

## **DEBT FREE DIRECT GROUP PLC**

**(“DFD” or “The Group”)**

### **Announces**

#### **International Financial Reporting Standards**

Debt Free Direct Group plc is presenting a summary of its accounts for the year ended 30 April 2007 and half year financial statements for the period ended 31 October 2006, restated under International Financial Reporting Standards (‘IFRS’) as adopted by the European Union. The change in accounting basis arises from legislation requiring all AIM listed companies to apply IFRS in their financial statements.

The disclosures include guidance as to the effect of IFRS on the Group’s reported results and balance sheets and comparative figures expected to be used in the half year financial statements for the period to 31 October 2007 and financial statements for the period to 31 December 2007.

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# Adoption of International Financial Reporting Standards ('IFRS')

## Summary of results presented under IFRS

### Introduction

On 27 June 2007 DFD reported its financial results for the year ended 30 April 2007, prepared for the last time under UK Generally Accepted Accounting Practice ('UK GAAP'). Going forward the Group will prepare its consolidated financial statements in accordance with IFRS as required for all AIM listed companies. DFD's first reported IFRS results will be for the six months to 31 October 2007 and the Group's first audited financial statements under IFRS will be for the period to 31 December 2007.

The impact on the reporting of our results is not significant and the underlying performance of the business and its cash flows remain unaffected. Dividend policy is unaffected.

This announcement describes for investors the key impacts of the conversion from UK GAAP to IFRS on the Group's results for the year to 30 April 2007 and the key judgements in making the transition to IFRS which are expected to form the comparative figures for both the half year financial statements for the six months to 31 October 2007 and those for the period to 31 December 2007.

### Key financial highlights

The key financial highlights of adopting IFRS for the 30 April 2007 financial statements are:

	<b>UK GAAP £000</b>	<b>Adjustment £000</b>	<b>IFRS £000</b>
Profit (loss) from operations	8,978	(980)	7,998
Profit (loss) before tax	9,122	(980)	8,142
Taxation	(2,612)	294	(2,318)
Retained (loss) profit	6,510	(686)	5,824
Basic EPS (pence)	17.39	(1.82)	15.57
Diluted EPS (pence)	<sup>†</sup> 16.69	(1.74)	<sup>†</sup> 14.95
Goodwill	1,622	312	1,934
Total equity	21,422	(1,531)	19,891

<sup>†</sup> Calculated after potential exercise of share options of 1,566,562 shares.

The key financial highlights of adopting IFRS for the 31 October 2006 half year financial statements are:

	<b>UK GAAP £000</b>	<b>Adjustment £000</b>	<b>IFRS £000</b>
Profit (loss) from operations	5,314	(12)	5,302
Profit (loss) before tax	5,415	(12)	5,403
Taxation	(1,631)	3	(1,628)
Retained (loss) profit	3,784	(9)	3,775
Basic EPS (pence)	10.12	(0.02)	10.10
Diluted EPS (pence)	<sup>†</sup> 9.75	(0.02)	<sup>†</sup> 9.73
Goodwill	1,777	156	1,933
Total equity	19,671	(854)	18,817

The Group's date of transition to IFRS is 1 May 2006, being the start of the previous period that will be presented as comparative information.

This document sets out the changes in accounting policies arising from the adoption of IFRS and presents restated information for the opening balance sheet at 1 May 2006, the six months ended 31 October 2006 and the year ended 30 April 2007 which were previously published under UK GAAP.

<sup>†1</sup> Calculated after potential exercise of share options of 1,428,936 shares.

## 1. Explanation of transition to IFRS

The Group's financial statements for the period ending 31 December 2007 will be the first audited financial statements that comply with IFRS. The Group will apply IFRS 1 in preparing the half year financial statements. The last financial statements under UK GAAP were for the year ended 30 April 2007 and the date of transition was therefore 1 May 2006. Presented below is the reconciliation of profit for the year ended 30 April 2007 and the reconciliations of equity at 1 May 2006, being the start of that period ("Transition Date") and at 30 April 2007 (date of last UK GAAP financial statements) as required by IFRS 1. In addition, the reconciliation of equity at 31 October 2006 and the reconciliation of profit for the six months ended 31 October 2006 have been included below as required by IFRS 1 to enable a comparison of the 2006 half year figures with those published in the corresponding period of the previous financial year. For explanations of the nature and effect of the changes in accounting policies as a consequence of the transition to IFRS, refer to note 2 of this document.

### (i) Reconciliation of UK GAAP consolidated profit and loss account to IFRS income statement for the six months ended 31 October 2006

	Notes	UK GAAP Unaudited £000	Six months ended 31 October 2006 Effect of transition to IFRS Unaudited £000	IFRS Unaudited £000
Revenue		12,978	-	12,978
Cost of sales	f	(2,264)	(100)	(2,364)
<b>Gross profit</b>		10,714	(100)	10,614
Administrative expenses:				
Amortisation of goodwill and intangibles	a, e	(156)	127	(29)
Other administrative expenses	b, e	(5,244)	(39)	(5,283)
Total administrative expenses		(5,400)	88	(5,312)
<b>Profit from operations</b>		5,314	(12)	5,302
Finance income		105	-	105
Finance costs		(4)	-	(4)
<b>Profit before taxation</b>		5,415	(12)	5,403
Taxation	d	(1,631)	3	(1,628)
<b>Profit after taxation</b>		3,784	(9)	3,775

(ii) Reconciliations of UK GAAP consolidated profit and loss account to IFRS income statement for the year ended 30 April 2007

	Notes	Year ended 30 April 2007		
		UK GAAP (unaudited) £000	Effect of transition to IFRS (unaudited) £000	IFRS (unaudited) £000
Revenue		26,575	-	26,575
Cost of sales	f	(6,041)	(1,184)	(7,225)
<b>Gross profit</b>		20,534	(1,184)	19,350
Administrative expenses:				
Amortisation of goodwill and intangibles	a, e	(312)	232	(80)
Other administrative expenses	b, e	(11,244)	(28)	(11,272)
<b>Total administrative expenses</b>		(11,556)	204	(11,352)
<b>Profit from operations</b>		8,978	(980)	7,998
Finance income		166	-	166
Finance costs		(22)	-	(22)
<b>Profit before taxation</b>		9,122	(980)	8,142
Taxation	d	(2,612)	294	(2,318)
<b>Profit after taxation</b>		6,510	(686)	5,824

(iii) Reconciliation of UK GAAP consolidated profit to IFRS consolidated profit

	Notes	Six months ended 31 October 2006 £000	Year ended 30 April 2007 £000
<b>Profit after tax as reported under UK GAAP</b>		3,784	6,510
Adjustments for:			
Cost of sales	f	(100)	(1,184)
Short-term employee benefits	b	(68)	(108)
Goodwill	a	156	312
Deferred tax	d	3	294
<b>Profit after tax as reported under IFRS</b>		3,775	5,824

(iv) Reconciliations of consolidated balance sheet at 1 May 2006 from UK GAAP to IFRS

	Notes	UK GAAP (audited) £000	Effect of transition to IFRS (unaudited) £000	IFRS (unaudited) £000
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Property, plant and equipment	e	928	(192)	736
Goodwill	a	1,934	-	1,934
Other intangible assets	e	8	192	200
<b>Total Non Current Assets</b>		2,870	-	3,870
<b>Current Assets</b>				
Trade receivables		8,152	-	8,152
Other current assets	f	2,070	(285)	1,785
Cash and cash equivalents		5,367	-	5,367
<b>Total Current Assets</b>		15,589	(285)	15,304

<b>Total Assets</b>		18,459	(285)	18,174
<b>EQUITY</b>				
Share capital		373	-	373
Share premium account		13,577	-	13,577
Other reserves		-	-	-
Retained earnings	a,b,c,d,f	2,409	(845)	1,564
Translation reserve	c	-	-	-
<b>Total equity attributable to equity holders of the parent</b>		16,359	(845)	15,514
<b>LIABILITIES</b>				
<b>Non Current Liabilities</b>				
Long-term borrowings		25	-	25
Provisions		18	-	18
Deferred tax liability	d	21	(362)	(341)
<b>Total Non Current Liabilities</b>		64	(362)	(298)
<b>Current Liabilities</b>				
Trade and other payables	b, f	1,715	922	2,637
Current tax liabilities		321	-	321
Short-term borrowings		-	-	-
<b>Total Current Liabilities</b>		2,036	922	2,958
<b>Total Liabilities</b>		2,100	560	3,660
<b>Total Equity and Liabilities</b>		18,459	(285)	18,174

(v) Reconciliation of consolidated balance sheet at 30 April 2007 from UK GAAP to IFRS

	Notes	UK GAAP (unaudited) £000	Effect of transition to IFRS (unaudited) £000	IFRS (unaudited) £000
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Property, plant and equipment	e	2,900	(747)	2,153
Goodwill	a	1,622	312	1,934
Other intangible assets	e	27	747	774
<b>Total Non Current Assets</b>		4,549	312	4,861
<b>Current Assets</b>				
Trade receivables		13,896	-	13,896
Other current assets	f	7,099	(1,469)	5,630
Cash and cash equivalents		373	-	373
<b>Total Current Assets</b>		21,368	(1,469)	19,899
<b>Total Assets</b>		25,917	(1,157)	24,760
<b>EQUITY</b>				
Share capital		376	-	376
Share premium account		13,777	-	13,777
Other reserves		45	-	45
Retained earnings	a,b,c,d,f	7,224	(1,519)	5,705
Translation reserve	c	-	(12)	(12)
<b>Total equity attributable to equity holders of the parent</b>		21,422	(1,531)	19,891
<b>LIABILITIES</b>				
<b>Non Current Liabilities</b>				
Long-term borrowings		972	-	972
Deferred tax liability	d	97	(656)	(559)
<b>Total Non Current Liabilities</b>		1,069	(656)	510
<b>Current Liabilities</b>				
Trade and other payables	b, f	1,997	1,030	3,027
Current tax liabilities		700	-	700
Short-term borrowings		729	-	729

<b>Total Current Liabilities</b>	3,426	1,030	3,800
<b>Total Liabilities</b>	4,495	374	4,869
<b>Total Equity and Liabilities</b>	25,917	(1,157)	24,760

(vi) Reconciliation of consolidated balance sheet as at 31 October 2006 from UK GAAP to IFRS

	Notes	UK GAAP (unaudited) £000	Effect of transition to IFRS (unaudited) £000	IFRS (unaudited) £000
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Property, plant and equipment	e	2,339	(380)	1,959
Goodwill	a	1,777	156	1,933
Other intangible assets	e	27	380	407
<b>Total Non Current Assets</b>		4,143	156	4,299
<b>Current Assets</b>				
Trade receivables		9,344	-	9,344
Other current assets	f	5,794	(385)	5,409
Cash and cash equivalents		3,996	-	3,996
<b>Total Current Assets</b>		19,134	(385)	18,749
<b>Total Assets</b>		23,277	(229)	23,048
<b>EQUITY</b>				
Share capital		374	-	374
Share premium account		13,644	-	13,644
Other reserves		22	-	22
Retained earnings	a,b,c,d,f	5,631	(854)	4,777
Translation reserve	c	-	-	-
<b>Total equity attributable to equity holders of the parent</b>		19,671	(854)	18,817
<b>LIABILITIES</b>				
<b>Non Current Liabilities</b>				
Long-term borrowings		11	-	11
Deferred tax liability	d	21	(365)	(344)
<b>Total Non Current Liabilities</b>		32	(365)	(333)
<b>Current Liabilities</b>				
Trade and other payables	b,f	1,597	990	2,587
Current tax liabilities		1,977	-	1,977
Short-term borrowings		-	-	-
<b>Total Current Liabilities</b>		3,574	990	4,564
<b>Total Liabilities</b>		3,606	625	4,231
<b>Total Equity and Liabilities</b>		23,277	(229)	23,048

(vii) Reconciliation of consolidated equity from UK GAAP to IFRS

	Notes	1 May 2006 £000	31 October 2006 £000	30 April 2007 £000
Total equity as reported under UK GAAP		16,359	19,671	21,422
Adjustments for:				
Cost of sales	f	(1,001)	(1,101)	(2,185)
Short-term employee benefits	b	(206)	(274)	(314)

Goodwill	a	-	156	312
Deferred tax	d	362	365	656
<hr/>				
Total equity as reported under IFRS		15,514	18,817	19,891
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## 2. Explanation of adjustments to equity at 30 April 2007, 31 October 2006 and 1 May 2006 and to profit for the year ended 30 April 2007 and for the six months ended 31 October 2007

The transition to IFRS resulted in the following changes:

### a. Goodwill

Goodwill is not amortised under IFRS but is measured at cost less impairment losses. Under UK GAAP, goodwill was amortised on a straight-line basis over the time that the Group was estimated to benefit from it. The change does not affect equity at 1 May 2006 because, as permitted by IFRS 1, goodwill arising on acquisitions before 1 May 2006 (date of transition to IFRS) has been frozen at the UK GAAP amounts subject to being tested for impairment at that date, the results of which assessment indicated no such impairment. The adjustments increase profits for the six months to 31 October 2006 by £156,000 and for the year to 30 April 2007 by £312,000 with corresponding increases in retained earnings.

### b. Short-term employee benefits

IAS 19 Employee benefits requires the expense of services rendered that increase employees' entitlement to future compensated absence (i.e. paid holiday) to be recognised in the period. Therefore, the cost of holidays earned but not taken at the balance sheet date has been accrued for. The adjustments decrease profits for the six months to 31 October 2006 by £68,000 and for the year to 30 April 2007 by £108,000; retained earnings are reduced by £206,000 at 1 May 2006, £274,000 at 31 October 2006 and £314,000 at 30 April 2007.

### c. Other reserves

The foreign exchange differences arising after that date on consolidation have been credited to the translation reserve within equity rather than to retained earnings. The adjustments are £nil for the six months to 31 October 2006 and £12,000 for the year to 30 April 2007.

### d. Deferred tax

Differences in timing between the recognition of accounting for tax charges under IAS and the deduction of amounts in the corporation tax computations now create temporary differences resulting in deferred tax rather than permanent differences under UK GAAP on which no deferred tax balances were recognised.

The reversal of goodwill amortisation has resulted in the creation of a deferred tax liability and the recognition of holiday pay accruals under IAS and the restatement of cost of sales has resulted in a deferred tax asset.

IAS 12 applies to all share based payments and is not time restricted to those issued post 7 November 2002. Under IAS 12 the deferred tax recognised through the profit and loss account cannot exceed 30% of the share-based payment charge on a cumulative basis; the balance is therefore adjusted to equity.

The adjustments increase profits for the six months to 31 October 2006 by £3,000 and for the year to 30 April 2007 by £294,000; retained earnings are increased by £294,000 at 1 May 2006 , £365,000 at 31 October 2006 and £656,000 at 30 April 2007.

#### **e. Capitalised software**

Under UK GAAP, the cost of capitalised software is classified within property, plant and equipment. Under IAS 38 these costs are classified as intangible assets. The balance sheet impact of the reclassification is to increase intangible assets and decrease property, plant and equipment by £192,000 at 1 May 2006; £380,000 at 31 October 2006 and £747,000 at 30 April 2007. The UK GAAP depreciation charge in respect of capitalised software is replaced with an equal amortisation charge under IAS 38 and consequently there is no net impact on the income statement, however there has been a movement of £29,000 for the six months to 31 October 2006 and £80,000 for the year to 30 April 2007 from other administrative expenses to amortisation.

#### **f. Cost of sales**

Under UK GAAP, marketing and related expenditures are permitted to be recognised over the period in which separately identifiable revenue was generated. Under IAS 18, marketing costs are recognised at the point that services are delivered. The adjustments decrease profits for the six months to 31 October 2006 by £100,000 and for the year to 30 April 2007 by £1,184,000. Retained earnings are reduced by £1,001,000 at 1 May 2006, which is split between an increase of £716,000 in trade and other payables and a decrease of £285,000 in other current assets; £1,101,000 at 31 October 2006, which is split between an increase of £716,000 in trade and other payables and a decrease of £385,000 in other current assets and £2,185,000 at 30 April 2007, which is split between an increase of £716,000 in trade and other payables and a decrease of £1,469,000 in other current assets.

#### **g. Exemptions**

IFRS 1 First-time Adoption of International Financial Reporting Standards sets out the transition rules, which must be applied, when IFRS is adopted for the first time. The standard sets out certain mandatory exemptions to retrospective application and certain optional exemptions. The most significant optional exemptions available and taken by the Group are as follows:

- (i) Business combinations: the Group has adopted the exemption under IFRS 1 relating to business combinations which occurred before the date of transition, 1 May 2006. The goodwill arising from combinations before that date therefore remains at the amount shown under UK GAAP at 1 May 2006, subject to any subsequent impairment.
  
- (ii) Share-based transactions: The Group adopted the exemption in IFRS 1 which allows a first-time adopter to apply the standard only to share options and equity instruments granted after 7 November 2002 that have not vested by 1 May 2006.

## **Basis of preparation**

The half year financial statements to be announced on 27 November 2007, will be prepared in accordance with the accounting policies the Group expects to adopt in its 31 December 2007 audited financial statements. These accounting policies are based on the IAS, IFRS and IFRIC interpretations that the Group expects to be applicable at that time. The IFRS and IFRIC interpretations that will be applicable at 31 December 2007, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing the half year financial statements, although the International Accounting Standards Board has stated that it will not issue any further statements during 2007.

The Group's consolidated financial statements were prepared in accordance with UK GAAP until 30 April 2007. The Group has applied those IAS, IFRS and IFRIC interpretations expected to be applicable in the 31 December 2007 audited financial statements to the half year financial statements. Reconciliations between previously reported financial statements prepared under UK GAAP and the IFRS equivalents are presented for profit for the year ended 30 April 2007 and the six months ended 31 October 2006 and total equity as at 30 April 2007, 31 October 2006 and 1 May 2006 in note 2 of this document.

IFRS 1 provides certain optional exemptions from full retrospective application of all accounting standards effective at the Group's reporting date. As discussed in more detail in the relevant sections above, the Group has taken advantage of the exemptions relating to: business combinations, cumulative translation differences and share-based payment transactions. The Group has not taken advantage of the available optional exemption relating to fair value measurement of financial assets and financial liabilities at initial recognition.

The comparatives for the full year ended 30 April 2007 are not the Group's statutory accounts for that year. A copy of the statutory accounts for that year, which were prepared under UK GAAP, have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 237(2)-(3) of the Companies Act 1985.

This document is unaudited.

## **3. Summary of significant accounting policies**

The significant accounting policies which the Group will be applying to its half year financial statements for the six months to 31 October 2007 and which it expects to apply in its full financial statements for the period ending 31 December 2007 are set out below.

### **Principles of consolidation**

The consolidated half year financial statements incorporate the half year financial statements of the Group and all group undertakings. Intra-group transactions, including sales, profits, receivables and payables, have been eliminated on the Group consolidation. The subsidiary undertakings accounts are adjusted, where appropriate, to conform to Group accounting policies.

### **Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included from the date that control commences until the date that control ceases.

## **Business combinations**

The results of subsidiaries acquired in the period are included in the income statement from the date they are acquired. On acquisition, all of the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

## **Goodwill**

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the fair value of the consideration paid on acquisition of a business over the fair value of the assets, including any intangible assets identified, liabilities and contingent liabilities acquired. Goodwill is not amortised but is measured at cost less impairment losses. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion, and the fair value of contingent consideration is based upon the extent to which the directors believe performance conditions will be met and thus whether any further consideration will be payable.

As permitted by IFRS 1, goodwill arising on acquisitions before 1 May 2006 (date of transition to IFRS) has been frozen at the UK GAAP amounts subject to being tested for impairment at that date. Goodwill is tested for impairment at least annually. The Group performs its impairment reviews at the cash-generating unit level. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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

## **Amortisation**

Amortisation is charged to the income statement on a systematic basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The useful lives for trademarks are estimated to be ten years and capitalised software estimated to be four years.

## **Impairment charges**

The Group considers at each reporting date whether there is any indication that non-current assets are impaired. If there is such an indication, the Group carries out an impairment test by measuring an asset's recoverable amount, which is the higher of its fair value less costs to sell and its value in use (effectively the expected cash to be generated from using the asset in the business). The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is less than the carrying amount an impairment loss is recognised, and the asset is written down to its recoverable amount.

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

## **Turnover**

The turnover shown in the Group profit and loss account represents amounts in respect of the provision of financial solutions to individuals experiencing personal debt problems. Turnover is largely derived from IVA fees which result from individual voluntary arrangements (IVA's). These fees are recognised as follows:

## **IVA fees:**

Fees are recognised following approval at the Meeting of Creditors. Turnover is recorded to recognise revenue during the life of the IVA, based upon the fair value of the service provided rather than on invoicing. Fair value for this purpose is based upon that proportion of the anticipated revenue on a case which is represented by the value of work done to date as a function of the total value of anticipated work.

The Group also receives commission income from the referral of both Scottish and self employed IVAs and customers who wish to remortgage their property. The income is recognised as follows:

IVA commission: IVA referral income is recorded at the date at which the IVA is approved at the Meeting of Creditors.

Remortgaging commission: Remortgage commission is recorded at the date on which approval is obtained.

## **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. The Group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management system are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## **Tangible fixed assets**

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

Depreciation is calculated so as to write off, on a reducing balance basis over the expected useful economic lives of the asset concerned, the cost of property, plant and equipment, less estimated residual values, which are adjusted, if appropriate, at each balance sheet date. The principal economic lives used for this purpose are:

- Fixtures and fittings                      Four years
- Computer equipment                      Four years

Provision is made against the carrying value of items of property, plant and equipment where impairment in value is deemed to have occurred.

## **Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the Group profit and loss account on a straight line basis.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term.

## **Foreign currency translation**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the average rates of exchange during the year and the balance sheet is translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange differences which arise from the translation of the opening net assets and results of foreign subsidiary undertakings are taken to equity. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

## **Financial instruments**

Financial assets and financial liabilities are recognised at fair value on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

### *Trade receivables*

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

### *Financial liabilities and equity*

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

### *Bank borrowings*

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Finance charges are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### *Trade payables*

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

### *Equity instruments*

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

## **Taxation**

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the

extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

### **Pension contributions**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. The Group has no defined benefit arrangements in place.

### **Investment income**

Investment income relates to interest income, which is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### **Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions are reviewed on a regular basis and released to profit and loss account where changes in circumstances indicate that a provision is no longer required.

### **Profit from operations**

Profit from operations is stated after charging all operating costs including those separately disclosed by virtue of their size or unusual nature or to facilitate a more helpful understanding of the group's results. It is stated before investment income and finance costs.

### **Key sources of estimation uncertainty**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

### *Valuation of intangibles acquired in business combinations*

Determining the fair value of intangibles acquired in business combinations requires estimation of the value of the cashflows related to the identified intangibles and a suitable discount rate in order to calculate the present value.

### *Impairment of goodwill and other intangibles*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. An impairment review has been performed at the adoption date and no impairment has been identified.