |
| **Cash flows from financing activities** | | | | | | |
| Proceeds from borrowings | 12,705 | (427) | **12,233** | 20,492 | 527 | 19,965 |
| **Net movement in cash flows** | (15,935) | (199) | **(16,134)** | 5,499 | (198) | 5,301 |

*(All amounts in C thousands unless otherwise stated)*

### 4.3 Critical accounting estimates and judgements

IFRS 12p7

#### Classification of joint arrangements

IFRS GAAP plc holds 50% of the voting rights of its joint arrangements. The group has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities.

The group's joint arrangements are structured as limited companies and provide the group and the parties to the agreements with rights to the net assets of the limited companies under the arrangements. Therefore, these entities are classified as joint ventures of the group

## Commentary – classification of joint arrangements

IFRS GAAP plc has straightforward joint venture agreements. However, determining the classification of a joint arrangement may require critical accounting judgement.

### 8 Interest in joint ventures

IFRS12p21(a)

Set out below are the joint ventures of the group as at 31 December 2012, which, in the opinion of the directors, are material to the group. The joint ventures as listed below have share capital consisting solely of ordinary shares, which are held directly by the group; the country of incorporation or registration is also their principal place of business.

#### Nature of investment in joint ventures 2012 and 2011

| Name of entity | Place of business/country of incorporation | %of ownership interest | Nature of the relationship | Measurement method |
|---|---|---|---|---|
| JV1 | United Kingdom | 50 | Note 1 | Equity |
| JV2 | Italy | 50 | Note 2 | Equity |

Note 1: JV1 provides products and services to the footwear industry in the UK. JV1 is a strategic partnership for the group, providing access to new technology and processes for its footware business.

Note 1: JV2 manufactures parts for the footwear industry and distributes its products globally. JV2 is strategic for the group's growth in the European market and provides the group with access to expertise in efficient manufacturing processes for its footwear business and access to key fashion trends.

IFRS12p21 (b)(iii)

JV1 and JV2 are private companies and there is no quoted market price available for their shares.

*(All amounts in C thousands unless otherwise stated)*

## Commentary – fair value of interest in joint venture

Where there is a quoted market price for an entity's investment in a joint venture, the fair value of that interest should be disclosed.

### Commitments and contingent liabilities in respect of joint ventures

**IFRS12p23(a)** The group has the following commitments relating to its joint ventures.

| | **2012** | 2011 |
|---|---|---|
| Commitment to provide funding if called | 100 | 100 |

**IFRS12p23(b)** There are no contingent liabilities relating to the group's interest in the joint ventures. JV 1 has a contingent liability relating to an unresolved legal case relating to a contract dispute with a customer. As the case is at an early stage in proceedings it is not possible to determine the likelihood or amount of any settlement should JV1 not be successful.

*(All amounts in C thousands unless otherwise stated)*

### Summarised statement of comprehensive income

| | | JV1 | | JV2 | | Total | |
|---|---|---|---|---|---|---|---|
| | | As at 31 December | | As at 31 December | | As at 31 December | |
| | | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **IFRS12p B12(b)(v)** | Revenue | 10,629 | 9,263 | 12,991 | 13,895 | 23,620 | 23,158 |
| **IFRS12pB13(d)** | Depreciation and amortisation | (191) | (175) | (233) | (254) | (424) | (429) |
| **IFRS12pB13(e)** | Interest income[1] | – | – | – | – | – | – |
| **IFRS12p B12(b)(vi)** | **Profit or loss from continuing operations** | **3,668** | **2,745** | **3,627** | **4,166** | **7,295** | **6,911** |
| **IFRS12p B13(e)(f)** | Interest expense | (700) | (662) | (855) | (992) | (1,555) | (1,654) |
| **IFRS12pB13(g)** | Income tax expense | (1,267) | (1,381) | (1,548) | (2,072) | (2,815) | (3,453) |
| **IFRS12p B12(b)(vi)** | **Post-tax profit from continuing operations** | 1,701 | 702 | 1,224 | 1,102 | 2,925 | 1,804 |
| **IFRS12p B12(b)(vii)** | **Post-tax profit from discontinued operations[1]** | – | – | – | – | – | – |
| **IFRS12p B12(b)(viii)** | **Other comprehensive income[1]** | – | – | – | – | – | – |
| **IFRS12p B12(b)(ix)** | **Total comprehensive income** | **1,701** | **702** | **1,224** | **1,102** | **2,925** | **1,804** |
| **IFRS12pb12(a)** | **Dividends received from joint venture or associate[1]** | – | – | – | – | – | – |

**IFRS12pB14** The information above reflects the amounts presented in the financial statements of the joint ventures (and not IFRS GAAP plc's share of those amounts) adjusted for differences in accounting policies between the group and the joint ventures.

## Commentary – summarised financial information

Summarised financial information is required for the group's interest in material joint ventures; however, IFRS GAAP plc has provided the total amounts voluntarily.

[1] Some of the line items above have a nil balance but have still been included for illustrative purposes only.

*(All amounts in C thousands unless otherwise stated)*

### Investment in joint ventures

| | JV1 | | JV2 | | Total | |
|---|---|---|---|---|---|---|
| **Investment in joint ventures** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| At 1 January | 1,524 | 1,173 | 2,285 | 1,759 | 3,809 | 2,932 |
| Share of profit | 850 | 351 | 617 | 526 | 1,467 | 877 |
| OCI[1] | – | – | – | – | – | – |
| **At 31 December** | **2,374** | **1,524** | **2,902** | **2,285** | **5,276** | **3,809** |

### Reconciliation of summarised financial information

IFRS12 pB14(b)

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint ventures.

| | JV1 | | JV2 | | Total | |
|---|---|---|---|---|---|---|
| **Summarised financial information** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| **Opening net assets 1 January** | **3,047** | **2,345** | **4,571** | **3,519** | **7,618** | **5,864** |
| Profit/(loss) for the period | 1,701 | 702 | 1,224 | 1,102 | 2,925 | 1,804 |
| OCI[1] | – | – | – | – | – | – |
| **Closing net assets** | **4,748** | **3,047** | **5,795** | **4,621** | **10,543** | **7,668** |
| Interest in JV @50% | 2,374 | 1,524 | 2,902 | 2,285 | 5,276 | 3,809 |
| Goodwill[1] | – | – | – | – | – | – |
| **Carrying value** | **2,374** | **1,524** | **2,902** | **2,285** | **5,276** | **3,809** |

[1] Some of the line items above have a nil balance but have still been included for illustrative purposes only.

*(All amounts in C thousands unless otherwise stated)*

# Appendix VIII – IFRS 13, 'Fair value measurement'

This appendix illustrates disclosures that will be required under IFRS 13 assuming the group held investment properties and biological assets that were measured at fair value as at 31 December 2012.

The disclosures here in relation to fair value of agricultural assets are based on IFRS 13 disclosures. IAS 41 has additional disclosure requirements which are not addressed here. Some of the IAS 41 disclosure requirements may also overlap with IFRS 13 requirements, in which case the IFRS 13 requirements may be satisfied by reference to the IAS 41 disclosures.

IFRS13p93 (a-b)

## Fair value hierarchy

| | Fair value measurements at 31 December 2012 using | | |
|---|---|---|---|
| | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| **Recurring fair value measurements** | | | |
| Investment properties: | | | |
| – Office buildings – UK | – | 25,012 | – |
| – Shopping malls – UK | – | 57,112 | – |
| – Shopping malls – US | – | 41,598 | – |
| – Shopping malls – Asia Pacific | – | 35,730 | 10,520 |
| Biological assets: | | | |
| – Salmon | – | 1,154 | – |
| – Palm oil plantation | – | – | 6,815 |

IFRS13p93(c) There were no transfers between levels 1 and 2 during the year.

IFRS13p93(d)

## Valuation techniques used to derive Level 2 fair values

Level 2 fair values of land, office buildings and shopping malls have been generally derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

There are no active markets for sale of live fish. Accordingly, the valuation of live fish under IFRS 13 requires the estimation of a selling price that can be obtained for live fish in a hypothetical market. For live fish exceeding 4kg, which are ready for harvesting, this is obtained by reference to selling prices of the most advantageous market for harvested fish (i.e. slaughtered and ready for sale) of similar quality and size, to which the Group has access. These selling prices are adjusted for incremental costs required to bring live fish to saleable condition, including harvesting costs and transport costs, to arrive at a net value that the farm will be able to obtain for its live fish.

For live fish between 1kg and 4kg, the above value is adjusted on a proportionate basis for the mass of the fish. The fair value of broodstock, smolt and live fish below 1 kg generally approximates accumulated cost.

*(All amounts in C thousands unless otherwise stated)*

IFRS13p93(e)

## Fair value measurements using significant unobservable inputs (Level 3)

| | | Shopping malls – Asia Pacific |
|---|---|---|
| | Opening balance | – |
| | Transfers to/(from) Level 3[1] | 9,302 |
| | Additions | 989 |
| | Gains and losses recognised in profit and loss | 229 |
| | Gains and losses recognised in other comprehensive income | – |
| | Closing balance | 10,520 |
| IFRS13p93 (e)(i) | Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period, under 'Other gains' | 229 |
| IFRS13p93 (f) | **Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period** | **103** |

| | | Palm oil plantation |
|---|---|---|
| | Opening balance | 4,312 |
| | Increases due to expenditure to planted areas | 1,503 |
| | Decreases due to harvest | (500) |
| | Gain in profit or loss arising from changes in fair value | 1,500 |
| | Closing balance | 6,815 |
| IFRS13p93 (e)(i) | Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period, under 'Other gains' | 1,500 |
| IFRS13p93(f) | **Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period** | **653** |

IFRS13p93d

Other than as described above, there were no changes in valuation techniques during the year.

IFRS13p93c, e(iv)

The group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

[1] The Group commenced redevelopment of a shopping mall in China during the year. The redevelopment will greatly expand the rental area of the property, and is expected to be completed in 2013. Prior to redevelopment, this property was valued using the sales comparison approach, which resulted in a level 2 fair value. Upon redevelopment, the Group had to revise its valuation technique for the property under construction. The revised valuation technique uses significant unobservable inputs. The fair value was therefore reclassified to level 3.

The revised valuation technique uses the sales comparison approach to derive the fair value of the completed property. The following were then deducted from the fair value of the completed property:

- estimated construction and other costs to completion that would be incurred by a market participant; and
- estimated profit margin that a market participant would require to hold and develop the property to completion, based on the state of the property as at 31 December 2012.

*(All amounts in C thousands unless otherwise stated)*

IFRS13p 93d, h(i)

## Information about fair value measurements using significant unobservable inputs (Level 3)

| Description | Fair value at 31 December 2012 (C in thousands) | Valuation technique(s) | Unobservable inputs[1] | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Shopping malls – Asia Pacific | 10,520 | Adjusted sales comparison approach | Estimated costs to completion | C2,780,000-C3,220,000 (2,900,000) | The higher the estimated costs, the lower the fair value. |
| | | | Estimated profit margin required to hold and develop property to completion | 10%-15% (14%) of property value | The higher the profit margin required, the lower the fair value. |
| Palm oil plantation | 6,815 | Discounted cash flows | Palm oil yield – tonnes per hectare | 20-30 (24) per year | The higher the palm oil yield, the higher the fair value |
| | | | Crude palm oil price | US$ 800-1100 (900) per tonne | The higher the market price, the higher the fair value. |
| | | | Palm Kernel Oil price | US$ 1000-1200 (1050) per tonne | |
| | | | Discount rate | 9%-11% (10.5%) | The higher the discount rate, the lower the fair value. |

IFRS13 p93g

## Valuation processes of the group

IFRS13 IE 65

The group's finance department includes a team that performs the valuations of non-property assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every quarter, in line with the group's quarterly reporting dates.

The fair value of oil palms excludes the land upon which the trees are planted or the fixed assets utilised in the upkeep planted areas. The biological process starts with preparation of land for planting seedlings and ends with the harvesting of crops in the form of fresh fruit bunches (FFB). Thereafter, crude palm oil and palm kernel oil is extracted from FFB. Consistently with this process, the fair value of oil palms is determined using a discounted cash flow model, by reference to the estimated FFB

[1] There were no significant inter-relationships between unobservable inputs that materially affect fair values.

*(All amounts in C thousands unless otherwise stated)*

crop harvest over the full remaining productive life of the trees of up to 20 years, applying an estimated produce value for transfer to the manufacturing process and allowing for upkeep, harvesting costs and an appropriate allocation of overheads. The estimated produce value is derived from a long term forecast of crude palm oil prices to determine the present value of expected future cash flows over the next 20 years. The estimated FFB crop harvest used to derive the fair value is derived by applying palm oil yield to plantation size.

The group engages external, independent and qualified valuers to determine the fair value of the group's properties at the end of every financial year. As at 31 December 2012, the fair values of the properties have been determined by ABC Property Surveyors Limited.

The main Level 3 inputs used by the group are derived and evaluated as follows:

- *Shopping mall – estimated costs to completion and profit margin required*
These are estimated by ABC Property Surveyors Limited based on market conditions as at 31 December 2012. The estimates are largely consistent with the budgets developed internally by the group based on management's experience and knowledge of market conditions.

- *Biological assets – palm oil yield and prices*
Palm oil prices are based on combination of the World Bank's long term forecasts and management's best estimate at each reporting date. Palm oil yields are based on historical yields achieved by management.

- *Discount rates*
The discount rate has been determined using a Capital Asset Pricing Model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Changes in level 2 and 3 fair values are analysed at each reporting date during the quarterly valuation discussions between the CFO, AC and the valuation team. As part of this discussion, the team presents a report that explains the reasons for the fair value movements.

*(All amounts in C thousands unless otherwise stated)*

## Appendix IX – IAS 1 (amendment), 'Statement of profit or loss and other comprehensive income'

Please refer to the main section of this publication for an illustrative example of a consolidated statement of comprehensive income under current IAS 1. Below we provide an excerpt of the other comprehensive income section under the new requirements using the amounts in the main section of this publication.

### Statement of profit or loss and other comprehensive income – illustration of new presentation requirements

| Reference | | 2012 | 2011 |
|---|---|---|---|
| | **Other comprehensive income:** | | |
| 1Rp82A | **Items that will not be reclassified to profit or loss:** | | |
| | Gains on revaluation of land and buildings | **755** | 759 |
| 1Rp91 | Actuarial loss on post employment benefit obligations | **–** | (494) |
| | | **755** | 265 |
| 1Rp82A | **Items that may be reclassified subsequently to profit or loss:** | | |
| | Currency translation differences | **2,413** | (1,111) |
| | Share of other comprehensive income of associates | **(86)** | 91 |
| 1Rp91 | Cash flow hedges | **64** | -3 |
| | Net investment hedge | **(45)** | 40 |
| | Impact of change in Euravian tax rate on deferred tax[1] | **(10)** | – |
| | Change in available-for-sale financial assets | **362** | 62 |
| | Revaluation of previously held interest in ABC Group | **(850)** | 850 |
| | | **1,848** | (71) |
| | **Other comprehensive income, net of tax** | **2,603** | 194 |

Items in the statement above are disclosed net of tax. The income tax relating to each item of other comprehensive income is disclosed in note 13.

## Commentary

The effective date is annual periods beginning on or after 1 July 2012 and the amendments may be early applied. The amendments are applied retrospectively, in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

The company may present items of other comprehensive income either net of related tax effect or before related tax effects. If the company chooses to present the items net of tax, the amount of income tax relating to each item of OCI is disclosed in the notes.

[1] The impact of change in Euravian tax rate is shown for illustrative purposes.