

International Financial Reporting Standards

Illustrative corporate consolidated financial statements – 2006



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International Financial Reporting Standards Illustrative corporate consolidated financial statements 2006

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.

For an illustrative set of financial statements for first-time adopters of IFRS, refer to the PricewaterhouseCoopers' publication 'Adopting IFRS: IFRS 1 – First time Adoption of International Financial Reporting Standards'.

This publication is based on the requirements of IFRS standards and interpretations for financial years beginning on or after 1 January 2006 and includes the disclosures required by IFRS 7 – Financial Instruments: Disclosures, and IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures, which were early adopted for the purposes of these illustrative financial statements. No other interpretations, standards and amendments were early adopted.

We have attempted to create a realistic set of financial statements for a corporate entity. Certain types of transaction have been excluded, as they are not relevant to the Group's operations. The example disclosures for some of these additional items have been included in Appendices III and IV. Other disclosure items and transactions have been included in other publications in the 'Illustrative' series. See inside front cover for details.

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 judgment as to fairness of presentation. They do not cover all possible disclosures that IFRS requires, nor do they take account of any specific legal framework. 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 2006. Additional accounting disclosures may be required in order to comply with local laws and/or stock exchange regulations.

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Format

The references in the left-hand margin of the financial statements represent the paragraph of the standard in which the disclosure appears – for example, ‘8p40’ indicates IAS 8 paragraph 40. The reference to IFR appears in full – for example ‘IFRS2p6’ indicates IFRS 2, paragraph 6. The designation ‘DV’ (disclosure voluntary) indicates that the relevant IAS or IFRS encourages, but does not require, the disclosure. Additional notes and explanations are shown in footnotes.

IFRS GAAP Plc

Consolidated financial statements

31 December 2006

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Certain items may not apply to a particular reporting entity. For example, if the reporting entity does not have material operating leases, disclosure of the accounting policy for operating leases does not need to be included (IAS1p108, 110).

Certain items that apply to an entity may have been excluded in these illustrative financial statements. Additional accounting policies have been included in Appendix III. Additional critical accounting estimates and judgments have been included in Appendix IV. Readers should refer to other PricewaterhouseCoopers publications where necessary.

Consolidated balance sheet

		As at 31 December		
1p68, 1p104, 1p36	Note	2006	2005	
ASSETS				
1p51 Non-current assets				
1p68(a)	Property, plant and equipment	6	155,341	98,670
1p68(c)	Intangible assets	7	25,422	19,600
1p68(e)	Investments in associates	8	13,373	13,244
1p68(n), 1p70	Deferred income tax assets	19	3,319	3,110
1p68(d), IFRS7p8(d)	Available-for-sale financial assets	9	17,420	14,910
1p68(d), IFRS7p8(a)	Derivative financial instruments	10	395	245
1p68(h), IFRS7p8(c)	Trade and other receivables	11	2,322	1,352
			<u>217,592</u>	<u>151,131</u>
1p51, 1p57 Current assets				
1p68(g)	Inventories	12	24,700	17,740
1p68(h), IFRS7p8(c)	Trade and other receivables	11	19,765	18,102
1p68(d), IFRS7p8(d)	Available-for-sale financial assets	9	1,950	–
1p68(d), IFRS7p8(a)	Derivative financial instruments	10	1,069	951
1p68(d), IFRS7p8(a)	Other financial assets at fair value through profit or loss	13	11,820	7,972
1p68(i), IFRS7p8	Cash and cash equivalents	14	22,228	36,212
			<u>81,532</u>	<u>80,977</u>
Total assets			<u>299,124</u>	<u>232,108</u>
EQUITY				
1p68(p) Capital and reserves attributable to equity holders of the Company				
1p75(e)	Ordinary shares	15	25,300	21,000
1p75(e)	Share premium	15	18,656	11,316
1p75(e)	Treasury shares	15	(2,564)	–
1p75(e)	Other reserves	16	14,699	7,005
1p75(e)	Retained earnings		77,347	57,291
			<u>133,438</u>	<u>96,612</u>
1p68(o)	Minority interest in equity		7,188	1,766
Total equity			<u>140,626</u>	<u>98,378</u>
LIABILITIES				
1p51 Non-current liabilities				
1p68(l), IFRS7p8(f)	Borrowings	18	108,315	88,336
1p68(l), IFRS7p8(e)	Derivative financial instruments	10	135	129
1p68(n), 1p70	Deferred income tax liabilities	19	12,370	9,053
1p68(k), 1p75(d)	Retirement benefit obligations	20	4,540	2,130
1p68(k), 1p75(d)	Provisions for other liabilities and charges	21	320	274
			<u>125,680</u>	<u>99,922</u>
1p51, 1p60 Current liabilities				
1p68(j), IFRS7p8(f)	Trade and other payables	17	17,670	12,374
1p68(m)	Current income tax liabilities		2,942	2,846
1p68(l), IFRS7p8(f)	Borrowings	18	9,524	15,670
1p68(l), IFRS7p8(e)	Derivative financial instruments	10	460	618
1p68(k)	Provisions for other liabilities and charges	21	2,222	2,300
			<u>32,818</u>	<u>33,808</u>
Total liabilities			<u>158,498</u>	<u>133,730</u>
Total equity and liabilities			<u>299,124</u>	<u>232,108</u>

The notes on pages 10 to 57 are an integral part of these consolidated financial statements.

Consolidated income statement – by function of expense

1p81-83, 1p92, 1p36		Year ended 31 December		
1p104		Note	2006	2005
1p81(a)	Revenue	5	211,034	112,360
1p92	Cost of sales		(77,366)	(46,682)
1p92	Gross profit		133,668	65,678
1p81(a), 92	Distribution costs		(52,140)	(21,213)
1p92	Administrative expenses		(28,786)	(10,434)
1p92	Other income	23	3,080	2,379
1p83	Other (losses)/gains – net	22	(90)	63
1p83	Loss on expropriated land	24	(1,117)	–
1p83	Operating profit		54,615	36,473
1p83	Finance income	27	550	489
1p81(b)	Finance costs	27	(7,623)	(11,549)
1p83	Finance costs – net	27	(7,073)	(11,060)
1p81(c)	Share of (loss)/profit of associates	8	(174)	145
1p92	Profit before income tax		47,368	25,558
1p81(d), 12p77	Income tax expense	28	(14,792)	(8,865)
1p81(f)	Profit for the year		32,576	16,693
1p82	Attributable to:			
1p82(b)	Equity holders of the Company		30,028	15,837
1p82(a)	Minority interest		2,548	856
			32,576	16,693
33p66	Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in C per share)			
	– basic	30	1.28	0.77
	– diluted	30	1.16	0.73

The notes on pages 10 to 57 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

1p96, 1p97, 1p36 1p104	Note	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital	Other reserves	Retained earnings	Total			
1p97(c)		Balance at 1 January 2005						
1p96(b)								
16p77(f)								
IFRS7P20(A)(ii)								
1p96(b), 16p41								
1p96(b)								
1p96(b)								
1p96(b), 39p102(a)								
1p96(b),								
1p96(b)								
1p96(a)								
1p96(c)								
1p97(a)								
IFRS2p50								
IFRS2p50								
1p97(a)								
1p97(c)								
1p97(c)								
1p96(b)								
IFRS7p20(a)(ii)								
1p96(b), 16p41								
1p96(b)								
1p96(b)								
1p96(b), 39p102(a)								
1p96(b), 21p52(b)								
1p96(b)								
1p96(a)								
1p96(c)								

The notes on pages 10 to 57 are an integral part of these consolidated financial statements.

¹ IAS16p77(f) requires disclosure of any restrictions on the distribution of the land and buildings fair value reserve to shareholders.

² 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.

Consolidated statement of changes in equity (continued)

1p97(a)	Employee share option scheme:								
IFRS2p50	– value of employee services	15	690 ¹	–	–	690	–	690	
IFRS2p50	– proceeds from shares issued	15	950	–	–	950	–	950	
1p97(a)	Issue of share capital – business combination	15	10,000	–	–	10,000	–	10,000	
1p97(a)	Purchase of treasury shares	15	(2,564)	–	–	(2,564)	–	(2,564)	
1p97(a), 32p28	Convertible bond – equity	16	–	5,433	–	5,433	–	5,433	
1p97(a)	Dividend relating to 2005	31	–	–	(10,102)	(10,102)	(1,920)	(12,022)	
1p97(a)	Minority interest arising on business combinations	35	–	–	–	–	4,542	4,542	
			9,076	5,433	(10,102)	4,407	2,622	7,029	
1p97(c)	Balance at 31 December 2006		<u>41,392</u>	<u>14,699</u>	<u>77,347</u>	<u>133,438</u>	<u>7,188</u>	<u>140,626</u>	

The notes on pages 10 to 57 are an integral part of these consolidated financial statements.

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.

Consolidated cash flow statement

7p10, 18(b), 1p36 1p104		Note	Year ended 31 December	
			2006	2005
Cash flows from operating activities				
	Cash generated from operations	32	53,423	41,576
7p31	Interest paid		(7,835)	(14,125)
7p35	Income tax paid		(14,317)	(10,974)
	Net cash generated from operating activities		34,082	16,477
Cash flows from investing activities				
7p21, 7p10	Acquisition of subsidiary, net of cash acquired	35	(3,950)	–
7p39	Purchases of property, plant and equipment (PPE)	6	(9,755)	(6,042)
7p16(b)	Proceeds from sale of PPE	32	6,354	2,979
7p16(a)	Purchases of intangible assets	7	(3,050)	(700)
7p16(c)	Purchases of available-for-sale financial assets	9	(2,781)	(1,126)
7p16(e)	Loans granted to associates	36	(1,000)	(50)
7p16(f)	Loan repayments received from associates	36	14	64
7p31	Interest received		1,254	1,193
7p31	Dividends received		1,180	1,120
	Net cash used in investing activities		(11,734)	(2,562)
Cash flows from financing activities				
7p21, 7p10	Proceeds from issuance of ordinary shares	15	950	1,070
7p17(a)	Purchase of treasury shares	15	(2,564)	–
7p17(b)	Proceeds from issuance of convertible bonds	18	50,000	–
7p17(c)	Proceeds from issuance of redeemable preference shares	18	–	30,000
7p17(c)	Proceeds from borrowings		8,500	18,000
7p17(d)	Repayments of borrowings		(75,967)	(32,524)
7p31	Dividends paid to Company's shareholders		(10,102)	(15,736)
7p31	Dividends paid to holders of redeemable preferences shares		(1,950)	(1,950)
7p31	Dividends paid to minority interests		(1,920)	(550)
	Net cash used in financing activities		(33,053)	(1,690)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts			(10,705)	12,225
Cash, cash equivalents and bank overdrafts at beginning of the year		14	29,748	17,587
Exchange gains/(losses) on cash and bank overdrafts			535	(64)
Cash, cash equivalents and bank overdrafts at end of the year		14	19,578	29,748

The notes on pages 10 to 57 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

- 1p126(b)(c)** IFRS GAAP Plc ('the Company') and its subsidiaries (together 'the Group') manufactures, distributes and sells shoes through a network of independent retailers. The Group has manufacturing plants around the world and sells mainly in countries within the 'Currency-zone', the US and the UK. During the year, the Group acquired control of 'Your Shoes Group', a shoe and leather goods retailer operating in the US and most western European countries.
- 1p46(a)(b)**
- 1p126(a)** The Company is a limited liability company incorporated and domiciled in Euravia. The address of its registered office is Nice Walk Way, Runningbourg.
- The Company has its primary listing on the EuroMoney stock exchange.
- 10p17** These group consolidated financial statements were authorised for issue by the Board of Directors on 28 March 2007.

2. Summary of significant accounting policies

- 1p103(a)** 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.
- 1p108(b), 1p110**

2.1 Basis of preparation

- 1p14** The consolidated financial statements of IFRS GAAP Plc have been prepared in accordance with International Financial Reporting Standards (IFRS). 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.
- 1p108(a)**

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

- 8p28** *(a) Amendments to published standards effective in 2006*
IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

- 8p28** *(b) Standards early adopted by the Group*
IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, were early adopted in 2006. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

Notes to the consolidated financial statements (continued)*(c) Standards, amendments and interpretations effective in 2006 but not relevant*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease; and
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;

8p30*(d) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's accounts; and
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

DV*(e) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations; and
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

Notes to the consolidated financial statements (continued)**1p110 2.2 Consolidation****27p12** (a) *Subsidiaries*

27p14 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.

27p30 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.

IFRS3p14 The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

IFRS3p24

IFRS3p28

IFRS3p36, 37

IFRS3p51

IFRS3p56

27p24 Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

27p28

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

1p110 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 and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (see Note 2.6).

28p13

28p11

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

28p29 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 obligations or made payments on behalf of the associate.

28p30

28p22 Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also 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.

28p26

Dilution gains and losses in associates are recognised in the income statement².

1p110 2.3 Segment reporting

14p9 A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

¹ These consolidated financial statements are prepared on the basis of the 'parent-company model'. Refer to Appendix III for the appropriate accounting policy if the economic entity model is applied.

² Entities may alternatively adopt an accounting policy to recognise dilution gains or losses in equity.

Notes to the consolidated financial statements (continued)**1p110 2.4 Foreign currency translation****1p110** (a) *Functional and presentation currency*

21p17 Items included in the financial statements of each of the Group's entities are measured using the
21p9, 18 currency of the primary economic environment in which the entity operates ('the functional currency').
1p46(d) The consolidated financial statements are presented in 'Currency' ('C'), which is the Company's functional and presentation currency.

1p110 (b) *Transactions and balances*

21p21, 28 Foreign currency transactions are translated into the functional currency using the exchange rates
21p32 prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the
39p95(a) settlement of such transactions and from the translation at year-end exchange rates of monetary
39p102(a) assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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 the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

21p30 Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. 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 the available-for-sale reserve in equity.

1p110 (c) *Group companies*

21p39 The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- 21p39(a)** • assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 21p39(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
- 21p39** • all resulting exchange differences are recognised as a separate component of equity.

1p76(b) On consolidation, exchange differences arising from the translation of the net investment in foreign
21p39(c) operations, and of borrowings and other currency instruments designated as hedges of such
39p102 investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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.

1p110 2.5 Property, plant and equipment

16p73(a) Land and buildings comprise mainly factories, retail outlets and offices. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. 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 equipment¹.

¹ Management may choose to keep these gains/losses in equity until the acquired asset affects profit or loss. At this time, management should reclassify the gains/losses in profit or loss.

Notes to the consolidated financial statements (continued)

- 16p12**
39p98(b) 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.
- 16p39**
1p76(b) Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged 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.
- 16p40**
16p41
- 16p73(b), 50**
16p73(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 each balance sheet date.
- 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**
16p41 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. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.
- 1p110** **2.6 Intangible assets**
- 1p110** *(a) Goodwill*
- IFRS3p51**
38p118(a) Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance.
- IFRS3p54**
36p124 Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
- 36p80** Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. IFRS GAAP Plc allocates goodwill to each business segment in each country in which it operates (Note 2.7).
- 1p110** *(b) Trademarks and licences*
- 38p74**
38p97
38p118(a)(b) Acquired trademarks and licences are shown at historical cost. 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 (15-20 years).
- 1p110** *(c) Computer software*
- 38p4** 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 (three to five years).

Notes to the consolidated financial statements (continued)

38p4, 28, 66, 67	Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.
38p97 38p118(a)(b)	Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).
1p110 36p9 36p10	<p>2.7 Impairment of non-financial assets</p> <p>Assets that have an indefinite useful life, for example land, 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.</p>
1p110 IFRS7p21 39p9	<p>2.8 Financial assets</p> <p>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.</p>
39p9	<p><i>(a) Financial assets at fair value through profit or loss</i></p> <p>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.</p>
1p57, 59	Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.
39p9 1p57, 59	<p><i>(b) Loans and receivables</i></p> <p>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 balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.11).</p>
39p9 1p57, 59 IFRS7 AppxB5(b)	<p><i>(c) Available-for-sale financial assets</i></p> <p>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 management intends to dispose of the investment within 12 months of the balance sheet date.</p>
39p38, IFRS7 AppxBp5(c) 39p43	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 carried at amortised cost using the effective interest method.
39p16 39p46	
39p55(a) IFRS7 AppxBp5(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.

Notes to the consolidated financial statements (continued)

- 39p55(b)** Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.
- IFRS7**
- AppxBp5(e)**
- 39AG83**
- 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.
- 39p67** Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other 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.
- IFRS7p27(a)**
- 39AG72, 73**
- The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.
- 39AG74**
- 39p58**
- 39p67**
- 39p68**
- IFRS7**
- AppxBp5(f)**
- The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities 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 the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.
- 39p69** Impairment testing of trade receivables is described in Note 2.11.
- 1p110, 2.9 Derivative financial instruments and hedging activities**
- IFRS7p21** Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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:
- IFRS7p22**
- (a) hedges of the fair value of recognised liabilities (fair value hedge);
- (b) hedges of a particular risk associated with a recognised 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, 24** The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10. Movements on the hedging reserve in shareholders' equity are shown in Note 16. 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; it is classified 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.
- 39p89** *(a) Fair value hedges*
- 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 applies only fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest

Notes to the consolidated financial statements (continued)

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 hedge 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*
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other gains/(losses) – net.
- 39p99,100** Amounts accumulated in equity are recycled in the income statement 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 costs. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within sales. 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 case of inventory, or in depreciation in case of fixed assets.
- 39p98(b)**
- 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. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other gains/(losses) – net.
- Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.
- 39p55(a)** *(d) Derivatives at fair value through profit or loss*
Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains/(losses) – net.
- 1p110** **2.10 Inventories**
2p36(a), 9 Inventories are stated at the lower of cost and net realisable value. Cost is determined using
2p10, 25 the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design
23p6, 7 costs, raw materials, direct labour, other direct costs and related production overheads (based on
2p28, 30 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 purchases of raw materials¹.
- 39p98(b)**

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

Notes to the consolidated financial statements (continued)

1p110, IFRS7p21 39p43, 39p46(a) 39p59 IFRS7 AppxBp5(f)	2.11 Trade receivables	Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.
1p110, IFRS7p21 7p45	2.12 Cash and cash equivalents	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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.
1p110, IFRS7p21 32p18(a)	2.13 Share capital	Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (Note 2.15).
32p37		Incremental costs directly attributable to the issue of new 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 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.
1p110, IFRS7p21 39p43, 47	2.14 Trade payables	Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.
1p110, IFRS7p21 39p43 39p47	2.15 Borrowings	Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated 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.
32p18(a)		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.
IFRS7p27(a) 32p18, 28 32AG31		The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of tax.
1p60		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 balance sheet date.

Notes to the consolidated financial statements (continued)

1p110	2.16 Deferred income tax
12p24 12p15	Deferred income tax is provided in full, 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, the 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 substantially 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.
12p47	
12p24, 34	Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.
12p39, 44	Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except 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.
1p110	2.17 Employee benefits
1p110	<i>(a) Pension obligations</i>
19p27 19p25 19p120A(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	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 balance sheet date less the fair value of plan assets,
19p80	together with adjustments for unrecognised actuarial gains or losses and 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 liability.
19p93 19p120A(a)	Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives ¹ .
	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.
1p110 19p120A(a) 19p120A(b)	<i>(b) Other post-employment obligations</i> 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 in excess of the greater of 10% of the value of plan assets or 10% of the defined

¹ Illustrative financial statements for an entity that adopts a policy of immediate recognition in a statement of recognised income and expense are included in Appendix II.

Notes to the consolidated financial statements (continued)

benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees¹. These obligations are valued annually by independent qualified actuaries.

1p110 (c) *Share-based compensation*
IFRS2p15(b)
IFRS2p19 The Group operates a number of equity-settled, share-based compensation plans. 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 over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1p110 (d) *Termination benefits*
19p133 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 either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

1p110 (e) *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.

1p110 2.18 Provisions

37p14
37p72
37p63 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.

1p110 2.19 Revenue recognition

18p35(a) Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

¹ Illustrative financial statements for an entity that adopts a policy of immediate recognition in a statement of recognised income and expense are included in Appendix II.

Notes to the consolidated financial statements (continued)

- 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.
- 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.
- 18p20** *(c) Sales of services*
The Group sells design services and transportation services to other shoe manufacturers. These services are provided on a time and material basis or as a fixed-price contract, with contract terms generally ranging from less than one year to three years.
- Revenue from time and material contracts, typically from delivering design services, is recognised at the contractual rates as labour hours are delivered and direct expenses incurred.
- Revenue from fixed-price contracts for delivering design services is recognised under the percentage-of-completion (POC) method. Under the POC method, revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.
- Revenue from fixed-price contracts for delivering transportation services is generally recognised in the period the services are provided, using a straight-line basis over the term of the contract.
- If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.
- 18p30(a)** *(d) Interest income*
Interest income is recognised on a time-proportion basis using the effective interest method. When a 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 loans is recognised using the original effective interest rate.
- 39p93**
- 18p30(b)** *(e) Royalty income*
Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements.
- 18p30(c)** *(f) Dividend income*
Dividend income is recognised when the right to receive payment is established.

Notes to the consolidated financial statements (continued)

1p110	2.20 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.
1p110	2.21 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.

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) <i>Market risk</i> (i) <i>Foreign exchange risk</i>
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), 22(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% (2005: 95%) of projected sales in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.
39p73	For segment reporting purposes, each subsidiary designates contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated at group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.
IFRS7p33(a)(b) IFRS7p22(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, IG36	At 31 December 2006, if the euro 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 (2005: 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-

Notes to the consolidated financial statements (continued)

denominated borrowings. Profit is more sensitive to movement in Currency/US dollar exchange rates in 2006 than 2005 because of the increased amount of US-dollar denominated borrowings. Equity would have been C542 (2005: C157) lower/higher, arising mainly from foreign exchange losses/gains on translation of US dollar-denominated equity securities classified as available for sale. Equity is more sensitive to movement in Currency/US dollar exchange rate in 2006 than 2005 because of the increased amount of US dollar-denominated equity securities classified as available for sale.

At 31 December 2006, 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 (2005: 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 equity investments are publicly traded and are included in one of the following three equity indexes: DAX equity index, Dow Jones equity index and FTSE-100 UK equity index.

IFRS7p40, IG36

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.

Index	Impact on post-tax profit in C		Impact on equity in C	
	2006	2005	2006	2005
DAX	200	120	290	290
Dow Jones	150	120	200	70
FTSE-100 UK	60	300	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. 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

IFRS7p33(a) As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

IFRS7p33(a)(b)**IFRS7p22(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. 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 using interest rate swaps to achieve this when necessary. During 2006 and 2005, the Group's borrowings at variable rate were denominated in the Currency and the UK pound.

IFRS7p33(a)(b)

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 profit or loss of a 10 basis-point shift would be a maximum increase of C41 (2005: C37) or decrease of C34 (2005: 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.

Notes to the consolidated financial statements (continued)

- 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 IG36** At 31 December 2006, 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 (2005: C21) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been C5 (2005: 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 and the cash flow hedges of borrowings as described above. At 31 December 2006, if interest rates on UK pound-denominated borrowings at that date had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been C57 (2005: C38) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been C6 (2005: 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, and the cash flow hedges of borrowings as described above.

(b) Credit risk

- IFRS7p33(a)(b)**
IFRS7p34(a) Credit risk is managed on a group basis. 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. Otherwise, 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 are regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

The table below shows the credit limit and balance of the six major counterparties at the balance sheet date.

Counterparty ¹	Rating	31 December 2006		31 December 2005	
		Credit limit	Balance	Credit limit	Balance
Bank A	AAA	13,000	6,800	13,000	10,500
Bank B	AA	6,800	4,200	6,800	5,800
Bank C	A	5,000	4,300	6,000	4,700
		24,800	15,300	25,800	21,000
Wholesaler Q	A	7,500	5,200	8,000	4,700
Wholesaler T	BBB	3,000	2,800	4,000	3,600
Wholesaler Z	BB	1,390	785	1,400	900
		11,890	8,785	13,400	9,200

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

¹ The counterparty has been identified in a generic manner. Specific names are not expected to be used.

Notes to the consolidated financial statements (continued)

IFRS7p33, 39(b) *(c) Liquidity risk*
Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

IFRS7p34(a) Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

Forecasted liquidity reserve as of 31 December 2006 is as follows:

	2007	2008-2011
Opening balance for the period	61,128	57,628
Operating proceeds	92,200	411,000
Operating outflows	(64,700)	(288,500)
Cash outflow for investments	(14,000)	(45,000)
Proceeds from sale of investments	3,900	8,000
Financing proceeds	5,000	25,000
Payments of debts and dividends	(21,000)	(102,000)
Expiration of committed credit lines	(24,900)	(14,000)
Commitment of new credit lines	20,000	20,000
Closing balance for the period	57,628	72,128

IFRS7p39(a) The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2006				
Bank borrowings	9,881	6,751	97,457	31,600
Derivative financial instruments	12	10	116	41
Trade and other payables	17,670	–	–	–
At 31 December 2005				
Bank borrowings	16,258	11,575	58,679	38,103
Derivative financial instruments	19	15	81	50
Trade and other payables	12,374	–	–	–

Notes to the consolidated financial statements (continued)

IFRS7p39(a) The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2006				
Forward foreign exchange contracts – cash flow hedges:				
– outflow	78,241	–	–	–
– inflow	78,756	–	–	–
Forward foreign exchange contracts – held for trading:				
– outflow	14,129	–	–	–
– inflow	14,222	–	–	–
At 31 December 2005				
Forward foreign exchange contracts – cash flow hedges:				
– outflow	83,077	–	–	–
– inflow	83,366	–	–	–
Forward foreign exchange contracts – held for trading:				
– outflow	6,612	–	–	–
– inflow	6,635	–	–	–

1p124(a)(b) 3.2 Capital risk management

IG5 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 borrowings and trade and other payables, 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 2006, the Group's strategy, which was unchanged from 2005, was to maintain a gearing ratio within 45% to 50% and a BB credit rating. The gearing ratios at 31 December 2006 and 2005 were as follows:

	2006	2005
Total borrowings	135,509	116,380
Less: cash and cash equivalents (Note 14)	(19,578)	(29,748)
Net debt	115,931	86,632
Total equity	140,626	98,378
Total capital	256,557	185,010
Gearing ratio	45%	47%

The decrease in the gearing ratio during 2006 resulted primarily from the issue of share capital as part of the compensation for the acquisition of a subsidiary (Notes 15 and 35).

3.3 Fair value estimation

IFRS7p27 The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

Notes to the consolidated financial statements (continued)

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 a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

IFRS7p29(a)
IFRS7p27(a) The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments 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.

1p116 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely 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 outlined 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 7).

1p120 If the estimated gross margin at 31 December 2007 had been 10% lower than management's estimates at 31 December 2006 (for example, 54% instead of 60%), the Group would have recognised a further impairment of goodwill of C346, and would need to reduce the carrying value of property, plant and equipment by C4.

If the estimated pre-tax discount rate applied to the discounted cash flows had been 10% higher than management's estimates (for example, 11.5% instead of 10.5%), the Group would have recognised a further impairment against goodwill by C300.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 income tax and deferred tax provisions in the period in which such determination is made.

Were the actual final outcome (on the judgment areas) 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(a) 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 judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group uses discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

Notes to the consolidated financial statements (continued)

The carrying amount of available-for-sale financial assets would be an estimated C12 lower or C15 higher were the discounted rate used in the discounted 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 C175 if the proportion performed was increased, or would be decreased by C160 if the proportion performed was decreased.

1p113 4.2 Critical judgments in applying the entity's accounting policies

(a) Revenue recognition

The Group has recognised revenue amounting to C950 for sales of goods to Leatherex & Co in Euravia during 2006. 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 financial assets

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, 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 near-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 2006 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.

5. Segment information

14p50 *(a) Primary reporting format – business segments*

14p81 At 31 December 2006, the Group is organised on a worldwide basis into two main business segments:

- Manufacture and sale of a range of shoes on a wholesale basis; and
- Operation of a chain of retail outlets for shoes and other leather goods.

Other group operations mainly comprise the sale of design services and goods transportation services to other shoe manufacturers. Neither of these constitutes a separately reportable segment.

Notes to the consolidated financial statements (continued)

The segment results for the year ended 31 December 2006 are as follows:

		Wholesale	Retail	Other	Unallocated	Group
14p51	Total segment revenue	152,825	85,929	8,150	–	246,904
14p51	Inter-segment revenue	(35,870)	–	–	–	(35,870)
14p51, 67	Revenue	116,955	85,929	8,150	–	211,034
14p52, 67	Operating profit/Segment result	44,520	11,743	3,713	(5,361)	54,615
	Finance income					550
	Finance costs					(7,623)
	Finance costs – net (Note 27)					(7,073)
14p64	Share of loss of associates (Note 8)	200	(389)	15	–	(174)
14p67	Profit before income tax					47,368
	Income tax expense					(14,792)
	Profit for the year					32,576

The segment results for the year ended 31 December 2005 are as follows:

		Wholesale	Retail	Other	Unallocated	Group
14p51	Total segment revenue	134,330	4,072	876	–	139,278
14p51	Inter-segment revenue	(26,918)	–	–	–	(26,918)
14p51, 67	Revenue	107,412	4,072	876	–	112,360
14p52, 67	Operating profit/Segment result	34,633	1,796	(3)	(1,953)	36,473
	Finance income					489
	Finance costs					(11,549)
	Finance costs – net (Note 27)					(11,060)
14p64	Share of profit of associates (Note 8)	155	–	(10)	–	145
14p67	Profit before income tax					25,558
	Income tax expense					(8,865)
	Profit for the year					16,693

Other segment items included in the income statement are as follows:

		Year ended				Year ended			
		31 December 2006				31 December 2005			
		Wholesale	Retail	Other	Group	Wholesale	Retail	Other	Group
14p58	Depreciation (Note 6)	9,727	7,539	488	17,754	9,280	250	132	9,662
14p58	Amortisation (Note 7)	600	80	120	800	365	150	50	565
36p129(a)	Impairment of goodwill (Note 7)	4,650	–	–	4,650	–	–	–	–
36p129(b)	Reversal of inventory impairment (Note 12)	–	–	–	–	603	–	–	603
DV, 14p59	Restructuring costs (Note 21)	1,100	–	–	1,100	–	–	–	–

14p43 During 2005, retail did not qualify as a separate segment. However, with the acquisition in 2006 of 'Your Shoes Group' (Note 35), retail qualifies as a separate segment, and figures for 2005 have been restated.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

14p16 Segment assets consist primarily of property, plant and equipment, intangible assets, investments in associates, inventories, trade and other receivables, derivatives designated as hedges of future commercial transactions, and cash and cash equivalents. Unallocated assets comprise deferred

Notes to the consolidated financial statements (continued)

taxation, available-for-sale financial assets, other financial assets at fair value through profit or loss and derivatives held for trading or designated as hedges of borrowings.

14p16 Segment liabilities comprise operating liabilities (including derivatives designated as hedges of future commercial transactions). Unallocated liabilities comprise items such as taxation and borrowings including related hedging derivatives.

14p57 Capital expenditure comprises additions to property, plant and equipment (Note 6) and intangible assets (Note 7), including additions resulting from acquisitions through business combinations (Notes 6, 7 and 35).

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

		Business segment			Unallocated	Group
		Wholesale	Retail	Other		
14p55	Assets	145,430	86,396	18,647	35,278	285,751
14p66	Associates	7,207	–	6,166	–	13,373
14p67	Total assets	152,637	86,396	24,813	35,278	299,124
14p56, 67	Liabilities	13,156	11,100	676	133,566	158,498
14p57	Capital expenditure (Notes 6 and 7)	9,031	75,360	3,849	–	88,240

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

		Business segment			Unallocated	Group
		Wholesale	Retail	Other		
14p55	Assets	174,289	5,672	12,321	26,582	218,864
14p66	Associates	7,050	–	6,194	–	13,244
14p67	Total assets	181,339	5,672	18,515	26,582	232,108
14p56, 67	Liabilities	16,838	55	502	116,335	133,730
14p57	Capital expenditure (Notes 6 and 7)	5,765	93	884	–	6,742

(b) Secondary reporting format – geographical segments

14p81 The Group's three business segments operate in four main geographical areas, even though they are managed on a worldwide basis. The home country of the Company – which is also the main operating company – is Euravia. The areas of operation are principally the manufacturing and sale of shoes and other footwear.

The Group's revenue are mainly in countries within the Currency-zone, the UK and the US.

14p69	Revenue	2006	2005
	Currency-zone	78,492	49,312
	UK	53,236	28,000
	US	64,128	27,779
	Other countries	15,178	7,269
		<u>211,034</u>	<u>112,360</u>

Revenue is allocated based on the country in which the customer is located.

14p69	Total assets	2006	2005
	Currency-zone	69,606	49,567
	UK	48,638	41,517
	US	54,513	33,737
	Other countries	66,291	61,551
		<u>239,048</u>	<u>186,372</u>
	Associates (Note 8)	13,373	13,244
	Unallocated assets	46,703	32,492
		<u>299,124</u>	<u>232,108</u>

Total assets are allocated based on where the assets are located.

Notes to the consolidated financial statements (continued)

14p69	Capital expenditure	2006	2005
	Currency-zone	36,354	2,008
	UK	34,092	2,696
	US	11,848	650
	Other countries	5,946	1,388
		<u>88,240</u>	<u>6,742</u>

Capital expenditure is allocated based on where the assets are located.

18p35(b)	Analysis of revenue by category	2006	2005
	Sales of goods	202,884	104,495
	Revenue from services	8,000	7,800
	Royalty income	150	65
		<u>211,034</u>	<u>112,360</u>

6. Property, plant and equipment

	Land & buildings	Vehicles & machinery	Furniture, fittings & equipment	Total	
1p75(a)					
16p73(d)	At 1 January 2005				
	Cost or valuation	39,323	69,850	20,025	129,198
	Accumulated depreciation	(2,333)	(17,524)	(3,690)	(23,547)
	Net book amount	<u>36,990</u>	<u>52,326</u>	<u>16,335</u>	<u>105,651</u>
16p73(e)	Year ended 31 December 2005				
	Opening net book amount	36,990	52,326	16,335	105,651
	Exchange differences	(381)	(703)	(423)	(1,507)
	Revaluation surplus (Note 16)	1,133	–	–	1,133
	Additions	1,588	2,970	1,484	6,042
	Disposals (Note 32)	–	(2,607)	(380)	(2,987)
	Depreciation charge (Note 25)	(636)	(4,186)	(4,840)	(9,662)
	Closing net book amount	<u>38,694</u>	<u>47,800</u>	<u>12,176</u>	<u>98,670</u>
16p73(d)	At 31 December 2005				
	Cost or valuation	39,330	66,903	20,026	126,259
	Accumulated depreciation	(636)	(19,103)	(7,850)	(27,589)
	Net book amount	<u>38,694</u>	<u>47,800</u>	<u>12,176</u>	<u>98,670</u>
16p73(e)	Year ended 31 December 2006				
	Opening net book amount	38,694	47,800	12,176	98,670
	Exchange differences	1,601	1,280	342	3,223
	Acquisition of subsidiary (Note 35)	49,072	5,513	13,199	67,784
	Additions	7,126	427	2,202	9,755
	Disposals (Note 32)	(2,000)	(3,729)	(608)	(6,337)
	Depreciation charge (Note 25)	(3,545)	(4,768)	(9,441)	(17,754)
	Closing net book amount	<u>90,948</u>	<u>46,523</u>	<u>17,870</u>	<u>155,341</u>
16p73(d)	At 31 December 2006				
	Cost or valuation	95,129	58,268	26,927	180,324
	Accumulated depreciation	(4,181)	(11,745)	(9,057)	(24,983)
	Net book amount	<u>90,948</u>	<u>46,523</u>	<u>17,870</u>	<u>155,341</u>

16p77(a-d) The Group's land and buildings were last revalued on 1 January 2005 by independent valuers. Valuations were made on the basis of market value. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 16).

DV1p93 Depreciation expense of C8,054 (2005: C5,252) has been charged in cost of goods sold, C5,568 (2005: C2,410) in selling and marketing costs and C4,132 (2005: C2,000) in administrative expenses.

17p35(c) Lease rentals amounting to C1,172 (2005: C895) and C9,432 (2005: C7,605) relating to the lease of machinery and property, respectively, are included in the income statement (Note 25).

Notes to the consolidated financial statements (continued)

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

	2006	2005
Cost	81,541	25,255
Accumulated depreciation	(15,512)	(11,480)
Net book amount	66,029	13,775

16p74(a) Bank borrowings are secured on land and buildings for the value of C37,680 (2005: C51,306) (Note 18).

7. Intangible assets

		Goodwill	Trademarks & licences	Other ¹	Total
38p118(c)	At 1 January 2005				
IFRS3p75(a)	Cost	12,546	7,301	1,355	21,202
IFRS3p75(a)	Accumulated amortisation and impairment	–	(330)	(510)	(840)
	Net book amount	12,546	6,971	845	20,362
38p118(e)	Year ended 31 December 2005				
IFRS3p74	Opening net book amount	12,546	6,971	845	20,362
IFRS3p75(f)	Exchange differences	(546)	(306)	(45)	(897)
	Additions	–	700	–	700
	Amortisation charge ² (Note 25)	–	(365)	(200)	(565)
	Closing net book amount	12,000	7,000	600	19,600
38p118(c)	At 31 December 2005				
	Cost	12,000	7,710	1,300	21,010
	Accumulated amortisation and impairment	–	(710)	(700)	(1,410)
	Net book amount	12,000	7,000	600	19,600
38p118(e)	Year ended 31 December 2006				
IFRS3p74	Opening net book amount	12,000	7,000	600	19,600
IFRS3p75(f)	Exchange differences	341	96	134	571
38p118(e)(i)	Additions	–	2,684	366	3,050
IFRS3p75(b)	Acquisition of subsidiary (Note 35)	3,651	4,000	–	7,651
IFRS3p75(e)	Impairment charge ² (Note 25)	(4,650)	–	–	(4,650)
	Amortisation charge ³ (Note 25)	–	(680)	(120)	(800)
	Closing net book amount	11,342	13,100	980	25,422
38p118(c)	At 31 December 2006				
IFRS3p75(h)	Cost	15,992	14,480	1,800	32,272
IFRS3p75(h)	Accumulated amortisation and impairment	(4,650)	(1,380)	(820)	(6,850)
	Net book amount	11,342	13,100	980	25,422

38p118 ¹ Other intangibles include internally generated capitalised software development costs and other costs.

36p126(a) ² The carrying amount of the segment has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in cost of goods sold in the income statement.

38p118(d) ³ Amortisation of C40 (2005: C100) is included in the cost of goods sold the income statement; C680 (2005: C365) in selling, and marketing costs; and C80 (2005: C100) in administrative expenses.

Impairment tests for goodwill

36p134(d) Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below.

Notes to the consolidated financial statements (continued)

36p134(a)	2006			2005		
	Wholesale	Retail	Total	Wholesale	Retail	Total
Currency-zone	6,250	1,051	7,301	5,970	120	6,090
US	325	1,651	1,976	125	30	155
UK	740	869	1,609	625	80	705
Other countries	346	110	456	4,950	100	5,050
	7,661	3,681	11,342	11,670	330	12,000

14p43 During 2005, retail did not qualify as a separate segment. However, with the acquisition in 2006 of 'Your Shoes Group' (Note 35), retail qualifies as a separate segment, and the figures for 2005 have been restated.

36p134(c) The recoverable amount of a CGU is 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.

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

	Currency-zone	Wholesale			Retail			
		US	UK	Other	US	UK	Other	
36p134(d)	Gross margin ¹	60.0%	59.0%	60.0%	56.0%	58.0%	58.0%	55.0%
36p134 (d)(i)	Growth rate ²	1.8%	1.8%	1.8%	1.9%	1.1%	1.3%	1.1%
36p134 (d)(v)	Discount rate ³	10.5%	10.0%	10.7%	12.8%	11.5%	11.0%	11.8%

¹ Budgeted gross margin.

² Weighted average growth rate used to extrapolate cash flows beyond the budget period.

³ Pre-tax discount rate applied to the cash flow projections.

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

36p55 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 segments.

36p130(a) The impairment charge arose in a wholesale CGU in Step-land (included in the 'other countries' segment summary) following a decision to reduce the manufacturing output allocated to these operations (see also Note 21). 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 other class of asset than goodwill was impaired. The pre-tax discount rate used in the previous years for the wholesale CGU in Step-land was 12.0%.

8. Investments in associates

	2006	2005
Beginning of year	13,244	13,008
Acquisition of subsidiary (Note 35)	389	–
28p38 Share of (loss)/profit ⁴	(174)	145
Exchange differences	(74)	105
Other equity movements: available-for-sale reserve (Note 16)	(12)	(14)
28p38 End of year	13,373	13,244

IFRS3p29, 28p23 Investments in associates at 31 December 2006 include goodwill of C1,020 (2005: C1,020).

⁴ Share of profit/(loss) is after tax and minority interest of associates (IG14).

Notes to the consolidated financial statements (continued)

28p37(b) The Group's share of the results of its principal associates, all of which are unlisted, and its share of the assets (including goodwill and liabilities) are as follows¹:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
2005						
Alfa Limited	Cyprus	27,345	20,295	35,012	155	25
Beta SA	Greece	9,573	3,379	10,001	(10)	30
		<u>36,918</u>	<u>23,674</u>	<u>45,013</u>	<u>145</u>	
2006						
Alfa Limited	Cyprus	32,381	25,174	31,123	200	25
Beta SA	Greece	12,115	5,949	9,001	15	30
Delta Limited	UK	15,278	15,278	25,741	(389)	42
		<u>59,774</u>	<u>46,401</u>	<u>65,865</u>	<u>(174)</u>	

28p37(g) The Group has not recognised losses amounting to C20 (2005: nil) for Delta Limited. The accumulated losses not recognised were C20 (2005: nil).

9. Available-for-sale financial assets

	2006	2005
Beginning of year	14,910	14,096
Exchange differences	646	(435)
Acquisition of subsidiary (Note 35)	473	–
Additions	2,781	1,126
Net gains/(losses) transfer to equity (Note 16)	560	123
End of year	19,370	14,910
Less: non-current portion	(17,420)	(14,910)
1p57 Current portion	1,950	–

IFRS7p16 There were no disposals or impairment provisions on available-for-sale financial assets in 2006 or 2005.

IFRSp27(b), 31, 34 Available-for-sale financial assets include the following:

	2006	2005
Listed securities:		
– Equity securities – Currency-zone countries	8,335	8,300
– Equity securities – US	5,850	2,086
– Equity securities – UK	4,550	4,260
– Debentures with fixed interest of 6.5% and maturity date of 27 August 2010	210	–
– Non-cumulative 9.0% non-redeemable preference shares	78	–
Unlisted securities:		
– Debt securities with fixed interest ranging from 6.3% to 6.5% and maturity dates between July 2009 and May 2011	347	264
	<u>19,370</u>	<u>14,910</u>

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

	2006	2005
Currency	7,897	8,121
US dollar	5,850	2,086
UK pound	4,550	4,260
Other currencies	1,073	443
	<u>19,370</u>	<u>14,910</u>

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.

Notes to the consolidated financial statements (continued)

- IFRS7p27(a), (b)** 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 (2006: 6%; 2005: 5.8%).
- IFRS7p36(a)** The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available for sale.
- IFRS7p36(c)** None of the financial assets are either past due or impaired.

10. Derivative financial instruments

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
IFRS7p22(a)(b) Interest rate swaps – cash flow hedges	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
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
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 hedge 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 (2005: loss of C1) (Note 22). The ineffective portion recognised in the profit or loss that arises from cash flow hedges amounts to C17 (2005: C14) (Note 22). There was no ineffectiveness to be recorded from net investment in foreign entity hedges.
- IFRS7p36(a)** The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.
- IFRS7p31** (a) *Forward foreign exchange contracts*
The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2006 were C92,370 (2005: C89,689).
- IFRS7p23(a)**
39p100 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 16) on forward foreign exchange contracts as of 31 December 2006 are recognised in the income statement in the period or periods during which the hedged transaction affects the income statement. This is generally within 12 months from the balance sheet date 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 (five to 10 years).
- (b) *Interest rate swaps*
- IFRS7p31** The notional amounts of the outstanding interest rate swap contracts at 31 December 2006 were C4,314 (2005: C3,839).
- IFRS7p23(a)** At 31 December 2006, the fixed interest rates vary from 6.9% to 7.4% (2005: 6.7% to 7.2%). The main floating rates are EURIBOR and LIBOR. Gains and losses recognised in the hedging reserve in equity (Note 16) on interest rate swap contracts as of 31 December 2006 will be continuously released to the income statement until the repayment of the bank borrowings (Note 18).

Notes to the consolidated financial statements (continued)

IFRS7p22 (c) *Hedge of net investment in foreign entity*
A proportion of the Group's US dollar-denominated borrowing amounting to C321 (2005: 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 2006 was C370 (2005: C279). The foreign exchange loss of C45 (2005: gain of C40) on translation of the borrowing to Currency at the balance sheet date is recognised in other reserves, in shareholders' equity (Note 16).

11. Trade and other receivables

		2006	2005
IFRS7p36, 1p74	Trade receivables	18,174	16,944
	Less: provision for impairment of receivables	(109)	(70)
1p75(b)	Trade receivables – net	18,065	16,874
1p75(b)	Prepayments	1,300	1,146
1p75(b), 24p17(b)	Receivables from related parties (Note 36)	54	46
1p75(b), 24p17(b)	Loans to related parties (Note 36)	2,668	1,388
		<u>22,087</u>	<u>19,454</u>
1p75(b)	Less non-current portion	(2,322)	(1,352)
	Current portion	19,765	18,102

All non-current receivables are due within five years from the balance sheet date.

IFRS7p25 The fair values of trade and other receivables are as follows:

	2006	2005
Trade receivables	18,065	16,874
Prepayments	1,300	1,146
Receivables from related parties	54	46
Loans to related parties	2,722	1,398
	<u>22,141</u>	<u>19,464</u>

IFRS7p27(a) 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% (2005: 7.2%). The discount rate equals to LIBOR plus appropriate credit rating.

24p17(b)(i) The effective interest rates on non-current receivables are as follows:

	2006	2005
Loans to related parties (Note 36)	6.5-7.0%	6.5-7.0%

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 2006. The transaction has been accounted for as a collateralised borrowing (Note 18). In case the entities default under the loan agreement, the borrower 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.

IFRS7p37(b) As of 31 December 2006, trade receivables of C227 (2005: C142) were impaired. The amount of the provision was C109 as of 31 December 2006 (2005: 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:

	2006	2005
3 to 6 months	177	108
Over 6 months	50	34
	<u>227</u>	<u>142</u>

Notes to the consolidated financial statements (continued)

IFRS7p37(a) As of 31 December 2006, trade receivables of C277 (2005: C207) were past due but not impaired.
IFRS7p36(c) 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:

	2006	2005
Up to 3 months	177	108
3 to 6 months	100	99
	<u>277</u>	<u>207</u>

IFRS7p31, 34(c) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2006	2005
Currency	9,846	8,441
US dollar	5,987	6,365
UK pound	6,098	4,500
Other currencies	156	148
	<u>22,087</u>	<u>19,454</u>

IFRS7p16 Movements on the provision for impairment of trade receivables are as follows:

	2006	2005
At 1 January	70	38
IFRS7p20(e) Provision for receivables impairment	74	61
Receivables written off during the year as uncollectible	(28)	(23)
Unused amounts reversed	(10)	(8)
Unwind of discount (Note 27)	3	2
At 31 December	<u>109</u>	<u>70</u>

The creation and release of provision for impaired receivables have been included in selling and marketing costs in the income statement (Note 25). Unwind of discount is included in finance costs in the income statement (Note 27). 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 fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

12. Inventories

2p36(b), 1p75(c)	2006	2005
Raw materials	7,622	7,612
Work in progress	1,810	1,796
Finished goods ¹	15,268	8,332
	<u>24,700</u>	<u>17,740</u>

2p36(d), 38 The cost of inventories recognised as expense and included in cost of sales amounted to C60,252 (2005: C29,545).

2p36 (f)(g)
36p126(b)
36p130(a) The Group reversed C603 of a previous inventory write-down in July 2005. 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 (IAS2p36(c)) where applicable.

Notes to the consolidated financial statements (continued)**13. Other financial assets at fair value through profit or loss**

	2006	2005
IFRS7p8(a), 27(b), 31, 34(c)		
Listed securities – held for trading		
– Equity securities – Currency-zone	5,850	3,560
– Equity securities – US	4,250	3,540
– Equity securities – UK	1,720	872
	<u>11,820</u>	<u>7,972</u>

7p15 Other financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement (Note 32).

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other (losses)/gains – net, in the income statement (Note 22).

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

14. Cash and cash equivalents

	2006	2005
Cash at bank and on hand	12,698	30,798
Short-term bank deposits	9,530	5,414
	<u>22,228</u>	<u>36,212</u>

7p45 Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	2006	2005
Cash and cash equivalents	22,228	36,212
7p8 Bank overdrafts (Note 18)	(2,650)	(6,464)
	<u>19,578</u>	<u>29,748</u>

15. Share capital

	Number of shares (thousands)	Ordinary shares	Share premium	Treasury shares	Total
1p76					
At 1 January 2005	20,000	20,000	10,424	–	30,424
Employee share option scheme:					
IFRS2p51(a) – Value of services provided	–	–	822 ¹	–	822
1p97(a),(c) – Proceeds from shares issued	1,000	1,000	70	–	1,070
At 31 December 2005	21,000	21,000	11,316	–	32,316
Employee share option scheme:					
IFRS2p51(a) – Value of services provided	–	–	690 ¹	–	690
1p97(a), (c) – Proceeds from shares issued	750	750	200	–	950
Acquisition of subsidiary (Note 35)	3,550	3,550	6,450	–	10,000
Treasury shares purchased	(875)	–	–	(2,564)	(2,564)
1p76(a) At 31 December 2006	24,425	25,300	18,656	(2,564)	41,392

1p76(a) The total authorised number of ordinary shares is 50 million shares (2005: 50 million shares) with a par value of C1 per share (2005: C1 per share). All issued shares are fully paid.

1p76(a) The Company acquired 875,000 of its own shares through purchases on the EuroMoney stock exchange on 18 April 2006. The total amount paid to acquire the shares, net of income tax, was C2,564 and has been deducted from shareholders' equity. The shares are held as treasury shares. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

¹ The credit entry to equity in respect to 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.

Notes to the consolidated financial statements (continued)

10p21 The Company reissued 500,000 treasury shares for a total consideration of C1,500 on 15 January 2007.

IFRS2p45(a) *Share options*
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 one year's service (the vesting period). The options are exercisable starting one year from the grant date only if the Group achieves its targets of profitability and sales growth; 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.

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

	2006		2005	
	Average exercise price in C per share	Options (thousands)	Average exercise price in C per share	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
IFRS2p45(b)(iii) Forfeited	–	–	2.00	(200)
IFRS2p45(b)(iv) Exercised	1.28	(750)	1.08	(1,000)
IFRS2p2(b)(v) Expired	–	–	0.80	(33)
IFRS2p2(b)(vi) At 31 December	2.03	4,958	1.73	4,744

IFRS2p45(b)(vii), IFRS2p45(c) Out of the 4,958 thousand outstanding options (2005: 4,744 thousand options), 3,994 thousand options (2005: 2,917 thousand) were exercisable. Options exercised in 2006 resulted in 750 thousand shares (2005: 1,000 thousand shares) being issued at C1.28 each (2005: C1.08 each). The related weighted average share price at the time of exercise was C2.85 (2005: C2.65) per share. The related transaction costs amounting to C10 (2005: 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:

Expiry date – 1 July	Exercise price in C per share	Shares	
		2006	2005
2006	1.10	–	500
2007	1.20	800	900
2008	1.35	1,200	1,250
2009	2.00	217	267
2010	2.38	1,777	1,827
2011	2.95	964	–
		4,958	4,744

IFRS2p47(a) The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was C0.86 per option (2005: C0.66). The significant inputs into the model were a weighted average share price of C3.47 (2005: C2.80) at the grant date, the exercise price shown above, volatility of 30% (2005: 27%), dividend yield of 4.3% (2005: 3.5%), an expected option life of three years, and an annual risk-free interest rate of 5% (2005: 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 also Note 26).

33p71(c)
10p21, 22(f) On 1 January 2007, 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 C3.20 per share (share price: C3.68) (expiry date: 31 December 2010).

The Group issued 3,550,000 shares on 1 March 2006 (14.5% of the total ordinary share capital issued) to the shareholders of Your Shoes 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 each have been netted off with the deemed proceeds.

Notes to the consolidated financial statements (continued)

16. Other reserves

		Convertible bond	Land and buildings revaluation ¹	Hedging reserve	Available for sale investments	Translation	Total
	Balance at 1 January 2005	–	1,152	65	1,320	3,827	6,364
16p39,							
IFRS7p20(a)(ii)	Revaluation – gross (Notes 6 and 9)	–	1,133	–	123	–	1,256
12p61, 81(a)	Revaluation – tax (Note 19)	–	(374)	–	(61)	–	(435)
28p39	Revaluation – associates (Note 8)	–	–	–	(14)	–	(14)
16p41	Depreciation transfer – gross	–	(130)	–	–	–	(130)
16p41	Depreciation transfer – tax	–	43	–	–	–	43
1p96(b)	Cash flow hedges:						
IFRS7p23 (c)	– Fair value gains in year	–	–	300	–	–	300
12p61, 81(a)	– Tax on fair value gains (Note 19)	–	–	(101)	–	–	(101)
IFRS7p23 (d)	– Transfers to sales	–	–	(236)	–	–	(236)
12p61, 81(a)	– Tax on transfers to income tax expense (Note 19)	–	–	79	–	–	79
IFRS7p23 (e)	– Transfers to inventory	–	–	(67)	–	–	(67)
12p61, 81(a)	– Tax on transfers to inventory (Note 19)	–	–	22	–	–	22
39p102(a)	Net investment hedge (Note 10)	–	–	–	–	40	40
1p96(b)	Currency translation differences:						
21p52(b)	– Group	–	(50)	–	–	(171)	(221)
28p39	– Associates	–	–	–	–	105	105
	Balance at 31 December 2005	–	1,774	62	1,368	3,801	7,005
16p39,							
IFRS7p20 (a)(ii)	Revaluation – gross (Note 9)	–	–	–	560	–	560
12p61, 81(a)	Revaluation – tax (Note 19)	–	–	–	(198)	–	(198)
28p39	Revaluation – associates (Note 8)	–	–	–	(12)	–	(12)
16p41	Depreciation transfer – gross	–	(149)	–	–	–	(149)
16p41	Depreciation transfer – tax	–	49	–	–	–	49
1p96(b)	Cash flow hedges:						
IFRS7p23 (c)	– Fair value gains in year	–	–	368	–	–	368
12p61, 81(a)	– Tax on fair value gains (Note 19)	–	–	(123)	–	–	(123)
IFRS7p23 (d)	– Transfers to sales	–	–	(120)	–	–	(120)
12p61, 81(a)	– Tax on transfers to income tax expense (Note 19)	–	–	40	–	–	40
IFRS7p23 (e)	– Transfers to inventory	–	–	(151)	–	–	(151)
12p61, 81(a)	– Tax on transfers to inventory (Note 19)	–	–	50	–	–	50
39p102(a)	Net investment hedge (Note 10)	–	–	–	–	(45)	(45)
1p96(b),	Currency translation differences:						
21p52(b)	– Group	–	15	–	–	2,051	2,066
28p39	– Associates	–	–	–	–	(74)	(74)
	Convertible bond – equity component (Note 18)	7,761	–	–	–	–	7,761
12p61, 81(a)	Tax on equity component (Note 19)	(2,328)	–	–	–	–	(2,328)
	Balance at 31 December 2006	5,433	1,689	126	1,718	5,733	14,699

¹ 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)).

Notes to the consolidated financial statements (continued)**17. Trade and other payables**

		2006	2005
1p74	Trade payables	11,983	9,391
24p17	Amounts due to related parties (Note 36)	2,202	1,195
	Social security and other taxes	2,002	960
	Accrued expenses	1,483	828
		<u>17,670</u>	<u>12,374</u>

18. Borrowings

	2006	2005
Non-current		
Bank borrowings	32,193	40,244
Convertible bonds	42,822	–
Debentures and other loans	3,300	18,092
Redeemable preference shares	30,000	30,000
	<u>108,315</u>	<u>88,336</u>
Current		
Bank overdrafts (Note 14)	2,650	6,464
Collateralised borrowings (Note 11)	1,014	–
Bank borrowings	3,368	4,598
Debentures and other loans	2,492	4,608
	<u>9,524</u>	<u>15,670</u>
Total borrowings	<u>117,839</u>	<u>104,006</u>

Bank borrowings

IFRS7p31 Bank borrowings mature until 2013, and bear coupons of 7.5% annually (2005: 7.4% annually).

IFRS7p14
16p74(a) Total borrowings include secured liabilities (bank and collateralised borrowings) of C37,680 (2005: C51,306). Bank borrowings are secured by the land and buildings of the Group (Note 6). Collateralised borrowings are secured by trade receivables (Note 11).

IFRS7p31 The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2006	2005
6 months or less	9,400	15,454
6-12 months	35,617	27,806
1-5 years	42,822	33,268
Over 5 years	30,000	27,478
	<u>117,839</u>	<u>104,006</u>

IFRS7p25 The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2006	2005	2006	2005
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 bonds	42,822	–	42,752	–
	<u>108,315</u>	<u>88,336</u>	<u>107,032</u>	<u>86,540</u>

IFRS7p29(a)
IFRS7p27(a) 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% (2005: 7.2%).

Notes to the consolidated financial statements (continued)

IFRS7p25 The carrying amounts of short-term borrowings approximate their fair value.

IFRS7p31, 34(c) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006	2005
Currency	77,100	76,600
US dollar	25,353	12,542
UK pound	15,000	14,500
Other currencies	386	364
	<u>117,839</u>	<u>104,006</u>

DV7p50(a) The Group has the following undrawn borrowing facilities:

	2006	2005
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
	<u>38,900</u>	<u>25,000</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2007. The other facilities have been arranged to help finance the proposed expansion of the Group's activities in Europe.

Convertible bonds

IFRS7p17 The Company issued 500,000 5.0% convertible bonds at a par value of C50 million¹ on 2 January 2006. The bonds mature five years from the issue date at their nominal value of C50 million¹ or can be converted into shares at the holder's option at the rate of 33 shares per C500¹. The values of the liability component and the equity conversion component were determined at issuance of the bond.

32p28
32p31 The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves (Note 16), net of income taxes.

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

	2006	2005
Face value of convertible bond issued on 2 January 2006	50,000	–
12AppxB, Ex4 Equity component (Note 16)	(7,761)	–
Liability component on initial recognition at 2 January 2006	42,239	–
Interest expense (Note 27)	3,083	–
Interest paid	(2,500)	–
Liability component at 31 December 2006	<u>42,822</u>	–

IFRS7p27(a) The fair value of the liability component of the convertible bond at 31 December 2006 amounted to C42,752. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.5%.

Redeemable preference shares

32p15,
32p18(a) The Company issued 30 million cumulative redeemable preference shares with a par value of C1¹ per share on 4 January 2005. The shares are mandatorily redeemable at their par value on 4 January 2013 and pay dividends at 6.5% annually.

10p21 On 1 February 2007, the Group issued 6.5% US dollar bonds at the value of C6,777 to finance its expansion programme and working capital requirements in the US. The bonds are repayable on 31 December 2011.

¹ These amounts are not in C thousands.

Notes to the consolidated financial statements (continued)**19. Deferred income tax**

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 relate to the same fiscal authority. The offset amounts are as follows:

	2006	2005
Deferred income tax assets:		
– Deferred income tax asset to be recovered after more than 12 months	(2,672)	(3,046)
– Deferred income tax asset to be recovered within 12 months	(647)	(64)
	<u>(3,319)</u>	<u>(3,110)</u>
Deferred tax liabilities:		
– Deferred income tax liability to be recovered after more than 12 months	10,743	8,016
– Deferred income tax liability to be recovered within 12 months	1,627	1,037
	<u>12,370</u>	<u>9,053</u>
Deferred income tax liabilities (net)	<u>9,051</u>	<u>5,943</u>

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

	2006	2005
Beginning of year	5,943	3,047
Exchange differences	(1,753)	(154)
Acquisition of subsidiary (Note 35)	1,953	–
Income statement charge (Note 28)	379	2,635
Tax charged to equity (Note 16)	2,529	415
End of year	<u>9,051</u>	<u>5,943</u>

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

		Accelerated tax depreciation	Fair value gains	Convertible bonds	Other	Total
	At 1 January 2005	6,058	272	–	284	6,614
12p81(g)(ii)	Charged/(credited) to the income statement	1,786	–	–	799	2,585
12p81(a)	Charged directly to equity	–	435	–	–	435
	Exchange differences	241	100	–	–	341
12p81(g)(i)	At 31 December 2005	8,085	807	–	1,083	9,975
12p81(g)(ii)	Charged/(credited) to the income statement	425	–	(193)	138	370
12p81(a)	Charged directly to equity	–	231	2,328	–	2,559
	Acquisition of subsidiary (Note 35)	553	1,375	–	275	2,203
	Exchange differences	(571)	(263)	–	(123)	(957)
12p81(g)(i)	At 31 December 2005	<u>8,492</u>	<u>2,150</u>	<u>2,135</u>	<u>1,373</u>	<u>14,150</u>

Notes to the consolidated financial statements (continued)

		Deferred tax assets				Total
		Provisions	Impairment losses	Tax losses	Other	
	At 1 January 2005	(962)	(732)	(1,500)	(373)	(3,567)
12p81(g)(ii)	Charged/(credited) to the income statement	181	–	–	(131)	50
12p81(a)	Charged directly to equity	–	–	–	(20)	(20)
	Exchange differences	(35)	–	(460)	–	(495)
12p81(g)(i)	At 31 December 2005	(816)	(732)	(1,960)	(524)	(4,032)
	(Credited)/charged to the income statement	(538)	(322)	1,000	(131)	9
12p81(a)	Charged directly to equity	–	–	–	(30)	(30)
	Acquisition of subsidiary (Note 35)	(250)	–	–	–	(250)
	Exchange differences	(125)	(85)	(350)	(236)	(796)
12p81(g)(i)	At 31 December 2006	(1,729)	(1,139)	(1,310)	(921)	(5,099)
12p81(a)	The deferred income tax charged to equity during the year is as follows:					
					2006	2005
	Fair value reserves in shareholders' equity:					
	– Land and buildings (Note 16)				–	374
	– Hedging reserve (Note 16)				33	–
	– Available-for-sale financial assets (Note 16)				198	61
	Share option scheme				(30)	(20)
	Convertible bond – equity conversion component (Note 16)				2,328	–
					<u>2,529</u>	<u>415</u>
	Deferred income tax of C49 (2005: C43) was transferred from other reserves (Note 16) to retained earnings. This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.					
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 the future taxable profits is probable. The Group did not recognise deferred income tax assets of C333 (2005: C1,588) in respect of losses amounting to C1,000 (2005: C5,294) that can be carried forward against future taxable income. Losses amounting to C900 (2005: C5,294) and C100 (2005: nil) expire in 2009 and 2010 respectively.					
12p81(f)	Deferred income tax liabilities of C3,141 (2005: 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 2006 (2005: C23,294).					

20. Retirement benefit obligations

	2006	2005
Balance sheet obligations for:		
– Pension benefits	3,138	1,438
– Post-employment medical benefits	1,402	692
	<u>4,540</u>	<u>2,130</u>
Income statement charge for (Note 26):		
– Pension benefits	762	496
– Post-employment medical benefits	150	107
	<u>912</u>	<u>603</u>

Notes to the consolidated financial statements (continued)

	<i>Pension benefits</i>		
19p120A(d)(f)	The amounts recognised in the balance sheet are determined as follows:		
		2006	2005
	Present value of funded obligations	6,155	2,943
	Fair value of plan assets	(5,991)	(2,797)
		164	146
	Present value of unfunded obligations	3,206	1,549
	Unrecognised actuarial losses	(87)	(94)
	Unrecognised past service cost	(145)	(163)
	Liability in the balance sheet	<u>3,138</u>	<u>1,438</u>
19p120A(c)	The movement in the defined benefit obligation over the year is as follows:		
		2006	2005
	Beginning of year	4,492	3,479
	Current service cost	751	498
	Interest cost	431	214
	Contributions by plan participants	55	30
	Actuarial losses/(gains)	(15)	495
	Exchange differences	(43)	(103)
	Benefits paid	(66)	(121)
	Liabilities acquired in a business combination (Note 35)	3,691	–
	Curtailments	65	–
	Settlements ¹	–	–
	End of year	<u>9,361</u>	<u>4,492</u>
19p120(e)	The movement in the fair value of plan assets of the year is as follows:		
		2006	2005
	Beginning of year	2,797	2,264
	Expected return on plan assets	510	240
	Actuarial (losses)/gains	(15)	(5)
	Exchange differences	25	(22)
	Employer contributions	908	411
	Employee contributions	55	30
	Benefits paid	(66)	(121)
	Business combinations (Note 35)	1,777	–
	End of year	<u>5,991</u>	<u>2,797</u>
19p120A(g)	The amounts recognised in the income statement are as follows:		
		2006	2005
	Current service cost	751	498
	Interest cost	431	214
	Expected return on plan assets	(510)	(240)
	Net actuarial losses recognised during the year	7	8
	Past service cost	18	16
	Losses on curtailment	65	–
	Total, included in staff costs (Note 26)	<u>762</u>	<u>496</u>
19p120A(g)	Of the total charge, C521 (2005: C324) and C241 (2005: C172) were included in cost of goods sold and administrative expenses respectively.		
19p120A(m)	The actual return on plan assets was C495 (2005: C235).		

¹ In practice, these lines could be omitted if the balances were zero. They have been included to highlight the required information.

Notes to the consolidated financial statements (continued)

19p120A(n)	The principal actuarial assumptions used were as follows:		
		2006	2005
	Discount rate	7.0%	6.8%
	Expected return on plan assets	8.5%	8.3%
	Future salary increases	5.0%	4.5%
	Future pension increases	3.0%	2.5%
19p120A(n)(vi)	<i>(a) Mortality rate</i>		
	Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.		
	The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:		
		2006	2005
	Male	18.5	18.5
	Female	22.0	22.0
	The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, is as follows:		
		2006	2005
	Male	19.5	19.5
	Female	22.5	22.5
19p122(b)	<i>(b) Post-employment medical benefits</i>		
	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 the defined benefit pension schemes.		
19p120A(n)	The main actuarial assumption is a long-term increase in health costs of 8.0% a year (2005: 7.6%). Other assumptions were as for the pension plans set out above.		
19p120A(d)(f)	The amounts recognised in the balance sheet were determined as follows:		
		2006	2005
	Present value of funded obligations	705	340
	Fair value of plan assets	(620)	(302)
		85	38
	Present value of unfunded obligations	1,325	663
	Unrecognised actuarial losses	(8)	(9)
	Liability in the balance sheet	1,402	692
19p120A(c)	Movement in the defined benefit obligation is as follows:		
		2006	2005
	Beginning of year	1,003	708
	Current service cost	153	107
	Interest cost	49	25
	Contributions by plan participants ¹	–	–
	Actuarial losses/(gains)	(2)	204
	Exchange differences	25	(41)
	Benefits paid ¹	–	–
	Liabilities acquired in a business combination (Note 35)	802	–
	Curtailments ¹	–	–
	Settlements ¹	–	–
	End of year	2,030	1,003

¹ In practice, these lines could be omitted if the balances were zero. They have been included to highlight the required information.

Notes to the consolidated financial statements (continued)

19p120A(e)	The movement in the fair value of plan assets of the year is as follows:				
			2006	2005	
	Beginning of year		302	207	
	Expected return on plan assets		53	25	
	Actuarial gains/(losses)		(2)	(1)	
	Exchange differences		5	(2)	
	Employer contributions		185	73	
	Employee contributions ¹		–	–	
	Benefits paid ¹		–	–	
	Business combinations (Note 35)		77	–	
	End of year		<u>620</u>	<u>302</u>	
19p120A(g)	The amounts recognised in the income statement were as follows:		2006	2005	
	Current service cost		153	107	
	Interest cost		49	25	
	Expected return on plan assets		(53)	(25)	
	Net actuarial losses recognised in year		1	–	
	Total, included in employee benefits expense (Note 26)		<u>150</u>	<u>107</u>	
19p120A(o)	The effects of a 1% movement in the assumed medical cost trend rate were 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)	
19p120A(g)	Of the total charge, C102 (2005: C71) and C48 (2005: C36) respectively were included in cost of goods sold and administrative expenses.				
19p120A(m)	The actual return on plan assets was C51 (2005: C24).				
	<i>(c) Post-employment benefits (pension and medical)</i>				
19p120A(j)	Plan assets are comprised as follows:		2006	2005	
	Equity		<u>3,256</u>	<u>1,595</u>	51%
	Debt		<u>2,571</u>	<u>855</u>	28%
	Other		<u>784</u>	<u>649</u>	21%
			<u>6,611</u>	<u>3,099</u>	100%
19p120A(k)	Pension plan assets include the Company's ordinary shares with a fair value of C136 (2005: C126) and a building occupied by the Group with a fair value of C612 (2005: C609).				
19p120A(l)	The expected return on plan assets was 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 balance sheet date. 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 2007 are C1,150.				

¹ In practice, these lines could be omitted if the balances were zero. They have been included to highlight the required information.

Notes to the consolidated financial statements (continued)

19p120A(p)		2006	2005	2004	2003¹
	As at 31 December				
	Present value of defined benefit obligation	11,391	5,495	4,187	3,937
	Fair value of plan assets	6,611	3,099	2,471	2,222
	Deficit/(surplus)	4,780	2,396	1,716	1,715
	Experience adjustments on plan liabilities	(326)	125	55	–
	Experience adjustments on plan assets	(17)	(6)	(197)	–

21. Provisions for other liabilities and charges

1p75(d)		Environmental restoration	Restructuring	Legal claims	Profit-sharing & bonuses	Total
37p84(a)	At 1 January 2006	746	–	828	1,000	2,574
	Charged/(credited) to the income statement:					
37p84(b)	– Additional provisions	316	1,986	2,405	500	5,207
37p84(d)	– Unused amounts reversed	(12)	–	(15)	(10)	(37)
	– Unwinding of discount (Note 27)	41	–	–	–	41
37p84(c)	Used during year	(233)	(886)	(3,059)	(990)	(5,168)
	Exchange differences	(7)	–	(68)	–	(75)
37p84(a)	At 31 December 2006	851	1,100	91	500	2,542

Analysis of total provisions

		2006	2005
1p60	Non-current (environmental restoration)	320	274
1p60	Current	2,222	2,300
		2,542	2,574

(a) Environmental restoration

37p85(a) 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 2007 and C320 during 2008. Total expected costs to be incurred are C881 (2005: C760).

(b) Restructuring

37p85(a) 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 that 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 2006 (Note 26). Other direct costs attributable to the restructuring, including lease termination, are C1,187. These costs were fully provided for in 2006. The provision of C1,100 at 31 December 2006 is expected to be fully utilised during the first half of 2007.

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 7).

(c) Legal claims

37p85(a) The amounts represent a provision for certain legal claims brought against the Group by customers of the wholesale segment. The provision charge is recognised in profit or loss within administrative expenses. The balance at 31 December 2006 is expected to be utilised in the first half of 2007. 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 2006.

¹ IAS 19 requires a five-year record, but this requirement does not have to be applied retrospectively (IAS19p160).

Notes to the consolidated financial statements (continued)

	<i>(d) Profit-sharing and bonuses</i>
19p8(c), 10 DV, 37p859(a)	The provision for profit-sharing and bonuses is payable within three month of finalisation of the audited financial statements.

22. Other (losses)/gains – net

	2006	2005
IFRS7p20(a)(i)	Other financial assets at fair value through profit or loss (Note 13):	
	– fair value losses	(508) (238)
	– fair value gains	593 –
IFRS7p20(a)(i)	Foreign exchange forward contracts:	
	held for trading	86 88
	Net foreign exchange gains/(losses) (Note 29)	(277) 200
IFRS7p24(a)	Ineffectiveness on fair value hedges (Note 10)	(1) (1)
IFRS7p24(b)	Ineffectiveness on cash flow hedges (Note 10)	17 14
	<u>(90)</u>	<u>63</u>

23. Other income

	2006	2005
IFRS7p20(b)	Interest income on available-for-sale financial assets	963 984
IFRS7p20(b)	Interest income on loans to related parties (Note 36)	217 136
18p35(b)(v)	Dividend income on available-for-sale financial assets	1,100 883
18p35(b)(v)	Dividend income on other financial assets at fair value through profit or loss	800 310
	Investment income	3,080 2,313
	Insurance reimbursement	- 66
	<u>3,080</u>	<u>2,379</u>

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

24. Loss on expropriated land

During 2006 undeveloped land owned by the Group in Euravia was expropriated following works for the enlargement of a motorway adjacent to the Group's manufacturing facilities. Losses relating to the expropriation are C1,117 as of 31 December 2006 (2005: nil).

25. Expenses by nature

	2006	2005
1p93	Changes in inventories of finished goods and work in progress	6,950 (2,300)
1p93	Raw materials and consumables used	53,302 31,845
1p93	Employee benefit expense (Note 26)	40,090 15,500
1p93	Depreciation, amortisation and impairment charges (Notes 6 and 7)	23,204 10,227
1p93	Transportation expenses	8,584 6,236
1p93	Advertising costs	12,759 6,662
1p93	Operating lease payments (Note 6)	10,604 8,500
1p93	Other expenses	2,799 1,659
	<u>158,292</u>	<u>78,329</u>

Notes to the consolidated financial statements (continued)**26. Employee benefit expense**

		2006	2005
19p142	Wages and salaries, including restructuring costs C799 (2005: nil) (Note 21) and other termination benefits C1,600 (2005: nil)	28,363	10,041
	Social security costs	9,369	3,802
IFRS2p51(a)	Share options granted to directors and employees	690	822
19p46	Pension costs – defined contribution plans	756	232
19p120(f)	Pension costs – defined benefit plans (Note 20)	762	496
19p131	Post-employment benefits (Note 20)	150	107
		<u>40,090</u>	<u>15,500</u>
DV	Number of employees	535	210

27. Finance income and costs

		2006	2005
IFRS7p20(b)	Interest expense:		
	Bank borrowings	(5,242)	(10,646)
	Dividend on redeemable preference shares (Note 18)	(1,950)	(1,950)
	Convertible bond (Note 18)	(3,083)	-
37p84(e)	Provisions: unwinding of discount (Note 11 and 21)	(44)	(37)
21p52(a)	Finance income – net foreign exchange gains on financing activities (Note 29)	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	(7,623)	(11,549)
	Finance income – interest income on short-term bank deposits	550	489
	Net finance costs	<u>(7,073)</u>	<u>(11,060)</u>

28. Income tax expense

		2006	2005
12p80(a)	Current tax	14,413	6,230
12p79	Deferred tax (Note 19)	379	2,635
		<u>14,792</u>	<u>8,865</u>

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:

	2006	2005
Profit before tax	47,368	25,558
Tax calculated at domestic tax rates applicable to profits in the respective countries	15,631	7,667
Income not subject to tax	(1,072)	(212)
Expenses not deductible for tax purposes	1,650	1,060
Utilisation of previously unrecognised tax losses	(1,450)	-
Tax losses for which no deferred income tax asset was recognised	33	350
Tax charge	<u>14,792</u>	<u>8,865</u>

12p81(d) The weighted average applicable tax rate was 33% (2004: 30%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

Notes to the consolidated financial statements (continued)**29. Net foreign exchange (losses)/gains**

21p52(a)	The exchange differences (charged)/credited to the income statement are included as follows:		
		2006	2005
	Other (losses)/gains – net (Note 22)	(277)	200
	Finance costs – net (Note 27)	2,594	996
		<u>2,317</u>	<u>(1,196)</u>

30. 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 15).

		2006	2005
33p70(a)	Profit attributable to equity holders of the Company	30,028	15,837
33p70(b)	Weighted average number of ordinary shares in issue (thousands)	23,454	20,500
	Basic earnings per share (C per share)	1.28	0.77

(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 made in order 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.

		2006	2005
	Profit attributable to equity holders of the Company	30,028	15,837
	Interest expense on convertible debt (net of tax)	2,158	–
33p70(a)	Profit used to determine diluted earnings per share	<u>32,186</u>	<u>15,837</u>
	Weighted average number of ordinary shares in issue (thousands)	23,454	20,500
	Adjustments for:		
	– Assumed conversion of convertible debt (thousands)	3,030	–
	– Share options (thousands)	1,213	1,329
		<u>1,213</u>	<u>1,329</u>
33p70(b)	Weighted average number of ordinary shares for diluted earnings per share (thousands)	27,697	21,829
	Diluted earnings per share (C per share)	1.16	0.73

31. Dividends per share

1p95	The dividends paid in 2006 and 2005 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 2006 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 2007. These financial statements do not reflect this dividend payable.
1p125(a)	
10p12	

Notes to the consolidated financial statements (continued)**32. Cash generated from operations**

		2006	2005
7p18(b), 20	Profit before income tax	47,368	25,558
	Adjustments for:		
	– Depreciation (Note 6)	17,754	9,662
	– Amortisation (Note 7)	800	565
	– Goodwill impairment charge (Note 7)	4,650	–
	– (Profit)/loss on disposal of property, plant and equipment (see below)	(17)	8
	– Share-based payment and increase in retirement benefit obligations	509	1,470
	– Fair value gains on derivative financial instruments (Note 22)	(86)	(88)
	– Fair value (gains)/losses on other financial assets at fair value through profit or loss (Note 22)	(102)	224
	– Interest and dividend income on available-for-sale financial assets (Note 23)	(2,063)	(1,867)
	– Dividend income on other financial assets at fair value through profit or loss (Note 23)	(800)	(310)
	– Interest income on loans to related parties (Note 23)	(217)	(136)
	– Finance costs – net (Note 27)	7,073	11,060
	– Share of loss/(profit) from associates (Note 8)	174	(145)
	– Foreign exchange losses/(gains) on operating activities (Note 29)	277	(200)
	Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
	– Inventories	(5,837)	(966)
	– Trade and other receivables	(1,339)	(2,966)
	– Other financial assets at fair value through profit or loss	(3,747)	(858)
	– Trade and other payables	(8,163)	565
	Cash generated from operations	56,234	41,576

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

	2006	2005
Net book amount (Note 6)	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

Non-cash transactions

7p43 The principal non-cash transaction is the issue of shares as consideration for the acquisition discussed in Note 15.

33. Contingencies

37p86 The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (Note 21).

In respect of the acquisition of Your Shoes Group on 1 March 2006 (Note 35), additional consideration of up to C1,500 may be payable in cash if the acquired operations achieve certain sales targets. No additional payments are anticipated at the date of these financial statements.

Notes to the consolidated financial statements (continued)**34. Commitments***(a) Capital commitments*

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

		2006	2005
16p74(c)	Property, plant and equipment	3,593	3,667
38p122(e)	Intangible assets	460	474
		<u>4,053</u>	<u>4,141</u>

(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 leases have varying terms, escalation clauses and renewal rights.

17p35(d) The Group also leases various plant and machinery under cancellable operating lease agreements. The Group is required to give six months' notice for the termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 25.

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

	2006	2005
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
	<u>73,025</u>	<u>83,629</u>

35. Business combinations

IFRS3p66(a)
IFRS3p67
(a-c)
IFRS3p70(a)
IFRS3p67(i)
IFRS3p70(b)

On 1 March 2006, the Group acquired 70% of the share capital of Your Shoes Group, a shoe and leather goods retailer operating in the US and most western European countries. The acquired business contributed revenues of C44,709 and net profit of C2,762 to the Group for the period from 1 March 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, Group revenue would have been C220,345; profit before allocations would have been C33,126. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2006, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

IFRS3p67(d)	Purchase consideration:	
7p40(b)	– Cash paid	4,050
	– Direct costs relating to the acquisition	200
IFRS3p67(d)(i)	– Fair value of shares issued (Note 15)	10,000
7p40(a)	Total purchase consideration	<u>14,250</u>
	Fair value of net assets acquired	<u>(10,599)</u>
	Goodwill (Note 7)	<u>3,651</u>

IFRS3p67(h) The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the Group's acquisition of Your Shoes.

Notes to the consolidated financial statements (continued)

IFRS3p67(d)(ii) The fair value of the shares issued was based on the published share price (1 March 2006).
IFRS3p67(f) The assets and liabilities as of 1 March 2006 arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	300	300
Property, plant and equipment (Note 6)	67,784	63,562
Trademarks (included in intangibles) (Note 7)	3,000	–
Licences (included in intangibles) (Note 7)	1,000	–
Investment in associates (Note 8)	389	329
Available-for-sale financial assets (Note 9)	473	473
Inventories	1,122	672
Trade and other receivables	585	585
Trade and other payables	(13,461)	(13,461)
Retirement benefit obligations:		
– Pensions (Note 20)	(1,914)	(1,901)
– Other post-retirement obligations (Note 20)	(725)	(725)
Borrowings	(41,459)	(41,459)
Deferred tax liabilities (Note 19)	(1,953)	(410)
Net assets	<u>15,141</u>	<u>7,965</u>
Minority interests (30%)	(4,542)	
Net assets acquired	<u>10,599</u>	
Purchase consideration settled in cash		4,250
7p40(c) Cash and cash equivalents in subsidiary acquired		(300)
Cash outflow on acquisition		<u>3,950</u>

There were no acquisitions in the year ended 31 December 2005.

See Note 37 for disclosures regarding the business combination that took place after the balance sheet date but before the approval of these financial statements.

36. Related-party transactions

1p126(c) The Group is controlled by Mother Limited (incorporated in Euravia), which owns 57% of the
24p12 Company's shares. The remaining 43% of the shares are widely held. The ultimate parent of the Group is Grandpa Limited (incorporated in Euravia). The ultimate controlling party of the Group is Mr Power.

24p17, 22 The following transactions were carried out with related parties.

24p17(a) (a) Sales of goods and services

	2006	2005
Sales of goods:		
– Associates	1,123	291
Sales of services:		
– Ultimate parent (legal and administration services)	67	127
– Close family members of the ultimate controlling party (design services)	100	104
	<u>1,290</u>	<u>522</u>

Goods are sold based on the price lists in force and terms that would be available to third parties¹. Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30% (2005: 10% to 18%).

¹ Management should disclose that related-party transactions were made on an arm's-length basis only when such terms can be substantiated (IAS24p21).

Notes to the consolidated financial statements (continued)

24p17(a)	<i>(b) Purchases of goods and services</i>		
		2006	2005
	Purchases of goods:		
	– Associates	3,054	3,058
	Purchases of services:		
	– An entity controlled by key management personnel	83	70
	– The immediate parent (management services)	295	268
		<u>3,432</u>	<u>3,396</u>

24p21 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% (2005: 10%).

24p16	<i>(c) Key management compensation</i>		
		2006	2005
24p16(a)	Salaries and other short-term employee benefits	2,200	1,890
24p16(d)	Termination benefits	1,600	–
24p16(b)	Post-employment benefits	123	85
24p16(c)	Other long-term benefits	33	23
24p16(e)	Share-based payments	150	107
		<u>4,106</u>	<u>2,105</u>

24p17(b), 1p74 *(d) Year-end balances arising from sales/purchases of goods/services*

	Receivables from related parties (Note 11):		
		2006	2005
	– Ultimate parent	50	40
	– Close family members of key management personnel	4	6
	Payables to related parties (Note 17):		
	– Immediate parent	200	190
	– Associates	1,902	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.

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. A guarantee amounting to C800 (2005: nil) was given in respect of a one-off transaction with an associate, which remains outstanding at 31 December 2006.

24p17, 1p74	<i>(e) Loans to related parties</i>		
		2006	2005
	Loans to directors and key management of the Company (and their families)		
	Beginning of year	196	168
	Loans advanced during year	343	62
	Loan repayments received	(49)	(34)
	Interest income	30	16
	Interest received	(30)	(16)
	End of year	<u>490</u>	<u>196</u>

Notes to the consolidated financial statements (continued)

	2006	2005
Loans to associates		
Beginning of year	1,192	1,206
Loans advanced during year	1,000	50
Loan repayments received	(14)	(64)
Interest income	187	120
Interest received	(187)	(120)
End of year	<u>2,178</u>	<u>1,192</u>
Total loans to related parties		
Beginning of year	1,388	1,374
Loans advanced during year	1,343	112
Loan repayments received	(63)	(98)
Interest income	217	136
Interest received (Note 23)	(217)	(136)
End of year (Note 11)	<u>2,668</u>	<u>1,388</u>

24p17(b)(i) The loans advanced to directors have the following terms and conditions:

Name of director	Amount of loan	Term	Interest rate
2006			
Mr Leather	173	Repayable monthly over 2 years	6.3%
Mr Chamois	170	Repayable monthly over 2 years	6.3%
2005			
Mr Suede	20	Repayable monthly over 2 years	6.5%
Mr Chamois	42	Repayable monthly over 1 year	6.5%

IFRS7p15 Certain loans advanced to associates during the year amounting to C1,500 (2005: C500) are collateralised by shares in listed companies. The fair value of these shares was C65 at the balance sheet date (2005: C590).

The loans to associates are due on 1 January 2008 and carry interest at 7.0% (2005:8%). The fair values and the effective tax rates of loans to associates are disclosed in Note 11.

24p17(c) No provision has been required in 2006 and 2005 for the loans made to directors and associates.

37. Events after the balance sheet dates

10p21, (a) *Business combinations*
IFRS3p66(b), The Group acquired 100% of the share capital of Klimb & Co, a group of companies specialising in the
IFRS3p67(a-c) manufacture of shoes for extreme sports, for a cash consideration of C5,950 on 1 February 2007.

Details of net assets acquired and goodwill are as follows:

IFRS3p67(d)	Purchase consideration:	
	– Cash paid	5,950
	– Direct cost relating to the acquisition	<u>150</u>
7p40(a)	Total purchase consideration	6,100
	Fair value of assets acquired (see below)	<u>(5,145)</u>
	Goodwill	<u>955</u>

IFRS3p67(h) The above goodwill is attributable to Klimb & Co's strong position and profitability in trading in the
IFRS3p67(f) niche market for extreme-sports equipment.

Notes to the consolidated financial statements (continued)

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	195	195
Property, plant and equipment	29,056	28,234
Trademarks	1,000	–
Licences	700	–
Customer relationships	1,850	–
Favourable lease agreements	800	–
Inventories	995	495
Trade and other receivables	855	855
Trade and other payables	(9,646)	(9,646)
Retirement benefit obligations – pensions	(1,425)	(1,300)
Borrowings	(19,259)	(19,259)
Deferred tax assets	24	519
Net assets acquired	<u>5,145</u>	<u>93</u>

(b) Associates

10p21 The Group acquired 40% of the share capital of Leisure & Co, a group of companies specialising in the manufacture of leisure shoes, for a cash consideration of C2,050 on 25 January 2007.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

– Cash paid	2,050
– Direct cost relating to the acquisition	<u>70</u>
Total purchase consideration	2,120
Share of fair value of net assets acquired (see below)	<u>(2,000)</u>
Goodwill	<u>120</u>

28p23 The goodwill is attributable to Leisure & 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	Acquiree's carrying amount
Contractual customer relationships	380	–
Property, plant and equipment	3,200	2,400
Inventory	500	500
Cash	220	220
Trade creditors	(420)	(350)
Borrowings	(1,880)	(1,420)
Net assets acquired	<u>2,000</u>	<u>1,350</u>

(c) Equity transactions

10p21
33p71(c)
10p21, 22(f) On 1 January 2007, 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 C3.20 per share (share price: C3.68) (expiry date: 31 December 2010).

The Company re-issued 500,000 treasury shares for a total consideration of C1,500 on 15 January 2007.

(d) Borrowings

10p21 On 1 February 2007, 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 2011 (Note 18).

**PricewaterhouseCoopers**

Address

Country

Telephone:

Facsimile:

Independent auditor's report

To the shareholders of IFRS GAAP Plc

Report on the financial statements

We have audited the accompanying consolidated financial statements of IFRS GAAP Plc and its subsidiaries (together, the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view¹ of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.]

Signature

Date

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.

¹The term 'give a true and fair view' can be changed to 'present fairly, in all material aspects'.

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Operating and financial review

DV1p9 The financial review for any entity should follow national and/or specific stock exchange requirements and guidance. For example, the UK Accounting Standards Board has issued Reporting Statement 1, ‘Operating and Financial Review’ (May 2005) and the US SEC has issued guidance regarding ‘Management’s Discussion & Analysis of Financial Condition and Results of Operations’ (MD&A) to be included in companies’ filing documents.

DV1p10 International Financial Reporting Standards do not address the requirements for information to be included in a directors’ report or financial review. Such requirements are generally determined by local laws and regulations. IAS 1 does not require an entity to present, outside the financial statements, a financial review by management that describes and explains the main features of the entity’s financial performance and financial position, and the principal uncertainties that it faces. Reports and statements presented outside financial statements are outside the scope of IFRS; however, best practice is to ensure that where a financial review is presented, its information is balanced and consistent with disclosures in the financial statements. In some limited cases, IFRSs specifically permit certain disclosures (for example, IFRS 7 B6 – the nature and content of risks arising from financial instruments) to be incorporated by cross-reference from a management commentary or financial review to the financial statements. In such cases, the commentary or review should be available to users of financial statements on the same terms and at the same time as the financial statements.

In 1998, the International Organization of Securities Commissions (IOSCO) issued ‘International Disclosure Standards for Cross-Border Offerings and Initial Listings for 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:

Discuss the Group’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 Group’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 Group’s financial condition, changes in financial condition and results of operations.

1. **Operating Results.** Provide information regarding significant factors, including unusual or infrequent events or new developments, materially affecting the Group’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 Group’s results of operations.
 - (a) 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.
 - (b) 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 Group's business shall be disclosed.

- (c) Provide information regarding the impact of foreign currency fluctuations on the Group, if material, and the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments.
- (d) 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 Group's operations or investments by host country shareholders.

2. Liquidity and Capital Resources. The following information shall be provided:

- (a) Information regarding the Group's liquidity (both short and long term), including:
 - (i) 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 Group that, in its opinion, the working capital is sufficient for the Group's present requirements, or, if not, how it proposes to provide the additional working capital needed.
 - (ii) an evaluation of the sources and amounts of the Group'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 Group to meet its cash obligations.
 - (iii) 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.
- (b) 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.
- (c) Information regarding the Group'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.

3. Research and Development, Patents and Licenses, etc. Provide a description of the Group's research and development policies for the last three years, where it is significant, including the amount spent during each of the last three financial years on Group-sponsored research and development activities.

4. 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.

Consolidated income statement – by nature of expense

As an alternative to the presentation of costs by function shown in the Illustrative Corporate Consolidated Financial Statements, the Group is permitted to present the analysis of costs using the nature of expenditure format (IAS 1, paragraph 91). The following disclosures would be made on the face of the income statement:

1p91		Note	Year ended 31 December	
			2006	2005
1p81(a)	Revenue		211,034	112,360
1p83	Other income	23	3,080	2,379
1p83	Changes in inventories of finished goods and work in progress	12	(6,950)	2,300
1p83	Raw materials and consumables used		(53,302)	(31,845)
1p83	Employee benefits expense	26	(40,090)	(15,500)
1p83	Impairment charges	6,7	(4,650)	-
1p83	Depreciation, amortisation	6, 7	(18,554)	(10,227)
1p83	Transportation expense		(8,584)	(6,236)
1p83	Advertising costs		(12,759)	(6,662)
1p83	Operating lease payments		(10,604)	(8,500)
1p83	Other (losses)/gains – net	22	(90)	63
1p83	Loss on expropriated land	24	(1,117)	-
1p83	Other expenses		(2,799)	(1,659)
	Operating profit		54,615	36,473
1p83	Finance income	27	550	489
1p81(b)	Finance costs	27	(7,623)	(11,549)
1p83	Finance costs – net	27	(7,073)	(11,060)
1p81(c)	Share of (loss)/profit of associate	8	(174)	145
	Profit before income tax		47,368	25,558
1p81(d), 12p77	Income tax expense		(14,792)	(8,865)
1p81(f)	Profit for the year		32,576	16,693
1p82	Attributable to:			
1p82(b)	Equity holders of the Company		30,028	15,837
1p82(a)	Minority interest		2,548	856
			32,576	16,693
33p66	Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in C per share)			
	– basic	30	1.28	0.77
	– diluted	30	1.16	0.73

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

Consolidated statement of recognised income and expense

As an alternative to the presentation of changes in equity in the Illustrative Corporate Consolidated Financial Statements, the Group is permitted to present as a primary statement the statement of recognised income and expense (SoRIE)¹, and to present the reconciliation of opening and closing balances of share capital, reserves and retained earnings in the notes (IAS 1 (revised 2004) guidance on implementing IAS 1) unless it chooses to apply the option in Amendment to IAS 19 to recognise all actuarial gains and losses directly in equity. In this case, the Group would be required to present the SoRIE as a primary statement².

		Year ended	
		31 December	
	Note	2006	2005
1p96(b)	Net fair value gains, gross of tax:		
16p77(f)	– Land and buildings	–	759
IFRS7p20(a)(ii)	– Available-for-sale financial assets	350	48
1p96(b), IFRS7p23(c)	Cash flow hedges	64	(3)
1p96(b)	Excess tax on share option scheme	30	20
1p96(b)	Net investment hedge	(45)	40
1p96(b)	Currency translation differences	2,244	(156)
1p96(b)	Net income recognised directly in equity	2,643	708
1p96(a)	Profit for the year	32,576	16,693
1p96(c)	Total recognised income for the year	35,219	17,401
Attributable to:			
1p96(c)	– Equity holders of the Company	32,419	16,585
1p96(c)	– Minority interest	2,800	816
		35,219	17,401

¹ If according to IAS19.93A actuarial gains and losses are recognised outside the income statement in the period in which they occur, a statement of recognised income and expense should be presented (IAS19.93A).

² Line items can be presented either net of tax as above or gross with a separate line item for the total tax impact (IAS1 IG4).

Consolidated cash flow statement – 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 7 (revised 1994), paragraph 18, is as follows:

1p104	Note	Year ended	
		2006	2005
7p10, 18(a)	Cash flows from operating activities		
	Cash receipts from customers	212,847	114,,451
	Cash paid to suppliers and employees	(156,613)	(72,875)
	Cash generated from operations	56,234	41,576
	Interest paid	(7,835)	(14,125)
	Income taxes paid	(14,317)	(10,974)
	Net cash flows from operating activities	34,082	16,477
7p10, 21	Cash flows from investing activities		
7p39	Acquisition of subsidiary, net of cash acquired	35	(3,950)
7p16(a)	Purchases of property, plant and equipment (PPE)	6	(9,755)
7p16(b)	Proceeds from sale of PPE	32	6,354
7p16(a)	Purchases of intangible assets	7	(3,050)
7p16(c)	Purchases of available-for-sale financial assets	9	(2,781)
7p16(e)	Loans granted to associates	36	(1,000)
7p16(f)	Loan repayments received from associates	36	14
7p31	Interest received		1,254
7p31	Dividends received		1,180
	Net cash used in investing activities		(11,734)
7p10, 21	Cash flows from financing activities		
7p17(a)	Proceeds from issuance of ordinary shares	15	950
7p17(b)	Purchase of treasury shares	15	(2,564)
7p17(c)	Proceeds from issuance of convertible bonds	18	50,000
7p17(c)	Proceeds from issuance of redeemable preference shares	18	–
7p17(c)	Proceeds from borrowings		8,500
7p17(d)	Repayments of borrowings		(75,967)
7p31	Dividends paid to group shareholders		(10,102)
7p31	Dividends paid to holders of redeemable preference shares		(1,950)
7p31	Dividends paid to minority interests		(1,920)
	Net cash used in financing activities		(33,053)
	Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(10,705)
	bank overdrafts		12,225
	Cash, cash equivalents and bank overdrafts at beginning of year		29,748
	Exchange gains/(losses) on cash, cash equivalents and bank overdrafts		535
	Cash, cash equivalents and bank overdrafts at end of year	14	29,748

The notes on pages x to xx are an integral part of these consolidated financial statements.

Non-current assets held for sale and discontinued operations

The following terms are defined by IFRS 5:

- IFRS5p6**
- Non-current assets held for sale (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset.
- IFRS5p32**
- A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

Note – Accounting policies

- 1p110** *Non-current assets (or disposal groups) held for sale*
- IFRS5p6,15** Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

Consolidated balance sheet (extracts)

		Note	2006	2005
1p51	Current assets			
1p68(g)	Inventories		24,700	17,740
1p68(h), IFRS7p8(c)	Trade and other receivables		19,765	18,102
1p68(d), IFRS7p8(d)	Available-for-sale financial assets		1,950	–
1p68(d), IFRS7p8(a)	Derivative financial instruments		1,069	951
1p68(d), IFRS7p8(a)	Other financial assets at fair value through profit or loss		11,820	7,972
1p68(i), IFRS7p8	Cash and cash equivalents		22,228	36,212
			<u>81,532</u>	<u>80,977</u>
IFRS5p38	Non-current assets held for sale	(a)	3,333	–
			<u>84,865</u>	<u>80,977</u>
1p51	Current liabilities			
1p68(j), IFRS7p8(f)	Trade and other payables		17,670	12,374
1p68(m)	Current income tax liabilities		2,942	2,846
1p68(l), IFRS7p8(e)	Borrowings		9,524	15,670
1p68(l), IFRS7p8(f)	Derivative financial instruments		460	618
1p68(k)	Provisions for liabilities and charges		2,222	2,300
			<u>32,818</u>	<u>33,808</u>
IFRS5p38	Liabilities directly associated with non-current assets classified as held for sale	(b)	220	–
			<u>33,038</u>	<u>33,808</u>

Consolidated income statement

		Note	2006	2005
	Continuing operations			
1p81(a)	Revenue		211,034	112,360
1p92	Cost of sales		(77,366)	(46,682)
1p92	Gross profit		<u>133,668</u>	<u>65,678</u>
1p92	Distribution costs		(52,140)	(21,213)
1p92	Administrative expenses		(28,786)	(10,434)
1p83	Other income		3,080	2,379
1p83	Other (losses)/gains – net		(90)	63
1p83	Loss on expropriated land		(1,117)	–
1p83	Operating profit		<u>54,615</u>	<u>36,473</u>
1p83	Finance income		550	489
1p81(b)	Finance costs		(7,623)	(11,549)
1p83	Finance costs – net		(7,073)	(11,060)
1p81(c)	Share of (loss)/profit of associates		(174)	145
1p83	Profit before income tax		<u>47,368</u>	<u>25,558</u>
1p81(e), 12p77	Income tax expense		(14,792)	(8,865)
	Profit for year from continuing operations		<u>32,576</u>	<u>16,693</u>
	Discontinued operations			
IFRS5p33(a)	Profit for year from discontinued operations	(c)	100	120
1p81(f)	Profit for year		<u>32,676</u>	<u>16,813</u>
1p82	Attributable to:			
1p82(b)	Equity holders of the Company		30,028	15,957
1p82(a)	Minority interest		2,648	856
			<u>32,676</u>	<u>16,813</u>
33p66	Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year (expressed in C per share)			
	– basic		<u>1.28</u>	<u>0.77</u>
	– diluted		<u>1.16</u>	<u>0.73</u>
33p68	Earnings per share for profit from discontinued operations attributable to the equity holders of the Company during the year (expressed in C per share) ¹			
	– basic		<u>0.01</u>	<u>0.01</u>
	– diluted		<u>0.01</u>	<u>0.01</u>

¹ EPS for discontinued operations may be given in the notes instead of on the face of the income statement.

Note – Non-current assets held for sale and discontinued operations

IFRS5p41(a)(b)(d) The assets and liabilities related to Omikron (part of the manufacturing and wholesale segment) have been presented as held for sale following the approval of the Group's management and shareholders on 23 September 2006 to sell Omikron in Euravia. The completion date for the transaction is expected by May 2007.

		2006	2005
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	<u>(98)</u>	<u>104</u>
IFRS5p38	<i>(a) Non-current assets classified as held for sale</i>		
	Disposal group held for sale:	2006	2005
	– Property, plant and equipment	341	–
	– Intangible assets	100	–
	– Inventory	442	–
	– Other current assets	228	–
		<u>1,111</u>	<u>–</u>
	Non-current assets held for sale:		
	– Property, plant and equipment	1,222	–
	– Intangible assets	1,000	–
		<u>2,222</u>	<u>–</u>
	Total	<u>3,333</u>	<u>–</u>
IFRS5p38	<i>(b) Liabilities directly associated with non-current assets classified as held for sale</i>		
		2006	2005
	Trade and other payables	104	–
	Other current liabilities	20	–
	Provisions	96	–
		<u>220</u>	<u>–</u>
IFRS5p33(b)	<i>(c) Analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets or disposal group²:</i>		
		2006	2005
	Revenue	1,200	1,150
	Expenses	(960)	(950)
	Profit from discontinued operations – before tax	<u>240</u>	<u>200</u>
12p81(h)(ii)	Tax	(96)	(80)
	Profit from discontinued operations – after tax	<u>144</u>	<u>120</u>
IFRS5p41(c)	Pre-tax gain/(loss) recognised on the remeasurement of assets of disposal group	(73)	–
12p81(h)(ii)	Tax	29	–
	Gain/(loss) recognised on the remeasurement of assets of disposal group – after tax	<u>(44)</u>	<u>–</u>
	Profit for the year from discontinued operations	<u>100</u>	<u>120</u>

¹ Under this approach, the entity presents the cash flow statement as if no discontinued operation has occurred and makes the required IFRS 5p33 disclosures in the notes. It would also be acceptable to present the three categories separately on the face of the cash flow statement and present the line-by-line breakdown of the categories, either in the notes or on the face of the cash flow statement. It would not be acceptable to present all cash flows from discontinued operations in one line either as investing or operating activity.

² These disclosures can also be given on the face of the primary financial statements.

Investment property

40p5 Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals, realise capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Note – Accounting policies

(a) Basis of preparation¹

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 at fair value through profit or loss and investment properties, which are carried at fair value.

1p110 (b) Investment property¹

40p75(a,d,e) Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing the open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by [name of the external valuers]. Changes in fair values are recorded in the income statement as part of other income.

40p6, 25 Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Consolidated balance sheet (extracts)

		2006	2005
	ASSETS		
1p51	Non-current assets		
1p68(a)	Property, plant and equipment	155,341	98,670
1p68(b)	Investment property	18,108	15,690

Note – Investment property

		2006	2005
40p76	Beginning of year	15,690	16,043
40p76(e)	Exchange differences	748	(1,396)
40p76(d)	Fair value gains (included in other (losses)/gains – net)	1,670	1,043
40p76	End of year	18,108	15,690

40p75(d)(e) The investment properties are valued annually on 31 December at fair value based on market values determined by an independent qualified valuer.

The following amounts have been recognised in the income statement:

		2006	2005
40p75(f)(i)	Rental income	770	620
40p75(f)(ii)	Direct operating expenses arising from investment properties that generate rental income	(640)	(550)
40p75(f)(ii)	Direct operating expenses that did not generate rental income	(40)	(20)

¹ To be approximately amended if the cost method is applied.

Note – Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

		2006	2005
16p74(c)	Property, plant and equipment	3,593	3,667
40p75(h)	Investment property	290	–
	Investment property – repairs and maintenance		
40p75(h)	Contractual obligations for future repairs and maintenance of investment property	140	130

Construction contracts

11p3 A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset.

Note – Accounting policies*Construction contracts*

11p39(b)(c) Contract costs are recognised when incurred. 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. 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. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

11p31 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 balance sheet date 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. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within trade and other receivables¹.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Consolidated balance sheet (extracts)

		Note	2006	2005
1p51	Current assets			
1p68(h)	Trade and other receivables	11	23,303	20,374
1p51	Current liabilities			
1p68(j)	Trade and other payables	17	18,667	13,629

¹ Disclose the appropriate line item used.

Consolidated income statement (extracts)

1p81-83		Note	2006	2005
11p39(a)	Contract revenue		58,115	39,212
11p16	Contract costs		(54,729)	(37,084)
1p92	Gross profit		3,386	2,128
1p92	Selling and marketing costs		(386)	(128)
1p92	Administrative expenses		(500)	(400)

Note – Trade and other receivables

		2006	2005
IFRS7p36, 1p74	Trade receivables	18,174	16,944
	Less: Provision for impairment of receivables	(109)	(70)
1p75(b)	Trade receivables – net	18,065	16,874
11p42(a)	Amounts due from customers for contract work	984	788
11p40(c)	Retentions	232	132
1p75(b)	Prepayments	1,300	1,146
1p75(b), 24p17(b)	Receivables from related parties (Note 36)	54	46
1p75(b), 24p17(b)	Loans to related parties (Note 36)	2,668	1,388
		23,303	20,374

Note – Trade and other payables

		2006	2005
1p74	Trade payables	11,983	9,391
24p17	Amounts due to related parties (Note 36)	2,202	1,195
11p42(b)	Amounts due to customers for contract work	855	900
11p40(b)	Advances received for contract work	142	355
	Social security and other taxes	2,002	960
	Accrued expenses	1,483	828
		18,667	13,629

Leases: accounting for finance leases by lessee

17p4 IAS 17 defines a lease as being 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

1p110 The Group leases certain property, plant and equipment. Leases of property, plant and equipment
17p4 where the Group has substantially all the risks and rewards of ownership are classified as finance
17p20 leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

17p27 Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and 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.

Note – Property, plant and equipment

Vehicles and machinery includes the following amounts where the Group is a lessee under a finance lease:

	2006	2005
Cost – capitalised finance leases	13,996	14,074
Accumulated depreciation	(5,150)	(3,926)
17p31(a) Net book amount	8,846	10,148

Note – Borrowings

	2006	2005
Non-current		
Bank borrowings	32,193	40,244
Convertible bonds	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 overdrafts (Note 14)	2,650	6,464
Collateralised borrowings (Note 11)	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

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

	2006	2005
17p31(b) 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 leases	(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:		
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

IFRS7p39(a), AppxBp14(a) The gross finance lease obligation is as follows:		
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 costs	(2,106)	(2,656)
Present value of finance lease liabilities	8,998	10,598

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

1p110 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.

17p4

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

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 is recognised over the term of the lease on a straight-line basis.

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		2006	2005
	Cost	70,234	–
	Accumulated depreciation at 1 January	(14,818)	–
	Depreciation charge for the year	(5,058)	–
	Net book amount	50,358	–

Note – Trade and other receivables (extracts)

1p75(b)		2006	2005
	Non-current receivables		
	Finance leases – gross receivables	1,810	630
	Unearned finance income	(222)	(98)
		1,588	532
1p75(b)	Current receivables		
	Finance leases – gross receivables	1,336	316
	Unearned finance income	(300)	(98)
		1,036	218
17p47(a)	Gross receivables from finance leases		
	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
17p47(b)	Unearned future finance income on finance leases	(522)	(196)
	Net investment in finance leases	2,624	750
17p47(a)	The net investment in finance leases may be analysed as follows:		
	No later than 1 year	1,036	218
	Later than 1 year and no later than 5 years	1,588	532
	Later than 5 years	–	–
		2,624	750

Note – Operating leases**17p56(a) Operating leases – Group company is lessor**

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2006	2005
No later than 1 year	12,920	–
Later than 1 year and no later than 5 years	41,800	–
Later than 5 years	840	–
	55,560	–

17p56(b) Contingent-based rents recognised in the income statement were C235 (2005: nil).

17p56(c) The Company leases vehicles under various agreements, which terminate between 2007 and 2012. The agreements do not include an extension option.

Investments: held-to-maturity financial assets**Note – Accounting policies****Investments**

1p110 (c) *Held-to-maturity financial assets*

39p9

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

Consolidated balance sheet (extract)

		2006	2005
1p51	Non-current assets		
1p68(d)	Investment financial assets	21,419	15,919
	Current assets		
1p68(d)	Investment financial assets	1,950	–

Note – Investment financial assets

IFRS7p27(b), 31,34 (a) *Available-for-sale financial assets*

	2006	2005
Listed securities:		
– Equity securities – Currency-zone countries	8,335	8,300
– Equity securities – US	5,850	2,086
– Equity securities – UK	4,550	4,260
– Debentures with fixed interest of 6.5% and maturity date of 27 August 2010	210	–
– Non-cumulative 9.0% non-redeemable preference shares	78	–
Unlisted securities:		
– Debt securities with fixed interest ranging from 6.3% to 6.5% and maturity dates between July 2009 and May 2011	347	264
	19,370	14,910

The movement in available-for-sale financial assets may be summarised as follows:

	2006	2005
Beginning of year	14,910	14,096
Exchange differences	646	(435)
Acquisition of subsidiary (Note 35)	473	–
Additions	2,781	1,126
Revaluation surplus transfer to equity (Note 16)	560	123
End of year	<u>19,370</u>	<u>14,910</u>
Less: non-current portion	(17,420)	(14,910)
1p57 Current portion	<u>1,950</u>	<u>–</u>

IFRS7p16 There were no disposals or impairment provisions on available-for-sale financial assets in 2006 or 2005.

IFRS7p27(a,b) The fair values of unlisted available-for-sale 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 (2006: 6%; 2005: 5.8%).

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

IFRS7p36(c) None of the available-for-sale financial assets are either past due or impaired.

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

	2006	2005
Currency	7,897	8,121
US dollar	5,850	2,086
UK pound	4,550	4,260
Other currencies	1,073	443
	<u>19,370</u>	<u>14,910</u>

IFRS7p27(b), 31,34 (b) *Held-to-maturity financial assets*

	2006	2005
Listed securities		
Debentures with fixed interest of 5% and maturity date of 15 June 2010 – Currency-zone countries	4,018	984
Debentures with fixed interest of 5.5% and maturity date of 15 June 2006 – US	–	160
Allowance for impairment	(19)	(45)
	<u>3,999</u>	<u>1,099</u>

The movement in held-to-maturity financial assets may be summarised as follows:

	2006	2005
Beginning of year	1,009	390
Exchange differences	81	56
Additions	3,093	888
Disposals	(165)	(280)
Provision for impairment	(19)	(45)
End of year	<u>3,999</u>	<u>1,009</u>
Less: non-current portion	(3,999)	(1,009)
1p57 Current portion	<u>–</u>	<u>–</u>

IFRS7p16	Movements on the provision for impairment of held-to-maturity financial assets are as follows:	2006	2005
	At 1 January	45	30
IFRS7p20(e)	Creation of provision for impairment	–	16
	Receivables written off during the year as uncollectible	–	–
	Unused amounts of provision reversed	(26)	(3)
	Unwind of discount (Note 27)	–	2
	At 31 December	19	45
IFRS7p12(b)	The Group has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2005: nil).		
IFRS7p20(a)(iii)	There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2006 and 2005, as all financial assets were disposed of at their redemption date.		
IFRS7p25	The fair value of held-to-maturity financial assets is based on quoted market bid prices (2006: C3,901; 2005: C976).		
IFRS7p34(c)	Held-to-maturity financial assets are denominated in the following currencies:	2006	2005
	Currency	2,190	990
	US dollar	1,809	109
		3,999	1,099
IFRS7p36(a)	The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity financial assets.		

Development costs

Note – Accounting policies

1p110	<i>Research and development</i>
38p46 38p57	Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled: (a) it is technically feasible to complete the intangible asset so that it will be available for use or sale; (b) management intends to complete the intangible asset and use or sell it; (c) there is an ability to use or sell the intangible asset; (d) it can be demonstrated how the intangible asset will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and (f) the expenditure attributable to the intangible asset during its development can be reliably measured.
38p113(a) 38p113(a)	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. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with IAS 36.

Note – Research and development expenditure

The following amounts were recognised as expenses and charged to cost of sales in the income statement:

	2006	2005
38p126 Research and non-capitalised development costs	239	205

Note – Intangible assets (extract)

	Development costs
38p118(c) At 1 January 2005	
Cost	2,318
Accumulated amortisation and impairment	(1,287)
Net book amount	1,031
38p118(e) Year ended 31 December 2005	
Opening net book amount	1,031
Additions	452
Amortisation charge	(502)
Closing net book amount	981
38p118(c) At 31 December 2005	
Cost	2,770
Accumulated amortisation and impairment	(1,789)
Net book amount	981
38p118(e) Year ended 31 December 2006	
Opening net book amount	981
Additions	512
Amortisation charge	(316)
Closing net book amount	1,177
38p118(c) At 31 December 2006	
Cost	3,282
Accumulated amortisation and impairment	(2,105)
Net book amount	1,177

38p118(d) Amortisation of development costs is included in cost of goods sold in the income statement.

38p118(e)(i) All development costs arose from internal development.

Government grants**Note – Accounting policies**

Government grants¹

20p39(a), 20p12 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.

¹ To be appropriately amended if the alternative method is used.

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) The Group obtained and recognised as income a government grant of C100 (2005: nil) to compensate
20p39(c) 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 Euravia; such assistance includes marketing research and similar services provided by various Euravian government agencies free of charge.

Joint ventures

Note – Accounting policies

2.2 Consolidation

1p110

(c) Joint ventures

31p57

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. 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 it 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 resells 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.

Note – Interest in joint ventures

31p56

The Group has a 50% interest in a joint venture, JV & Co, which provides products and services to the automotive 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:

	2006	2005
Assets		
Long-term assets	2,730	2,124
Current assets	803	717
	3,533	2,841
Liabilities		
Long-term liabilities	1,114	1,104
Current liabilities	355	375
	1,469	1,479
Net assets		
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.

Agriculture

41p5 Agricultural activity is defined by the management as an enterprise of the biological transformation of biological assets for sale into agricultural produce or into additional biological assets.

Note – Accounting policies

1p110 *Livestock and milk*

41p47 Livestock are measured at their fair value less estimated point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

Consolidated balance sheet (extracts)

1p68		2006	2005
	ASSETS		
1p51	Non-current assets		
1p68(a)	Property, plant and equipment	155,341	98,670
41p39	Biological assets	46,600	29,600
1p51	Current assets		
	Inventories	220	195

Consolidated income statement (extracts)

	2006	2005
Fair value of milk produced	51,240	30,900
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	3,930	4,028

Note – General information

41p46 Lamda Dairy Ltd is engaged in milk production for supply to various customers. At 31 December 2006, the Company held 419 cows able to produce milk (mature assets) and 137 heifers that are being raised to produce milk in the future (immature assets). The Company produced 157,584 litres of milk with a fair value less estimated point-of-sale costs of C51,240 (that is determined at the time of milking) in the year ended 31 December 2006.

Note – Biological assets

	2006	2005
41p50 Beginning of year	29,600	34,570
Increases due to purchases	26,250	15,350
Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes ¹	1,530	1,448
Gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes ¹	2,400	2,580
Decreases due to sales	(13,180)	(24,348)
End of the year	<u>46,600</u>	<u>29,600</u>

¹ Separating the increase in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by IAS 41.

Borrowing costs

Note – Accounting policies

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Note – Finance costs – net

23p29(b) Borrowing costs of C31 (2005: C49) arising on financing specifically entered into for the construction of
23p29(c) a new factory were capitalised during the year and are included in ‘additions’ in property, plant and equipment.

A capitalisation rate of 7.5% (2005: 7.2%) was used, representing the borrowing cost of the loan used to finance the project.

Transactions with minority shareholders – ‘economic entity approach’

Note – Accounting policies

IFRS3 The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

Oil and gas exploration assets

Note – Accounting policies

IFRS6p24 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 tangible and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

(b) Oil and gas production assets

Oil and gas properties are aggregated exploration and evaluation tangible assets and development expenditures associated with the production of proven reserves.

(c) Depreciation/amortisation

Oil and gas properties/intangible assets are depreciated/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.

(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. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

(e) Impairment – proven oil and gas 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.

Notes to the financial statements (extracts)*(a) Property, plant and equipment¹*

	Exploration and evaluation	Development	Subtotal – assets under construction	Production	Other businesses and corporate	Total
At 1 January 2006						
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 2006						
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 2006						
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 2005 are not disclosed, although they are required by IAS 1.

(b) Intangible assets¹

	Exploration and evaluation	Development	Subtotal – intangible assets in progress	Production	Goodwill	Other	Total
At 1 January 2006							
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 2006							
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 2006							
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:

	2006	2005
Receivables from joint venture partners	25	22
Payable to subcontractors and operators	32	34

Exploration and evaluation activities have led to total expenses of C59,000 (2005: C57,000), of which C52,000 (2005: C43,000) are impairment charges.

In 2006, the disposal of a 16.67% interest in an offshore exploration stage 'Field X' resulted in post-tax profits on sale of C3,000 (2005: nil).

Cash payments of C415,000 (2005: C395,000) 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 (2005: nil).

¹ For the purpose of this illustrative appendix, comparatives for the year ended 31 December 2005 are not disclosed, although they are required by IAS 1.

Contingent assets

Note – Contingencies

Contingent assets

37p89 The Group has entered into an ‘earn-out’ agreement in connection with the disposal on 23 September 2006 of Omikron. Additional cash consideration will be payable to the Group if the future performance of Omikron reaches a certain level. No gain has been recognised in the financial statements, as the amount of the earn-out is dependent on the aggregate result of Omikron for the 18-month period ending 31 March 2008.

Revenue recognition: multiple element arrangements

Note – Accounting policies

The Group offers certain arrangements whereby a customer can purchase a personal computer together with a two-year servicing agreement. When such multiple element arrangements exist, the amount recognised as revenue upon the sale of the personal computer is the fair value of the computer in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement, is recognised over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

Defaults and breaches of loans payable

Note 18 – Borrowings (extract)

IFRS7p18 The Company was overdue paying interests on banks borrowings with a carrying amount of C10,000. The Company experienced a temporary shortage of currencies because cash outflows in the second and third quarters for business expansions in certain Currency-zone countries were higher than anticipated. As a result, interest payables of C700 due by 30 September 2006 remained unpaid.

The Company has paid all outstanding amounts (including additional interests and penalties for the late payment) during the fourth quarter.

Management expects that the Company will be able to meet all contractual obligations from borrowings on a timely basis going forward.

Covenants

Some of the Company’s credit contracts are subject to covenant clauses, whereby the Company is required to meet certain key performance indicators. The company did not fulfil the debt/equity ratio as required in the contract for a credit line of C30,000, of which the Company has currently drawn an amount of C15,000.

Due to this breach of the covenant clause, the bank is contractually entitled to request early repayment of the outstanding amount of C15,000. The outstanding balance was reclassified as a current liability. Management started renegotiating the terms of the loan agreement when it became likely that the covenant clause may be breached.

The bank has not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors. Management expects that a revised loan agreement will be in place during the first quarter of 2007.

Disposal and impairment of available-for-sale financial assets

Note – Available-for-sale financial assets

		2006	2005
	Beginning of year	14,910	14,096
	Exchange differences	646	(435)
	Acquisition of subsidiary (Note 35)	473	-
	Additions	2,911	1,278
	Net gains/(losses) transfer to equity (Note 16)	560	123
	Net gains/(losses) transfer from equity (Note 16)	(130)	(152)
	End of year	19,370	14,910
	Less: non-current portion	(17,420)	(14,910)
1p57	Current portion	1,950	-

IFRS7p20(a)(ii) The Group removed profits of C217 (2005: C187) and losses C87 (2005: C35) from equity into the income statement. Losses in the amount of C55 (2005: C20) were due to impairments.

IFRS7p27(b), 31, 34, Available-for-sale financial assets include the following:

	2006	2005
Listed securities:		
– Equity securities – Currency-zone countries	8,335	8,300
– Equity securities – US	5,850	2,086
– Equity securities – UK	4,550	4,260
– Debentures with fixed interest of 6.5% and maturity date of 27 August 2010	210	-
– Non-cumulative 9.0% non-redeemable preference shares	78	-
Unlisted securities:		
– Debt securities with fixed interest ranging from 6.3% to 6.5% and maturity dates between July 2009 and May 2011	347	264
	19,370	14,910

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

	2006	2005
Currency	7,897	8,121
US dollar	5,850	2,086
UK pound	4,550	4,260
Other currencies	1,073	443
	19,370	14,910

IFRS7p27(a), (b) 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 (2006: 6%; 2005: 5.8%).

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

IFRS7p36(c) None of the financial assets are either past due or impaired.

Employee benefits

This section summarises the illustrative disclosure for post-employment benefits on adoption of the option in IAS 19 to recognise actuarial gains and losses outside of the income statement.

The changes to the accounting policy note resulting from the immediate recognition of actuarial gains and losses under IAS 19 are highlighted in italics. The parts that are not in italics are the same as disclosures in the Illustrative Consolidated Financial Statements of IFRS GAAP Plc for the year ended 31 December 2006.

In addition, the statement of changes in equity would have to be changed to the format of the statement of recognised income and expense (SoRIE), in accordance with IAS 1, and all the transactions with shareholders should be moved to the notes.

Note – Accounting policies

- 1p110** (a) *Pension obligations*
- 19p27** Group companies operate various pension schemes. The schemes are generally funded through
- 19p25** payments to insurance companies or trustee-administered funds, determined by periodic actuarial
- 19p120A(b)** 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. Defined benefit plans typically 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** The liability recognised in the balance sheet in respect of defined benefit pension plans is the present
- 19p80** value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is
- 19p64** 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 liability.
- 19p93-93D** *Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions*
- 19p120A(a)** *are charged or credited to equity in the SoRIE in the period in which they arise.*
- 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.
- 1p110** (b) *Other post-employment obligations*
- 19p120A(a)** Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement
- 19p120A(b)** 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
- 19p127** pension plans. *Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the SoRIE in the period in which they arise.* These obligations are valued annually by independent qualified actuaries.

Note – Retirement benefit obligations

	2006	2005
Balance sheet obligations for:		
Pension benefits	3,225	1,532
Post-employment medical benefits	1,410	701
	<u>4,635</u>	<u>2,233</u>
Income statement charge for (Note 26)¹:		
Pension benefits	755	488
Post-employment medical benefits	149	107
	<u>904</u>	<u>595</u>
<i>(a) Pension benefits</i>		
19p120A(d)(f)	The amounts recognised in the balance sheet are determined as follows:	
	2006	2005
Present value of funded obligations	6,155	2,943
Fair value of plan assets	(5,991)	(2,797)
	<u>164</u>	<u>146</u>
Present value of unfunded obligations	3,206	1,549
Unrecognised past service cost	(145)	(163)
Liability in the balance sheet	<u>3,225</u>	<u>1,532</u>
19p120A(g)	The amounts recognised in the income statement are as follows:	
	2006	2005
Current service cost	751	498
Interest cost	431	214
Expected return on plan assets	(510)	(240)
Past service cost	18	16
Losses on curtailment	65	–
Total, included in staff costs (Note 26)	<u>755</u>	<u>488</u>
19p120A(g)	Of the total charge, C516 (2005: C319) and C239 (2005: C169) were included in cost of goods sold and administrative expenses respectively.	
19p120A(m)	The actual return on plan assets was C495 (2005: C235).	

¹ These amounts will also be disclosed in Note 26. Note 26 in the Group's accounts does not currently reconcile to this note as IFRS GAAP Plc has not chosen the option in IAS 19 to recognise actuarial gains and losses outside of the income statement.

19p120A(c)	The movement in the defined benefit obligation over the year is as follows:	2006	2005
	Beginning of year	4,492	3,479
	Current service cost	751	498
	Interest cost	431	214
	Contributions by plan participants	55	30
	Actuarial losses/(gains)	(15)	495
	Exchange differences	(43)	(103)
	Benefits paid	(66)	(121)
	Liabilities acquired in a business combination (Note 35)	3,691	–
	Curtailments	65	–
	Settlements ¹	–	–
	End of year	9,361	4,492
19p120A(e)	The movement in the fair value of plan assets of the year is as follows:	2006	2005
	Beginning of year	2,797	2,264
	Expected return on plan assets	510	240
	Actuarial (losses)/gains	(15)	(5)
	Exchange differences	25	(22)
	Employer contributions	908	411
	Employee contributions	55	30
	Benefits paid	(66)	(121)
	Business combinations (Note 35)	1,777	–
	End of year	5,991	2,797
19p120A(n)	The principal actuarial assumptions used were as follows:	2006	2005
	Discount rate	7.0%	6.8%
	Expected return on plan assets	8.5%	8.3%
	Future salary increases	5.0%	4.5%
	Future pension increases	3.0%	2.5%
	Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.		
	The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:		
		2006	2005
	Male	18.5	18.5
	Female	22.0	22.0
	The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:		
		2006	2005
	Male	19.5	19.5
	Female	22.5	22.5
19p122(b)	<i>(b) Post-employment medical benefits</i>		
	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.		
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 (2005: 7.6%).		

¹ In practice, were these balances zero, these lines could be omitted. They have been included to highlight the required information.

19p120A(d)(f)	The amounts recognised in the balance sheet were determined as follows:		
		2006	2005
	Present value of funded obligations	705	340
	Fair value of plan assets	(620)	(302)
		<u>85</u>	<u>38</u>
	Present value of unfunded obligations	1,325	663
	Liability in the balance sheet	<u>1,410</u>	<u>701</u>
19p120A(g)	The amounts recognised in the income statement were as follows:		
		2006	2005
	Current service cost	153	107
	Interest cost	49	25
	Expected return on plan assets	(53)	(25)
	Total, included in staff costs (Note 26) ¹	<u>149</u>	<u>107</u>
19p120A(g)	Of the total charge, C102 (2005: C71) and C47 (2005: C36) respectively were included in cost of goods sold and administrative expenses.		
19p120(g)	The actual return on plan assets was C51 (2005: C24).		
19p120(e)	Movement in the defined benefit obligation is as follows:		
		2006	2005
	Beginning of year	1,003	708
	Current service cost	153	107
	Interest cost	49	25
	Contributions by plan participants ²	–	–
	Actuarial losses/(gains)	(2)	204
	Exchange differences	25	(41)
	Benefits paid ²	–	–
	Liabilities acquired in a business combination (Note 35)	802	–
	Curtailments ²	–	–
	Settlements ²	–	–
	End of year	<u>2,030</u>	<u>1,003</u>
19p120A(e)	The movement in the fair value of plan assets of the year is as follows:		
		2006	2005
	Beginning of year	302	207
	Expected return on plan assets	53	25
	Actuarial gains/(losses)	(2)	(1)
	Exchange differences	5	(2)
	Employer contributions	185	73
	Employee contributions ²	–	–
	Benefits paid ²	–	–
	Business combinations (Note 35)	77	–
	End of year	<u>620</u>	<u>302</u>

¹ These amounts will also be disclosed in Note 26. Note 26 in the Group's accounts does not currently reconcile to this note as IFRS GAAP Plc has not chosen the option in IAS 19 to recognise actuarial gains and losses outside of the income statement.

² In practice, were these balances zero, these lines could be omitted. They have been included to highlight the required information.

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)
				2006	2005
19p120A(h)	<i>Actuarial gains/(losses) and losses recognised in the SoRIE</i>			–	705
19p120A(i)	<i>The cumulative actuarial gains/(losses) recognised in the SoRIE</i>			705	705
19p120A(j)	Plan assets are comprised as follows:				
		2006		2005	
	Equity	3,256	49%	1,595	51%
	Debt	2,571	39%	855	28%
	Other	784	12%	649	21%
		6,611	100%	3,099	100%
19p120A(k)	Pension plan assets include the Company's ordinary shares with a fair value of C136 (2005: C126) and a building occupied by the Group with a fair value of C612 (2005: 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 balance sheet date. 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 2007 are C1,150.				
19p120A(p)		2006	2005	2004	2003¹
	As at 31 December				
	Present value of defined benefit obligation	11,391	5,495	4,187	3,937
	Fair value of plan assets	6,611	3,099	2,471	2,222
	Deficit/(surplus)	4,780	2,396	1,716	1,715
	Experience adjustments on plan liabilities	(326)	125	55	–
	Experience adjustments on plan assets	(17)	(6)	(197)	–

¹ IAS 19 requires a five-year record but this does not have to be applied retrospectively (IAS 19p160).

Critical accounting estimates

1p116 The following critical accounting estimates may be applicable, among many other possible areas not presented in IFRS GAAP Plc consolidated financial statements.

Useful lives of technology division's plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Were the actual useful lives of the technology division plant and equipment to differ by 10% from management's estimates, the carrying amount of the plant and equipment would be an estimated C1,000 higher or C970 lower.

Pension benefits

This applies where the Group's accounting policy is to recognise any actuarial gains or losses immediately through the income statement.

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 liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 20.

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.

Warranty claims

The Group generally offers three-year warranties for its personal computer products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

Were claims costs to differ by 10% from management's estimates, the warranty provisions would be an estimated C2,000 higher or C1,875 lower.

Critical accounting judgments

1p113 The following critical accounting judgments may be applicable, among many other possible areas not presented in IFRS GAAP Plc's consolidated financial statements.

Held-to-maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances defined in IAS 39, it will be required to reclassify the whole class as available for sale. The investments would therefore be measured at fair value not amortised cost.

If the class of held-to-maturity investments is tainted, the carrying value of the investments would increase by C2,300, with a corresponding entry in the fair value reserve in shareholders' equity.

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